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## ESSEX BIO-TECHNOLOGY LIMITED

## 億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1061)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “Board”) of directors (the “Directors”) of Essex Bio-Technology Limited (the “Company”) presents the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 and the relevant explanatory notes as set out below.

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June
	<i>Notes</i>	2019 (Unaudited) HK\$'000
		2018 (Unaudited) HK\$'000
<b>Turnover</b>	5	561,278
Cost of sales		<u>(101,983)</u>
<b>Gross profit</b>		459,295
Other revenue, and other gains and losses	6	3,404
Distribution and selling expenses		(312,757)
Administrative expenses		(24,904)
Finance costs	7	<u>(3,397)</u>
<b>Profit before income tax</b>	8	121,641
Income tax	9	<u>(22,725)</u>
<b>Profit for the period</b>		<u>98,916</u>

		For the six months ended 30 June 2018 (Unaudited) HK\$'000
	2019 (Unaudited) HK\$'000	
<i>Notes</i>		<i>HK\$'000</i>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<b>(2,670)</b>	(13,157)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair value of equity instruments at fair value through other comprehensive income	<u>13,786</u>	<u>(3,542)</u>
<b>Other comprehensive income for the period</b>	<u>11,116</u>	<u>(16,699)</u>
<b>Total comprehensive income for the period</b>	<u>140,691</u>	<u>82,217</u>
<b>Earnings per share attributable to owners of the Company</b>		
Basic	<i>11</i> <u>HK22.39 cents</u>	<u>HK17.46 cents</u>
Diluted	<i>11</i> <u>HK21.96 cents</u>	<u>HK16.98 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	12	174,475	169,324
Right-of-use assets		10,347	–
Land use rights		16,730	16,932
Goodwill	23	16,524	2,282
Other intangible assets	13	311,322	218,776
Convertible loan receivables	14	11,849	10,581
Financial assets at fair value through other comprehensive income	15	89,356	142,132
Financial assets at fair value through profit or loss	15	18,274	13,739
Deposits and prepayments	18	4,480	2,324
Pledged bank deposit		15,675	11,000
		<b>669,032</b>	<b>587,090</b>
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories	16	61,074	70,749
Trade and other receivables	17	538,068	459,084
Deposits and prepayments	18	6,858	5,454
Convertible loan receivable	14	2,746	16,185
Financial assets at fair value through other comprehensive income	15	26,828	–
Financial assets at fair value through profit or loss	15	16	28
Pledged bank deposit		3,325	–
Cash and cash equivalents		334,730	311,098
		<b>973,645</b>	<b>862,598</b>
<b>Total current assets</b>			
		<b>1,642,677</b>	<b>1,449,688</b>
<b>Total assets</b>			
<b>Current liabilities</b>			
Trade and other payables	19	316,081	291,514
Bank borrowings	20	16,625	–
Lease liabilities		666	–
Current tax liabilities		12,064	23,772
		<b>345,436</b>	<b>315,286</b>
<b>Total current liabilities</b>			
		<b>628,209</b>	<b>547,312</b>
<b>Net current assets</b>			
		<b>1,297,241</b>	<b>1,134,402</b>
<b>Total assets less current liabilities</b>			

		At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current liabilities</b>			
Bank borrowings	20	78,375	55,000
Lease liabilities		9,991	–
Convertible loan payable	21	137,181	134,366
Deferred tax liabilities		20,147	16,135
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>245,694</b>	205,501
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>591,130</b>	520,787
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>1,051,547</b>	928,901
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	22	57,881	57,875
Reserves		993,666	871,026
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>1,051,547</b>	928,901
		<hr/> <hr/>	<hr/> <hr/>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Equity attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Foreign currency translation reserve HK\$'000	Share option reserve HK\$'000	Fair value through other comprehensive income reserve HK\$'000	Conversion component of convertible loan payable HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2018	56,349	21,858	362	41,517	7,925	17,196	37,383	33,323	549,080	764,993
Profit for the period	-	-	-	-	-	-	-	-	98,916	98,916
Other comprehensive income:										
- Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(3,542)	-	-	(3,542)
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(13,157)	-	-	-	-	(13,157)
Total comprehensive income for the period	-	-	-	-	(13,157)	-	(3,542)	-	98,916	82,217
Dividend paid	-	-	-	-	-	-	-	-	(14,250)	(14,250)
Exercise of share options	752	24,074	-	-	-	(7,537)	-	-	-	17,289
Equity-settled share-based payments	-	-	-	-	-	648	-	-	-	648
At 30 June 2018 (Unaudited)	<u>57,101</u>	<u>45,932</u>	<u>362</u>	<u>41,517</u>	<u>(5,232)</u>	<u>10,307</u>	<u>33,841</u>	<u>33,323</u>	<u>633,746</u>	<u>850,897</u>
At 1 January 2019	57,875	70,720	362	50,861	(39,747)	4,239	9,308	33,323	741,960	928,901
Profit for the period	-	-	-	-	-	-	-	-	129,575	129,575
Other comprehensive income:										
- Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	13,786	-	-	13,786
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(2,670)	-	-	-	-	(2,670)
Total comprehensive income for the period	-	-	-	-	(2,670)	-	13,786	-	129,575	140,691
Appropriation of profits	-	-	-	13,849	-	-	-	-	(13,849)	-
Dividend paid	-	-	-	-	-	-	-	-	(19,099)	(19,099)
Exercise of share options	6	390	-	-	-	(59)	-	-	-	337
Equity-settled share-based payments	-	-	-	-	-	717	-	-	-	717
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(16,022)	-	16,022	-
At 30 June 2019 (Unaudited)	<u>57,881</u>	<u>71,110</u>	<u>362</u>	<u>64,710</u>	<u>(42,417)</u>	<u>4,897</u>	<u>7,072</u>	<u>33,323</u>	<u>854,609</u>	<u>1,051,547</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June 2018
	Notes	(Unaudited) HK\$'000
		(Unaudited) HK\$'000
<b>Cash flows from operating activities</b>		
Profit before income tax		121,641
Adjustments for:		
Interest income from convertible loan receivables	6	(1,375)
Interest income from bank deposits	6	(881)
Change in fair value of financial assets at fair value through profit or loss	6	611
Finance costs	7	3,397
Amortisation of land use rights	8	83
Amortisation of other intangible assets	8	2,215
Depreciation of property, plant and equipment	8	7,335
Depreciation of right-of-use assets	8	–
Equity-settled share-based payments		648
Exchange gains, net	8	(4,169)
Loss on disposal of property, plant and equipment	8	–
Write-off of inventories	8	386
		<u>129,891</u>
<b>Operating cash flows before working capital changes</b>		129,891
Decrease/(increase) in inventories		(15,369)
Increase in trade and other receivables		(87,280)
Increase in deposits and prepayments		(1,811)
Increase in trade and other payables		95,027
		<u>95,027</u>
<b>Cash generated from operations</b>		120,458
Tax paid		(29,647)
		<u>90,811</u>
<b>Net cash generated from operating activities</b>		90,811
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment		(2,282)
Deposits paid for acquisition of land use rights		(3,447)
Deposits paid for acquisition of property, plant and equipment		(5,463)
Increase in other intangible assets		(9,387)
Acquisition of a subsidiary	23	–
Loan to an associate		–
Purchase of convertible loan receivable		(5,884)
Purchase of financial assets at fair value through other comprehensive income		(40,219)
Bank interest received		881
Interest received from convertible loan receivables		230
(Increase)/decrease in pledged bank deposit		15,182
Proceeds from disposal of property, plant and equipment		–
Proceeds from disposal of financial assets at fair value through other comprehensive income		–
Proceeds from disposal of financial assets at fair value through profit or loss		1,056
		<u>(49,333)</u>
<b>Net cash used in investing activities</b>		(49,333)

	<b>2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	For the six months ended 30 June 2018 (Unaudited) HK\$'000
<b>Cash flows from financial activities</b>		
Proceeds from bank borrowings	40,000	55,000
Repayments of bank borrowings	–	(29,502)
Payment of lease liabilities	(1,205)	–
Proceeds from shares issued under share option scheme	337	17,289
Interest paid on bank borrowings	(996)	(420)
Interest paid on convertible loan payable	(1,441)	(1,441)
Dividends paid to owners of the Company	(19,099)	(14,250)
	<hr/>	<hr/>
<b>Net cash generated from financing activities</b>	<b>17,596</b>	<b>26,676</b>
	<hr/>	<hr/>
Net increase in cash and cash equivalents	24,882	68,154
Cash and cash equivalents at beginning of period	311,098	240,627
Effect of foreign exchange rate changes on cash and cash equivalents	(1,250)	(401)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	<b>334,730</b>	<b>308,380</b>
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<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	334,730	308,380
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# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Essex Bio-Technology Limited is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (Stock code: 1061). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, and development, manufacture and sale of biopharmaceutical products in the People’s Republic of China (the “PRC”).

## 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

These interim condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018 (the “2018 Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## 3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the 2018 Financial Statements, except for the adoption of new and amended standards effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The impact of the adoption of HKFRS 16 *Leases* has been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 do not have any material impact on the Group’s interim condensed consolidated financial statements.

### HKFRS 16 – Leases

HKFRS 16, which supersedes HKAS 17 *Leases* and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.



In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

Land use rights of the Group are accounted for in accordance with HKFRS 16 with effect from 1 January 2019 and there is no impact on their balances as at 1 January 2019.

The effect of adoption of HKFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<i>HK\$'000</i>
<b>Assets</b>	
Right-of-use assets	1,157
<b>Liabilities</b>	
Lease liabilities	1,157

There is no material impact on the opening balance of reserves as at 1 January 2019.

**(i) Nature of the effect of adoption of HKFRS 16**

The Group has lease contracts for properties. Before the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Upon adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the foregoing, as at 1 January 2019, right-of-use assets of approximately HK\$1.2 million were recognised and presented separately in the statement of financial position, and lease liabilities of approximately HK\$1.2 million were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	1,174
Incremental borrowing rate as at 1 January 2019	2.7%
Lease liabilities as at 1 January 2019	1,157

**(ii) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of HKFRS 16, which have been applied from the date of initial application:

*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**(iii) Amounts recognised in the statement of financial position and profit or loss**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<b>Right-of-use assets</b> <i>HK\$'000</i>	<b>Lease liabilities</b> <i>HK\$'000</i>
As at 1 January 2019	1,157	1,157
Additions	10,734	10,734
Depreciation expense	(1,390)	–
Interest expense	–	129
Payments	–	(1,205)
Exchange adjustment	(154)	(158)
	<hr/>	<hr/>
As at 30 June 2019	<u>10,347</u>	<u>10,657</u>

#### 4. SEGMENT REPORTING

The Group manages its businesses by business lines. The segment information is reported internally to the chief operating decision-maker (i.e. executive directors of the Company) for the purposes of resource allocation and performance assessment. During the six months ended 30 June 2019, the Group reorganised its internal reporting structure by simplifying the segmental classification based on revenue contribution from its product lines so as to enhance operational efficiency. Accordingly, the comparative segment information has been re-presented to conform to current period's presentation. The Group's reportable and operating segments for financial reporting purposes have been reorganised as follows:

- Ophthalmic products
- Surgical products

##### (a) Reportable segments

The chief operating decision-maker monitors the results of its business units separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on the results from the reportable segments as explained in the table below.

	<b>For the six months ended 30 June 2019</b>		
	<b>Ophthalmic products (Unaudited) <i>HK\$'000</i></b>	<b>Surgical products (Unaudited) <i>HK\$'000</i></b>	<b>Total (Unaudited) <i>HK\$'000</i></b>
<b>Reportable segment revenue</b>			
– Revenue from external customers	<u>249,919</u>	<u>331,797</u>	<u>581,716</u>
<b>Reportable segment profit</b>	<u>69,701</u>	<u>92,195</u>	<u>161,896</u>
	<b>For the six months ended 30 June 2018</b>		
	<b>Ophthalmic products (Unaudited) <i>HK\$'000</i></b>	<b>Surgical products (Unaudited) <i>HK\$'000</i></b>	<b>Total (Unaudited) <i>HK\$'000</i></b>
Reportable segment revenue			
– Revenue from external customers	<u>268,546</u>	<u>292,732</u>	<u>561,278</u>
Reportable segment profit	<u>72,860</u>	<u>57,921</u>	<u>130,781</u>

The totals presented for the Group's operating segments were reconciled to the Group's key financial figures as presented in the interim condensed consolidated financial statements as follows:

	<b>2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	For the six months ended 30 June 2018 <b>(Unaudited)</b> <b>HK\$'000</b>
Reportable segment profit	<b>161,896</b>	130,781
Unallocated corporate income and expenses, net	<b>(12,951)</b>	(4,484)
Change in fair value of financial assets at fair value through profit or loss	<b>5,791</b>	(611)
Equity-settled share-based payments	<b>(717)</b>	(648)
Finance costs	<b>(4,239)</b>	(3,397)
	<b>149,780</b>	121,641

Major corporate expenses comprised mainly the staff costs including directors' emoluments.

Analysis of segment assets and liabilities has not been presented as the measure of segment assets and liabilities is not regularly provided to the Company's executive directors.

**(b) Geographical information**

**(i) Revenue from external customers**

For the six months ended 30 June 2019 and 2018, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile).

**(ii) Non-current assets**

	<b>At 30 June 2019 (Unaudited) HK\$'000</b>	At 31 December 2018 (Audited) HK\$'000
PRC	<b>435,558</b>	372,473
Hong Kong	<b>98,320</b>	37,165
	<b>533,878</b>	409,638

The non-current asset information above excludes convertible loan receivables, financial assets at fair value through other comprehensive income ("FVTOCI"), financial assets at fair value through profit or loss ("FVTPL") and pledged bank deposit, and is based on the physical locations of the respective assets, except for goodwill and other intangible assets of which is based on the area of the group entities' operations.

(c) **Information about a major customer**

For the six months ended 30 June 2019, revenue of HK\$150.7 million (For the six months ended 30 June 2018: HK\$145.6 million) was derived from sales to one (For the six months ended 30 June 2018: one) customer, which individually accounted for over 10% of the Group's total revenue.

**5. TURNOVER**

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns), further details of which are set out in note 4.

**6. OTHER REVENUE, AND OTHER GAINS AND LOSSES**

	For the six months ended 30 June 2018 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Interest income from convertible loan receivables	1,375	392
Government grants	1,757	4,047
Interest income from bank deposits	881	888
Sundry income	2	2,569
Change in fair value of financial assets at FVTPL	(611)	5,791
Licensing income	–	5,399
Processing income	–	1,070
	<u>3,404</u>	<u>20,156</u>

**7. FINANCE COSTS**

	For the six months ended 30 June 2018 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Interest expense on bank borrowings	420	996
Interest expense on lease liabilities	–	129
Imputed interest expense on convertible loan payable	4,068	4,256
Less: Amount capitalised	(1,091)	(1,142)
	<u>3,397</u>	<u>4,239</u>

## 8. PROFIT BEFORE INCOME TAX

This is arrived at after charging/(crediting):

	2019 (Unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2018 (Unaudited) <i>HK\$'000</i>
Amortisation of land use rights	192	83
Amortisation of other intangible assets	3,723	2,215
Auditor's remuneration	790	710
Cost of inventories	72,707	87,105
Cost of services	39,752	14,492
Depreciation of property, plant and equipment	8,090	7,335
Depreciation of right-of-use assets	1,390	–
Employee costs excluding directors' emoluments:		
– Salaries and other benefits	91,850	61,925
– Pension fund contributions	3,838	3,837
– Equity-settled share-based payments to the employees	385	348
Equity-settled share-based payments to the consultant of the Group	332	300
Exchange gains, net	(385)	(4,169)
Research and development costs recognised as expenses	1,117	5,367
Write-off of inventories	491	386
Loss on disposal of property, plant and equipment	36	–

## 9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has no assessable profit arising in Hong Kong.

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprise. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15%.

Enterprise income tax rate of 25% is applied to the Group's other operating subsidiaries in the PRC.

## 10. DIVIDENDS

The Board of the Company has resolved on 12 August 2019 to declare an interim dividend of HK\$0.035 (For the six months ended 30 June 2018: HK\$0.03) per ordinary share for the six months ended 30 June 2019, which is payable in cash.

## 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

### Earnings

	<b>2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	For the six months ended 30 June 2018 <b>(Unaudited)</b> <b>HK\$'000</b>
Profit attributable to owners of the Company for the purposes of calculating basic earnings per share	<b>129,575</b>	98,916
Interest expense on convertible loan payable, net of amount capitalised	<b>3,114</b>	2,977
	<b>132,689</b>	101,893

### Number of shares

	<b>2019</b> <b>(Unaudited)</b>	For the six months ended 30 June 2018 <b>(Unaudited)</b>
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>578,760,392</b>	566,395,569
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	<b>128,596</b>	8,340,370
– convertible loan payable	<b>25,423,728</b>	25,423,728
	<b>604,312,716</b>	600,159,667

The computation of diluted earnings per share for the six months ended 30 June 2019 and 2018 does not assume the issue of potential ordinary shares in relation to certain share options granted as they have anti-dilutive effect.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>						
At 1 January 2018	123,774	81,207	10,522	4,109	–	219,612
Additions	391	12,188	7,086	835	1,135	21,635
Disposals	–	–	(511)	–	–	(511)
Exchange adjustment	(6,429)	(4,681)	(756)	(213)	(44)	(12,123)
	<u>117,736</u>	<u>88,714</u>	<u>16,341</u>	<u>4,731</u>	<u>1,091</u>	<u>228,613</u>
At 31 December 2018	117,736	88,714	16,341	4,731	1,091	228,613
Additions	–	1,909	5,692	1,540	4,267	13,408
Acquisition of a subsidiary ( <i>Note 23</i> )	–	–	621	–	–	621
Disposals	–	(70)	(100)	(197)	–	(367)
Exchange adjustment	(88)	(95)	(116)	(24)	(68)	(391)
	<u>117,648</u>	<u>90,458</u>	<u>22,438</u>	<u>6,050</u>	<u>5,290</u>	<u>241,884</u>
At 30 June 2019 (Unaudited)	<u>117,648</u>	<u>90,458</u>	<u>22,438</u>	<u>6,050</u>	<u>5,290</u>	<u>241,884</u>
<b>Accumulated depreciation:</b>						
At 1 January 2018	9,650	30,474	4,736	3,513	–	48,373
Charge for the year	2,438	9,636	2,107	252	–	14,433
Disposals	–	–	(494)	–	–	(494)
Exchange adjustment	(595)	(1,953)	(288)	(187)	–	(3,023)
	<u>11,493</u>	<u>38,157</u>	<u>6,061</u>	<u>3,578</u>	<u>–</u>	<u>59,289</u>
At 31 December 2018	11,493	38,157	6,061	3,578	–	59,289
Charge for the period	1,194	5,165	1,584	147	–	8,090
Acquisition of a subsidiary ( <i>Note 23</i> )	–	–	532	–	–	532
Disposals	–	(58)	(88)	(178)	–	(324)
Exchange adjustment	(27)	(109)	(41)	(1)	–	(178)
	<u>12,660</u>	<u>43,155</u>	<u>8,048</u>	<u>3,546</u>	<u>–</u>	<u>67,409</u>
At 30 June 2019 (Unaudited)	<u>12,660</u>	<u>43,155</u>	<u>8,048</u>	<u>3,546</u>	<u>–</u>	<u>67,409</u>
<b>Carrying amount:</b>						
At 30 June 2019 (Unaudited)	<u>104,988</u>	<u>47,303</u>	<u>14,390</u>	<u>2,504</u>	<u>5,290</u>	<u>174,475</u>
At 31 December 2018 (Audited)	<u>106,243</u>	<u>50,557</u>	<u>10,280</u>	<u>1,153</u>	<u>1,091</u>	<u>169,324</u>



### 13. OTHER INTANGIBLE ASSETS

	Development expenditure <i>HK\$'000</i>	Acquired intangible assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>			
At 1 January 2018	98,141	64,731	162,872
Additions	19,267	75,430	94,697
Exchange adjustment	(5,660)	(4,890)	(10,550)
	<u>111,748</u>	<u>135,271</u>	<u>247,019</u>
At 31 December 2018	111,748	135,271	247,019
Additions	16,856	73,415	90,271
Acquisition of a subsidiary ( <i>Note 23</i> )	–	6,701	6,701
Exchange adjustment	(282)	(500)	(782)
	<u>128,322</u>	<u>214,887</u>	<u>343,209</u>
At 30 June 2019 (Unaudited)	<u>128,322</u>	<u>214,887</u>	<u>343,209</u>
<b>Accumulated amortisation and impairment losses:</b>			
At 1 January 2018	16,074	8,668	24,742
Amortisation	318	4,658	4,976
Exchange adjustment	(845)	(630)	(1,475)
	<u>15,547</u>	<u>12,696</u>	<u>28,243</u>
At 31 December 2018	15,547	12,696	28,243
Amortisation	1,258	2,465	3,723
Exchange adjustment	(31)	(48)	(79)
	<u>16,774</u>	<u>15,113</u>	<u>31,887</u>
At 30 June 2019 (Unaudited)	<u>16,774</u>	<u>15,113</u>	<u>31,887</u>
<b>Carrying amount:</b>			
At 30 June 2019 (Unaudited)	<u>111,548</u>	<u>199,774</u>	<u>311,322</u>
At 31 December 2018 (Audited)	<u>96,201</u>	<u>122,575</u>	<u>218,776</u>

### 14. CONVERTIBLE LOAN RECEIVABLES

In 2015, the Group entered into a convertible loan agreement with an independent third party, 武漢佻典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.\*) (“Adv. Dental”), with principal amount of RMB10.0 million (approximately HK\$11.9 million) which carries interest at 5% per annum payable quarterly in arrears with maturity on 13 December 2019 at redemption amount of 100% of the principal amount (“Convertible Loan A”). The principal amount of Convertible Loan A can be converted into such equity interest representing 30% of the entire equity interest of Adv. Dental at any time from the date of issue to the maturity date. The principal activities of Adv. Dental are manufacturing and selling of dental treatment techniques in the PRC. Convertible Loan A is secured by 100% equity interest in Adv. Dental.

During the six months ended 30 June 2019, Convertible Loan A was eliminated at consolidation level upon the acquisition of 100% equity interest in Adv. Dental (*Note 23*).

In 2016, the Group entered into a convertible loan agreement with an independent third party, 廣西萬壽堂藥業有限公司 (Guangxi Medictop Pharmaceutical Company Limited\*) (“Guangxi Medictop”), with principal amount of RMB15.0 million (approximately HK\$17.5 million) which carries interest at 6% per annum payable quarterly in arrears with maturity on 8 January 2019 at redemption amount of 100% of the principal amount (“Convertible Loan B”). Guangxi Medictop is principally engaged in manufacture, research and development and sale of Chinese patent medicines for gynecology and cardiovascular. Convertible Loan B is secured by 20% equity interest in Guangxi Medictop.

In 2018, Convertible Loan B was settled by way of acquiring a distribution right.

In 2018, the Group entered into a convertible loan agreement with an independent third party, a private company incorporated in Singapore (“Investee A”), with principal amount of SG\$2.0 million (approximately HK\$11.8 million) which carries interest at 2.5% per annum payable quarterly in arrears with maturity on 1 June 2023 (“Convertible Loan C”). The first tranche of Convertible Loan C in the principal amount of SG\$1.0 million (approximately HK\$5.9 million) (“Tranche A of Convertible Loan C”) was disbursed to Investee A in 2018. The entire principal amount of Convertible Loan C can be converted into such number of shares representing 40% of the enlarged total issued share capital of Investee A at any time before the maturity date. In the event that no conversion has been taken place before the maturity date, Investee A shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan C of 6% per annum. Tranche A of Convertible Loan C is classified as financial asset at FVTPL upon the initial recognition.

In 2018, the Group entered into an agreement with an independent third party, DB Therapeutics, Inc (“DBT”), to subscribe for a convertible loan with principal amount of US\$4.5 million (approximately HK\$35.3 million) which carries interest at 5% per annum with maturity on 31 July 2022 (“Convertible Loan D”). Convertible Loan D will be disbursed to DBT in five tranches and the first tranche in the principal amount of US\$0.6 million (approximately HK\$4.7 million) (“Tranche A of Convertible Loan D”) was disbursed to DBT in 2018. The entire principal amount of Convertible Loan D can be converted into such number of shares representing 45% of the enlarged total issued share capital of DBT on a fully diluted basis at any time before the maturity date. In the event that no conversion has been taken place before maturity date, DBT shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan D of 8% per annum. Tranche A of Convertible Loan D is classified as financial asset at FVTPL upon initial recognition.

During the six months ended 30 June 2019, the Group entered into a convertible loan agreement with an independent third party, Antikor Biopharma Limited (“Antikor”), with principal amount of approximately US\$0.4 million (approximately HK\$2.7 million) for a term of 6 months (“Convertible Loan E”). Convertible Loan E carries interest at 5% per annum on the principal amount of Convertible Loan E outstanding on the conversion date, or 8% per annum if no conversion has been taken place before the maturity date. The principal amount of Convertible Loan E can be converted into such number of shares representing 6.54% of the enlarged total issued share capital of Antikor on a fully diluted basis at any time before the maturity date. Convertible Loan E is classified as financial asset at FVTPL upon the initial recognition.

The Group's convertible loan receivables are recognised as follows:

*HK\$'000*

**As at 30 June 2019**

– Tranche A of Convertible Loan C	6,956
– Tranche A of Convertible Loan D	4,893
– Convertible Loan E	<u>2,746</u>
Total	14,595
Less: Current portion	<u>(2,746)</u>
Non-current portion	<u><u>11,849</u></u>

*HK\$'000*

**As at 31 December 2018**

– Convertible Loan A	16,185
– Tranche A of Convertible Loan C	5,884
– Tranche A of Convertible Loan D	<u>4,697</u>
Total	26,766
Less: Current portion	<u>(16,185)</u>
Non-current portion	<u><u>10,581</u></u>

The movements in fair value of convertible loan receivables classified as level 3 in the fair value hierarchy during the period ended 30 June 2019 are as follows:

*HK\$'000*

At 1 January 2019	26,766
Addition	2,746
Elimination at consolidation level upon the acquisition of a subsidiary	(16,429)
Change in fair value recognised in profit or loss	1,268
Exchange differences	<u>244</u>
At 30 June 2019 (Unaudited)	<u><u>14,595</u></u>

As at 30 June 2019, the fair values of convertible loan receivables are calculated using Binomial Share Option Model with the following key assumptions:

	<b>Convertible Loan C</b>	<b>Convertible Loan D</b>	<b>Convertible Loan E</b>
Dividend yield	Nil	Nil	Nil
Expected volatility	87%	101%	40%

The key significant unobservable input to determine the fair value of convertible loan receivables is the expected volatility. A higher in the expected volatility would result in an increase in the fair value of convertible loan receivables, and vice versa.

**15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
<b>Non-current</b>		
Equity investments designated at FVTOCI (Note (a))		
– Listed equity investments (Note (b))	22,212	69,407
– Unlisted equity investments (Note (c))	67,144	72,725
	<u>89,356</u>	<u>142,132</u>
Derivative financial instrument (Note (d))	<u>18,274</u>	<u>13,739</u>
<b>Current</b>		
Equity investments designated at FVTOCI (Note (a))		
– Listed equity investments (Note (b))	26,828	–
Equity investments designated at FVTPL		
– Listed equity investments (Note (e))	<u>16</u>	<u>28</u>

*Notes:*

- (a) The equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.
- (b) The balance as at 30 June 2019 represents two (31 December 2018: two) listed equity securities which are listed on the NASDAQ Stock Market of the United States, namely AC Immune SA and MeiraGTx Holdings plc (“MeiraGTx”). The fair value was based on quoted market price as at 30 June 2019.

During the period ended 30 June 2019, the Group divested a portion of its equity interest in MeiraGTx. The aggregate fair value on respective dates of disposal was approximately HK\$39.8 million and the accumulated gain recognised in other comprehensive income of approximately HK\$16.0 million was transferred to retained earnings.

- (c) The balance as at 30 June 2019 represents three (31 December 2018: three) unlisted equity investments, namely the investments in (i) series B preferred stock of a private company incorporated in the United States; (ii) series C preferred stock and common stock of another private company incorporated in the United States; and (iii) approximately 8% equity interest in a private company established in the PRC.
- (d) In 2018, the Group entered into a co-development agreement with an independent third party, Mitotech S.A. (“Mitotech”) under which the Group has agreed to fund to a maximum of approximately US\$16.5 million (approximately HK\$129.7 million), for a clinical development in the United States Food and Drug Administration first phase 3 clinical trial (the “First P3”) of an ophthalmic solution containing SkQ<sub>1</sub> as its sole active pharmaceutical ingredient (the “SkQ<sub>1</sub> Product”) which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech in respect of the SkQ<sub>1</sub> Product in accordance with the agreed percentage allocation between the Group and Mitotech. Pursuant to the agreement, the Group shall have the right to exercise an option to fund a second phase 3 clinical trial (the “Second P3 Option”) following the First P3. The Second P3 Option is classified as financial asset at FVTPL upon the initial recognition.
- (e) The equity investments were irrevocably designated at FVTPL as the Group considers these investments to be held for trading.

The movements in fair values of equity interest in the PRC private company and derivative financial instrument classified as level 3 in the fair value hierarchy during the period ended 30 June 2019 are as follows:

	<b>Unlisted equity investment</b> <i>HK\$'000</i>	<b>Derivative financial instrument</b> <i>HK\$'000</i>
At 1 January 2019	20,854	13,739
Change in fair value recognised in other comprehensive income	(5,418)	–
Change in fair value recognised in profit or loss	–	4,535
Exchange differences	69	–
	<u>15,505</u>	<u>18,274</u>
At 30 June 2019 (Unaudited)	<u>15,505</u>	<u>18,274</u>

As at 30 June 2019, the fair values of equity interest in the PRC private company and derivative financial instrument are calculated using Value Allocation Model and Option Pricing Model respectively with the following key assumptions:

	<b>Unlisted equity investment</b>	<b>Derivative financial instrument</b>
Expected volatility	65%	N/A
Risk-free interest rate	2.98%	N/A
Discount rate	N/A	25%

The key significant unobservable inputs to determine the fair values of unlisted equity investment and derivative financial instrument are the expected volatility and risk-free interest rate, and discount rate, respectively.

A higher in the expected volatility would result in an increase in the fair value of unlisted equity investment, and vice versa. A higher in the risk-free interest rate would result in a decrease in the fair value of unlisted equity investment, and vice versa.

A higher in the discount rate would result in a decrease in the fair value of derivative financial instrument, and vice versa.

## 16. INVENTORIES

	<b>At 30 June 2019 (Unaudited)</b> <i>HK\$'000</i>	<b>At 31 December 2018 (Audited)</b> <i>HK\$'000</i>
Raw materials	9,282	10,688
Work in progress	5,128	4,164
Finished goods	46,664	55,897
	<u>61,074</u>	<u>70,749</u>

## 17. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
Trade receivables	477,930	434,875
Other receivables	60,138	24,209
	<u>538,068</u>	<u>459,084</u>

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
0–60 days	326,579	271,286
61–90 days	60,982	49,333
Over 90 days	90,369	114,256
	<u>477,930</u>	<u>434,875</u>

## 18. DEPOSITS AND PREPAYMENTS

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
Deposits paid for acquisition of property, plant and equipment	4,480	2,324
Prepayments for purchase of finished goods	1,052	2,661
Other deposits	835	317
Other prepayments	4,971	2,476
	<u>11,338</u>	<u>7,778</u>
Total	11,338	7,778
Less: Current portion	(6,858)	(5,454)
	<u>4,480</u>	<u>2,324</u>
Non-current portion	4,480	2,324

## 19. TRADE AND OTHER PAYABLES

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Trade payables	11,403	3,736
Other payables and accruals ( <i>Note</i> )	304,678	287,778
	<u>316,081</u>	<u>291,514</u>

*Note:*

Other payables and accruals included the accruals for sales and marketing costs of approximately HK\$267.7 million (31 December 2018: approximately HK\$221.6 million).

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
0–60 days	11,403	3,733
61–90 days	–	–
Over 90 days	–	3
	<u>11,403</u>	<u>3,736</u>

## 20. BANK BORROWINGS

As at 30 June 2019, the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and a subsidiary within the Group; and (ii) a pledged bank deposit of HK\$19.0 million.

As at 31 December 2018, the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and a subsidiary within the Group; and (ii) a pledged bank deposit of HK\$11.0 million.

As at 30 June 2019, the Group obtained banking facilities of HK\$220.3 million (31 December 2018: HK\$220.3 million), of which HK\$95.0 million (31 December 2018: HK\$55.0 million) was utilised.

## 21. CONVERTIBLE LOAN PAYABLE

On 6 July 2016, the Group entered into a convertible loan agreement with International Finance Corporation (“IFC”) in an aggregate principal amount of HK\$150.0 million (the “Convertible Loan Payable”). Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at any time after the date of disbursement and prior to the maturity date. The maturity date is the date falling on the fifth anniversary of the date of the disbursement.

The major terms and conditions of the Convertible Loan Payable are as follows:

**(i) Interest rate**

The outstanding principal amount of the Convertible Loan Payable at 1.9% per annum.

**(ii) Conversion price**

The conversion price is HK\$5.9 per share (subject to anti-dilutive adjustments as set out in the convertible loan agreement).

**(iii) Repayment**

The Company shall repay the outstanding principal amount of the Convertible Loan Payable on the maturity date, together with the make whole premium (if any).

Make whole premium is an amount calculated by IFC which would yield a return for IFC on the principal amount of the Convertible Loan Payable of (i) 6% per annum; or (ii) 8% per annum if there exists a change of control which occurs when, among others, (a) there is a decrease in the shareholdings of the Company's certain shareholders as a group under specified conditions as stipulated in the convertible loan agreement; (b) certain shareholders of the Company as a group cease to be the single largest direct and indirect shareholder of the Company; or (c) any person (other than certain shareholders as a group) by itself or through its affiliates have obtained the power to appoint a majority of the Board of the Company.

The fair value of the debt component and the equity conversion component were determined at the issuance of the Convertible Loan Payable. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At the date of issue of the Convertible Loan Payable and at 30 June 2019, the fair value of the make whole premium was determined by the Directors to be minimal.

The movements of the Convertible Loan Payable during the period ended 30 June 2019 are as follows:

	<b>Debt component</b>	<b>Conversion component</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2018	128,974	33,323	162,297
Imputed interest expense	8,297	–	8,297
Interest paid	(2,905)	–	(2,905)
	<hr/>	<hr/>	<hr/>
As at 31 December 2018 (Audited)	134,366	33,323	167,689
Imputed interest expense	4,256	–	4,256
Interest paid	(1,441)	–	(1,441)
	<hr/>	<hr/>	<hr/>
As at 30 June 2019 (Unaudited)	<u>137,181</u>	<u>33,323</u>	<u>170,504</u>



## 22. SHARE CAPITAL

### Authorised

	At 30 June 2019		At 31 December 2018	
	<i>Number</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>Number</i> (Audited)	<i>HK\$'000</i> (Audited)
Ordinary shares at HK\$0.1 each	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>

### Issued and fully paid

	<i>Number</i>	<i>HK\$'000</i>
At 1 January 2018	563,493,000	56,349
Employee share options exercised	<u>15,257,000</u>	<u>1,526</u>
At 31 December 2018 (Audited)	578,750,000	57,875
Employee share options exercised	<u>57,000</u>	<u>6</u>
At 30 June 2019 (Unaudited)	<u>578,807,000</u>	<u>57,881</u>

## 23. BUSINESS COMBINATION

On 1 April 2019, the Group acquired 100% equity interest in Adv. Dental from an independent third party. Adv. Dental is engaged in the research and development, manufacture and distribution of pharmaceuticals and devices in dentistry and oral health. The acquisition was in line with the Group's expansion strategies. The purchase consideration of approximately RMB1.2 million (approximately HK\$1.4 million) for the acquisition was paid in cash.

The fair values of the identifiable assets and liabilities of Adv. Dental as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition HK\$'000</b>
Property, plant and equipment	89
Other intangible assets	6,701
Inventories	498
Trade and other receivables	975
Deposits and prepayments	99
Bank balances	934
Trade and other payables	(4,774)
Loan payable	(1,170)
Convertible loan payable	<u>(16,626)</u>
Total identifiable net liabilities at fair value	(13,274)
Goodwill on acquisition	<u>14,643</u>
Satisfied by cash	<u>1,369</u>

None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of approximately HK\$14.6 million, which is not deductible for tax purposes, represents the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<i>HK\$'000</i>
Cash consideration	(1,369)
Bank balances acquired	934
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(435)
	<hr/> <hr/>

The movements in the carrying amount of goodwill during the period ended 30 June 2019 are as follows:

	<i>HK\$'000</i>
<b>Cost:</b>	
At 1 January 2019	2,282
Acquisition of a subsidiary	14,643
Exchange adjustment	(401)
	<hr/>
At 30 June 2019 (Unaudited)	16,524
	<hr/> <hr/>

Since the acquisition, Adv. Dental contributed approximately HK\$1.6 million to the Group's revenue and approximately HK\$0.01 million to the Group's profit for the six months ended 30 June 2019.

Had the combination taken place at the beginning of the period, the revenue and profit of the Group for the period would have been approximately HK\$583.3 million and approximately HK\$129.9 million, respectively.

## 24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### (i) Financial assets measured at fair value

Convertible loan receivables, equity investments and derivative financial instrument included in the interim condensed consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value of financial instruments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out in notes (iii) and (iv) below.



## 25. CAPITAL COMMITMENTS

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
Contracted but not provided for:		
– property, plant and equipment	10,000	2,025
– development expenditure	27,565	27,839
– acquired intangible assets	4,535	77,950
– construction of the new factory	211,687	216,897
	<u>253,787</u>	<u>324,711</u>

## 26. RELATED PARTY TRANSACTIONS

### (a) Purchase of finished goods

	2019 (Unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2018 (Unaudited) <i>HK\$'000</i>
<b>Related party relationship</b>		
Associate	–	462

### (b) Year-end balance arising from prepayment for purchase of finished goods

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
<b>Related party relationship</b>		
Associate	–	605

### (c) Year-end balance arising from trade receivable from provision of service income

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
<b>Related party relationship</b>		
Associate	–	535

(d) Details of compensation paid to key management of the Group (all being the Directors) are as follows:

	<b>2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Salaries and other benefits	<b>3,048</b>	3,059
Pension fund contributions	<b>20</b>	21
	<b>3,068</b>	3,080

## 27. EVENTS AFTER THE REPORTING PERIOD

- (a) On 28 June 2019, the Group entered into a convertible loan agreement with an independent third party, a private company incorporated in Singapore (“Investee B”), with principal amount of US\$2.0 million (equivalent to approximately HK\$15.6 million) for a term of 18 months. The principal amount of the convertible loan can be converted into such number of shares representing less than 20% of the enlarged total issued share capital of Investee B at any time before the maturity date. Subsequent to the reporting period and as at the date of this announcement, the convertible loan has been disbursed to Investee B and the Group has not converted the principal amount of the convertible loan into shares of Investee B.
- (b) On 19 July 2019, the Group entered into the subscription and shareholders deed with Antikor and other relevant parties, pursuant to which the Group conditionally agreed to subscribe for ordinary shares of Antikor (the “Subscription Shares”) at the aggregate consideration of up to US\$3.1 million (equivalent to approximately HK\$24.2 million) by way of up to five tranches, including the conversion of Convertible Loan E. Assuming all five tranches of the Subscription Shares are fully subscribed by the Group, the Subscription Shares will represent approximately 40.12% of the enlarged total issued share capital of Antikor on a fully diluted basis. On 22 July 2019, the Group further acquired certain convertible loan notes issued by Antikor (the “Sale Loan Notes”) at an aggregate consideration of approximately GBP0.3 million (equivalent to approximately HK\$3.0 million).

As at the date of this announcement, the Group (i) converted the principal amount of Convertible Loan E; (ii) converted the Sale Loan Notes; and (iii) subscribed for ordinary shares of Antikor by payment of US\$0.5 million (equivalent to approximately HK\$3.9 million) as one of the five tranches. Total Subscription Shares held by the Group as at the date of this announcement represented 22.95% of the enlarged total issued share capital of Antikor on a fully diluted basis.

## 28. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 12 August 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

The vision of Essex Bio-Technology Limited (the “Company”, together with its subsidiaries, the “Group”) is to be a great and socially responsible corporation. Strategically, the Group develops, manufactures and commercialises genetically engineered therapeutic recombinant bovine basic fibroblast growth factor (“rb-bFGF”), with established mechanism of action in cellular proliferation, differentiation and migration.

The Group’s business focuses on two main therapeutic areas: (i) ophthalmology; and (ii) surgical arena of topical (skin) surface wounds primarily covering dermatology, stomatology and obstetrics and gynaecology; while selectively pursuing therapeutics in neurology, oncology and orthopaedics.

Currently the Group has five commercialised biopharmaceutical products, formulated with rb-bFGF, that are being marketed and sold as Beifushu (eye-drop and gel) for treatment of ocular wounds, Beifuji (spray and lyophilised powder) and Beifuxin (gel) for treatment of topical (skin) surface wounds, in the People’s Republic of China (the “PRC”). All these five rb-bFGF formulated biopharmaceutical products are developed and manufactured by the Group, three of which were approved by 國家藥品監督管理局 (National Medical Products Administration) as Category I drugs and are on the list of the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance issued by the Ministry of Human Resources and Social Security of the PRC.

Apart from the rb-bFGF formulated products, the Group was granted with the approval for registration and commercialisation of preservative-free single-dose Tobramycin Eye Drops, Sodium Hyaluronate Eye Drops and Levofloxacin Eye Drops in the PRC. The Group has also obtained a 藥品GMP證書 (Certificate of Good Manufacturing Practices for Pharmaceutical Products (“GMP”)) in respect of the preservative-free single-dose Tobramycin Eye Drops in 2018.

The Group maintains a pipeline of multi-project in research and development (“R&D”) at various stages of clinical programmes, of which several projects involve growth factors and antibody and a handful of projects are on unit dose for ophthalmic and respiratory disease.

The Group also undertakes exclusive distribution of third party products that complement its area of focuses. Major third party products distributed by the Group include (i) Xalatan® Eye Drops and Xalacom® Eye Drops for lowering raised pressure within the eye; (ii) 適麗順 (Iodized Lecithin Capsules\*) for treating central serous chorioretinopathy, central exudative chorioretinopathy, vitreous haemorrhage, vitreous opacities and central retinal vein occlusion, etc.; and (iii) 伊血安顆粒 (Yi Xue An Granules\*) for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion.

The Group has initiated an enrichment programme (the “Enrichment Programme”) since 2015, chiefly for expanding its R&D pipeline and products portfolio. Under the Enrichment Programme, the Group proactively seeks to invest in and forge strategic alliance with companies in the PRC and overseas, which are having first-in-class and novel pharmaceutical projects at various stages of their respective R&D and clinical programmes in ophthalmology, dermatology, oncology and neurology. Up to the date of this announcement, the Group has invested in over 10 entities/projects.

Each of the investments represented less than 5% of the Group's total assets as at 30 June 2019 and the date of this announcement, except for the total commitment in relation to the clinical development of the SkQ<sub>1</sub> Product (as defined below) under the co-development agreement (the "Co-Development Agreement") with Mitotech S.A. and Mitotech LLC on 16 July 2019 (please refer to the section headed "Co-Development Agreement with Mitotech S.A. and Mitotech LLC" below for details).

During the period under review and up to the date of this announcement, the Group has made the following strategic investments:

**Acquisition of 100% Equity Interest in 武漢伢典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.\*) ("Adv. Dental")**

On 1 April 2019, the Group acquired 100% equity interest in Adv. Dental at a consideration of approximately RMB1.2 million (equivalent to approximately HK\$1.4 million). The major product being manufactured and marketed by Adv. Dental is Carisolv, a product for the treatment of dental caries by using minimally invasive techniques.

**Investment in Antikor Biopharma Limited ("Antikor")**

On 22 January 2019, the Group entered into a convertible loan agreement with Antikor, pursuant to which the Group subscribed for a convertible loan issued by Antikor in the principal amount of approximately US\$0.4 million (equivalent to approximately HK\$2.7 million), interest-bearing at a rate of 5% per annum (the "Convertible Loan").

For the furtherance of the strategic co-operation between the Group and Antikor, on 19 July 2019, the Group entered into the subscription and shareholders deed (the "Subscription and Shareholders Deed") with Antikor. Pursuant to the Subscription and Shareholders Deed, the Group agreed to subscribe for ordinary shares of Antikor (the "Subscription Shares") at the aggregate consideration of up to US\$3.1 million (equivalent to approximately HK\$24.2 million) by way of up to five tranches, including the conversion of the Convertible Loan subscribed by the Group on 22 January 2019. Assuming all five tranches of the Subscription Shares are fully subscribed by the Group, the Subscription Shares will represent approximately 40.12% of the enlarged total issued share capital of Antikor on a fully diluted basis. On 22 July 2019, the Group further acquired certain convertible loan notes issued by Antikor (the "Sale Loan Notes") at an aggregate consideration of approximately GBP0.3 million (equivalent to approximately HK\$3.0 million).

As at the date of this announcement, the Group (i) converted the principal amount of the Convertible Loan; (ii) converted the Sale Loan Notes; and (iii) subscribed for ordinary shares of Antikor by payment of US\$0.5 million (equivalent to approximately HK\$3.9 million) as one of the five tranches. Total Subscription Shares held by the Group as at the date of this announcement represented 22.95% of the enlarged total issued share capital of Antikor on a fully diluted basis.

On 23 July 2019, the Group and Antikor entered into a licence agreement, pursuant to which Antikor will grant to the Group an exclusive licence in relation to any therapeutic products and/or therapies (the "Licensed Products") using and/or incorporating any of the specified patent, know-how and technology in relation to, or in connection with, fragment drug conjugates ("FDCs").

Antikor is a biotechnology company incorporated and registered in England and Wales, focusing on the development of miniaturised antibody FDCs for cancer therapy.



The Group is enthusiastic about the investment opportunity in Antikor and is optimistic about the commercialisation and development potential of the Licensed Products. The strategic investment offers the Group with an opportunity to access to the novel and unique technology platform of FDCs in addressing the immunotherapy oncology market.

### **Co-Development Agreement with Mitotech S.A. and Mitotech LLC**

On 16 July 2018, the Group entered into the Co-Development Agreement with Mitotech S.A. and Mitotech LLC in relation to the clinical development in the first phase 3 clinical trial (the “First P3 Trial”) of an ophthalmic solution containing SkQ<sub>1</sub> as its sole active pharmaceutical ingredient (the “SkQ<sub>1</sub> Product”) which shall be provided as a pharmaceutical product in the field of dry eye disease. On 19 July 2019, the Group, together with Mitotech S.A., announced that positive topline data was achieved during the First P3 Trial showing clinically relevant signs and symptoms in respect of efficacy and safety of the SkQ<sub>1</sub> Product. In view of the positive trial data obtained during the First P3 Trial, the Group and Mitotech S.A. are discussing on taking the phase 3 clinical trial of the SkQ<sub>1</sub> Product to the next step, i.e. second phase 3 clinical trial.

### **MARKET DEVELOPMENT**

To meet with new challenges in sales amid recent significant regulatory changes on how pricing and prescription of drugs are administrated by hospitals, the Group made significant changes to its sales and marketing organisation and strategies since the fourth quarter of 2018 to remain operationally relevant with wider market reach for sustainable growth traction. We are investing significantly in:

- Clinical observation programmes on the drugs’ clinical indications;
- Reaching out to lower-tier cities;
- Cultivating pharmaceutical stores, where possible, as complementary sales channel;
- Upgrading sales staff on products knowledge proficiency and professionalism; and
- On-line platform for training of sales staff and medical practitioners and management of sales process through the system of Customer Relationship Management (CRM).

As at 30 June 2019, the Group maintains 42 regional sales offices (the “RSOs”) and a total number of about 1,310 sales and marketing representatives, out of which approximately 730 people are full-time staff and approximately 580 people are on contract basis or from appointed agents.

During the period under review, the Group’s pharmaceutical products are being prescribed in around 6,900 hospitals and medical organisations and approximately 1,100 pharmaceutical stores, which are mainly located in the major cities, provinces and county cities in the PRC.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are divided into two specialised teams: ophthalmology and surgical arena of topical (skin) surface wounds. The latter primarily covers dermatology, stomatology and obstetrics and gynaecology.



The RSOs are tasked with the function of (i) promoting the Group's products to pharmaceutical companies and hospitals; and (ii) providing training to medical practitioners on clinical applications of the Group's products. In addition, these RSOs serve another vital role to the Group in gathering market intelligence and feedback for the Group's R&D planning and clinical studies.

## **RESEARCH AND DEVELOPMENT**

The Group's key R&D initiative comprises growth factor, antibody (i.e. mAb, bsAb, sdAb, scFv, ADC/FDC, etc.), drug formulation and Blow-Fill-Seal ("BFS") platform. Growth factor, antibody and drug formulation are technologies for the development of therapeutic drugs, whereas BFS platform is a state-of-the-art manufacturing plant for producing preservative-free single-dose drugs, in particular for ophthalmic drugs.

The Group's technology platform is built on a recombinant DNA, more particularly, the basic fibroblast growth factor ("bFGF") and its industrialisation technology. To capitalise on the proprietary technique on bFGF, the Company plans to deliver a series of high quality products to establish itself as market leader in the arena of biopharmaceutical products for wounds healing and treatment. Furthermore, the Group over the past few years has been engaging in exploratory research on immunotherapy for the treatment of cancers and age-related macular degeneration, the recent strategic alliance forged with Antikor is furtherance of our research programme.

The establishment of the BFS platform has strengthened the Group's core competency to develop and produce a series of preservative-free single-dose drugs. The Group has 10 categories of drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the R&D pipeline. As at 30 June 2019, the Group has been granted with the approval for registration and commercialisation of 3 types of preservative-free single-dose eye drops in the PRC, and has obtained a certificate of GMP in respect of the preservative-free single-dose Tobramycin Eye Drops. It is expected that the remaining preservative-free single-dose drugs under the development of the Group would be approved within the next 2 years.

As at the date of this announcement, the Group has obtained a total of sixteen patent certificates or authorisation letters: thirteen 發明專利 (invention patents) and three 實用新型專利 (utility model patents).

## **OUR PRODUCTION CAPABILITY**

The Group's factory in Zhuhai is fully equipped with seven production plants, (i) one of which is for the production of active pharmaceutical ingredients; (ii) four of which are for the production of the Group's flagship biopharmaceutical formulations; and (iii) the remaining two are the state-of-the-art BFS production plants for the production of preservative-free single-dose drugs.

## **ACQUISITION OF A PIECE OF LAND IN THE PRC**

To cope with the rapid expansion of the Group, a piece of land of about 15,000 square metres located at 珠海高新區科技創新海岸 (Zhuhai Hi-Tech Industrial Park\*) was acquired in 2018. The land is within walking distance from the Group's existing factory. The plan is to construct the Group's second factory with a gross floor area (GFA) of about 58,000 square metres to house the Group's R&D centre, additional manufacturing facility, administrative office and staff hostel. Construction work is expected to start in the fourth quarter of 2019.

## FINANCIAL REVIEW

The Group's revenue is chiefly derived and denominated in Renminbi from its operations in the PRC. For the six months ended 30 June 2019, turnover presented in Hong Kong Dollars was jeopardised by around 6.7% due to the weakening of Renminbi during the period under review.

The weakening of Renminbi and changes of policies in the healthcare system in the PRC including the two invoicing system have directly impacted negatively the Group's turnover to a marginal increase of 3.6% to approximately HK\$581.7 million for the period ended 30 June 2019 as compared to the corresponding period of last year, which would otherwise have a double-digit increment.

Despite the marginal increase in turnover, the Group recorded a positive profit after tax of approximately HK\$129.6 million, an increase of 31.0% as compared to the same period of last year. The positive result is a testament to its effective internal reform of its sales and marketing organisation and strategies proactively taken since the fourth quarter of 2018.

During the period ended 30 June 2019, the Group partially divested its investment in MeiraGTx Holdings plc (Stock code: MGTX (NASDAQ)) in the open market with a realised net gain of approximately HK\$18.0 million. The gain was recorded in other comprehensive income instead of profit or loss. The remaining investment held as at 30 June 2019 has a market value of approximately HK\$26.8 million. This is the maiden divestment from its investment portfolio under the Enrichment Programme.

The turnover contribution by business line of ophthalmic and surgical products is represented as 43.0% and 57.0% respectively.

Composition of turnover for the six months ended 30 June 2019 and 2018, respectively, is shown in the following table:

<b>Expressed in HK\$' million</b>	<b>For the six months ended 30 June 2019</b>	<b>For the six months ended 30 June 2018</b>
<b>Ophthalmic products</b>	<b>249.9</b>	268.6
<b>Surgical products</b>	<b>331.8</b>	292.7
<b>Total</b>	<b>581.7</b>	561.3

The overall ophthalmic products contributed approximately HK\$249.9 million to the Group's turnover for the period ended 30 June 2019, representing a decrease of 7.0% as compared to the corresponding period last year. The decrease was attributable to the depreciation of Renminbi and changes of policies in the healthcare system in the PRC including the two invoicing system.

Surgical products recorded a total turnover of approximately HK\$331.8 million for the period ended 30 June 2019, representing an increase of 13.4% as compared to the corresponding period last year. Similarly, turnover of surgical products for the period ended 30 June 2019 was weighed down by the depreciation of Renminbi and changes of policies in the healthcare system in the PRC including the two invoicing system.

During the period under review, the Group achieved a profit of approximately HK\$129.6 million as compared to the corresponding period last year of approximately HK\$98.9 million, representing an increase of 31.0%. The positive result is a testament to its effective internal reform of its sales and marketing organisation and strategies proactively taken since the fourth quarter of 2018.

Average turnover generated by each sales and marketing representative increased by 10.7% to approximately HK\$444,000 for the period ended 30 June 2019 as compared to approximately HK\$401,000 for the corresponding period last year. It is a reflection of the significant improvement of the productivity of each salesperson.

The distribution and selling expenses for the period under review were approximately HK\$300.7 million as compared to the corresponding period last year of approximately HK\$312.8 million, representing a decrease of 3.9% in spite of the increase in turnover. Such expenses primarily consisted of remuneration, advertising costs, travelling and transportation costs, costs for organisation of seminars and conferences for product training and awareness, etc. The decrease is the result of the significant changes made to the sales and marketing organisation and strategies implemented since the fourth quarter of 2018.

The administrative expenses for the period under review were approximately HK\$34.2 million as compared to the corresponding period last year of approximately HK\$24.9 million. The increase in administrative expenses was mainly due to the increase in staff costs and the decrease in exchange gain by approximately HK\$5.6 million and approximately HK\$3.8 million respectively.

R&D expenditures incurred during the period ended 30 June 2019 increased to approximately HK\$16.8 million of which approximately HK\$15.7 million were capitalised, whereas total expenditures incurred during the period ended 30 June 2018 were approximately HK\$14.8 million of which approximately HK\$9.4 million were capitalised.

The Group had cash and cash equivalents of approximately HK\$334.7 million as at 30 June 2019 (31 December 2018: approximately HK\$311.1 million).

The Group's bank borrowings as at 30 June 2019 were HK\$95.0 million (31 December 2018: HK\$55.0 million), among which 17.5% was repayable within 1 year and 82.5% was repayable in more than 1 year but within 5 years. All of the Group's bank borrowings were denominated in Hong Kong Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 3.7% as at 30 June 2019. Please refer to the sub-section headed "Liquidity and Financial Resources" for details of banking facilities.

The total finance costs of the Group for the period ended 30 June 2019 were approximately HK\$4.2 million (For the six months ended 30 June 2018: approximately HK\$3.4 million), including an imputed interest expense on the convertible loan payable amounting to approximately HK\$4.2 million (For the six months ended 30 June 2018: approximately HK\$4.1 million) of which approximately HK\$1.1 million (For the six months ended 30 June 2018: approximately HK\$1.1 million) was capitalised during the period under review.

### **Convertible loan from International Finance Corporation (“IFC”)**

On 6 July 2016, the Company entered into a convertible loan agreement (the “Convertible Loan Agreement”) with IFC, being a member of the World Bank Group and an international organisation established by Articles of Agreement among its member countries including the PRC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK\$150.0 million at an interest rate of 1.9% per annum. Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into ordinary shares of the Company (“Conversion Shares”) at a conversion price of HK\$5.90 per share (subject to adjustments as set out in the Convertible Loan Agreement) at any time after the date of the disbursement and prior to the maturity date (i.e. the date falling on the fifth anniversary of the date of the disbursement).

#### ***Use of net proceeds from the convertible loan***

The net proceeds from the convertible loan (after deducting the fees and expenses in relation to the obtaining of the convertible loan) are approximately HK\$145.0 million, which were intended to be utilised for the Company’s strategic investment in and development of the Group’s bio-pharmaceutical business and general working capital requirements. As at 30 June 2019 and as at the date of this announcement, the net proceeds had been used for:

- (i) the settlement of bank borrowings of approximately HK\$80.0 million which were mainly obtained to finance the Group’s strategic investments;
- (ii) working capital purpose of approximately HK\$26.1 million; and
- (iii) the R&D expenditure of approximately HK\$38.9 million on the Group’s biopharmaceutical business.

#### ***Dilutive effect of the conversion of the convertible loan***

As at 30 June 2019, no part of the outstanding principal amount of the convertible loan of HK\$150.0 million has been converted into Conversion Shares.

On the assumption that the convertible loan would be converted into Conversion Shares in full at the initial conversion price of HK\$5.90 per share, the aggregate principal amount of the convertible loan of HK\$150.0 million is convertible into 25,423,728 Conversion Shares.

The following table sets out the total number of shares of the Company to be issued upon full conversion of the convertible loan as at 30 June 2019:

Shareholders	As at 30 June 2019		Immediately upon full conversion of the convertible loan at the conversion price of HK\$5.90 per share	
	No. of shares	Approximate %	No. of shares	Approximate %
Ngiam Mia Je Patrick	146,979,000	25.39	146,979,000	24.32
Ngiam Mia Kiat Benjamin	145,354,000	25.11	145,354,000	24.06
Dynatech Ventures Pte Ltd ( <i>Note 1</i> )	6,666,667	1.15	6,666,667	1.10
Directors of the Company (the “Directors”) (other than Ngiam Mia Je Patrick) ( <i>Note 2</i> )	7,280,450	1.26	7,280,450	1.20
IFC	–	–	25,423,728	4.21
Other shareholders	272,526,883	47.09	272,526,883	45.11
	<u>578,807,000</u>	<u>100</u>	<u>604,230,728</u>	<u>100</u>

*Notes:*

- (1) 6,666,667 shares were held by Dynatech Ventures Pte Ltd (“Dynatech”) which was wholly owned by Essex Investment (Singapore) Pte Ltd (“Essex Singapore”), which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares.
- (2) Amongst these 7,280,450 shares, 5,244,300 shares were registered in the name of Fang Haizhou and 2,036,150 shares were registered in the name of Zhong Sheng.
- (3) Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director) and is deemed to be interested in the shares in which Ngiam Mia Je Patrick is interested/deemed to be interested.

### ***Dilutive effect on earnings per share***

Based on the profit attributable to owners of the Company for the six months ended 30 June 2019 of approximately HK\$129.6 million, the basic and diluted earnings per share attributable to owners of the Company, after considering the full conversion of the convertible loan, were HK22.39 cents and HK21.96 cents respectively.

### ***The Company’s ability to meet the repayment obligations under the convertible loan***

Based on the cash and cash equivalents as at 30 June 2019 and the cash flow from the operations of the Company for the period then ended, the Company has the ability to meet its repayment obligations under the convertible loan which remained unconverted to Conversion Shares as at 30 June 2019.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as disclosed in this announcement, as at 30 June 2019, the Group did not have any immediate plan for material investments or acquisition of material capital assets.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2019, the Group obtained banking facilities of HK\$220.3 million, of which HK\$95.0 million was utilised. All of the banking facilities were secured by the corporate guarantees provided by the Company and a subsidiary within the Group and a pledged deposit which amounted to HK\$19.0 million.

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$334.7 million as compared to approximately HK\$311.1 million as at 31 December 2018.

The Group monitors its capital structure on the basis of a gearing ratio which is defined as the ratio of total liabilities to total assets. The gearing ratio as at 30 June 2019 was 36.0% (31 December 2018: 35.9%).

## **CHARGES ON GROUP ASSETS**

As at 30 June 2019, bank deposit of HK\$19.0 million (31 December 2018: HK\$11.0 million) was pledged to secure the Group's banking facilities.

## **CAPITAL COMMITMENTS**

As at 30 June 2019, the Group had capital commitments amounted to approximately HK\$253.8 million (31 December 2018: approximately HK\$324.7 million).

## **CONTINGENT LIABILITIES**

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES**

Save as disclosed in this announcement, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the period ended 30 June 2019.

## **SIGNIFICANT INVESTMENTS HELD**

Save as disclosed in this announcement, the Group did not hold any significant investments as at 30 June 2019.

## **FOREIGN EXCHANGE EXPOSURE**

It is the Group's policy to borrow and deposit cash in local currencies to minimise currency risk.

The Group's assets, liabilities and transactions are mainly denominated in Hong Kong Dollar, Renminbi or US Dollar. The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange risks and therefore no hedging arrangements were made. So long as the linked exchange rate system in Hong Kong with US Dollar is maintained, it is expected that the Group will not be subject to any significant exchange risk. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements as appropriate.



## **TREASURY POLICY**

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with the PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong banks rates. Bank deposits were mainly denominated in Renminbi, Hong Kong Dollar and US Dollar.

## **EMPLOYEES**

As at 30 June 2019, the Group had a total of 1,075 full-time employees (31 December 2018: 1,034 full-time employees). The aggregate remuneration of the Group's employees, including that of the Directors for the period under review and the preceding period amounted to approximately HK\$98.5 million and approximately HK\$68.5 million, respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group.

Each executive Director has entered into a service agreement with the Company which will expire on 26 June 2020 unless it is terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive Director was fixed in his service agreements and he is also entitled to a discretionary annual bonus of such amount (if any) as the board of Directors (the "Board") may determine in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all Directors in any financial year shall not exceed 5% of the consolidated net profit after taxation and non-controlling interests but before extraordinary items of the Company as shown in its consolidated audited accounts for such financial year (the "Net Profit"); (b) the Net Profit for such financial year exceeds HK\$50,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.4 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three months after the issue of the consolidated audited accounts of the Group for such financial year.

Other remuneration and benefits, including retirement benefits scheme, remained at an appropriate level.

## SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the period under review. For the period ended 30 June 2019, 57,000 ordinary shares of the Company were issued as a result of the exercise of 57,000 share options (the "Options") granted under the Company's share option scheme as approved by the shareholders of the Company at the annual general meeting held on 3 May 2013 (the "Scheme"). Details of the Scheme are set out below.

### Summary of the Scheme

#### 1. Purpose of the Scheme:

- (a) To recognise and acknowledge the contributions that the Eligible Participants (as defined below) have made or may make to the Group.
- (b) To provide the Eligible Participants (as defined below) with the opportunity of acquiring proprietary interests in the Company with the view to (1) motivate them to optimise their performance and efficiency for the benefit of the Group; and (2) attract and retain or otherwise maintain ongoing business relationship with them whose contributions are, will or expected to be beneficial to the Group.

#### 2. Participants of the Scheme:

- (a) any director, officer, employee or officer employed by any company in the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Affiliate") (whether full time or part time) (the "Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or
- (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or
- (c) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate (the "Eligible Participants").

The basis of eligibility of any of the above classes of the Eligible Participants to the grant of any right(s) to subscribe for fully paid share(s) of HK\$0.10 each of the Company (or such other nominal amount prevailing from time to time) (the "Share(s)") granted pursuant to this Scheme shall be determined by the Board from time to time on the basis of their contribution to the Group and/or the Affiliate(s) in line with the purposes of the Scheme.



3. (a) Total number of ordinary shares of HK\$0.10 each in the capital of the Company available for issue under the Scheme as at the date of this announcement:
- 25,375,000 Shares.
- (b) Percentage of the issued share capital that it represents as at the date of this announcement:
- 4.38%.
4. Maximum entitlement of each Eligible Participant under the Scheme:
- Not to exceed 1% of the Shares in issue in any 12-month period unless approved by shareholders of the Company.
5. Period within which the Shares must be taken up under an Option:
- Within 10 years from the date on which the Option is offered or such shorter period as the Board may determine.
6. Minimum period for which an Option must be held before it can be exercised:
- No minimum period unless otherwise determined by the Board.
7. (a) Price payable on application or acceptance of the Option:
- HK\$1.00.
- (b) The period within which payments or calls must or may be made:
- 14 days after the offer date of an Option.
- (c) The period within which loans for the purposes of the payments or calls must be repaid:
- Not applicable.
8. Basis of determining the exercise price:
- The exercise price shall be determined by the Board and notified to each grantee and shall not be less than the highest of:
- (a) the closing price of a Share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of grant of the relevant Option, which must be a business day;
- (b) an amount equivalent to the average closing price of a Share as stated in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant of the relevant Option; and
- (c) the nominal value of a Share.

9. The remaining life of the Scheme:

Approximately 3.8 years (expiring on 2 May 2023).

10. Key information on the Options granted under the Scheme:

(1) As disclosed in the announcement of the Company dated 30 October 2013, among others, 19,500,000 Options were granted under the Scheme, of which 8,000,000 Options were granted to the Directors and substantial shareholders of the Company. Set out below are details of such Options granted on 30 October 2013:

- (a) Exercise price of the Options granted: HK\$2.30 per Share.
- (b) Each grantee is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:
  - (i) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2014 to 29 October 2018 (both dates inclusive);
  - (ii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 October 2014 to 29 October 2018 (both dates inclusive);
  - (iii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2015 to 29 October 2018 (both dates inclusive);
  - (iv) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 October 2015 to 29 October 2018 (both dates inclusive);  
and
  - (v) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2016 to 29 October 2018 (both dates inclusive).

(c) All Options granted to the grantees were fully exercised before 29 October 2018.

(2) As disclosed in the announcement of the Company dated 11 November 2016, 2,300,000 Options were granted to three eligible persons under the Scheme. Set out below are details of such Options granted on 11 November 2016:

- (a) Exercise price of the Options granted: HK\$5.90 per Share.
- (b) Each grantee is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:
  - (i) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2017 to 10 November 2021 (both dates inclusive);
  - (ii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2017 to 10 November 2021 (both dates inclusive);

- (iii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2018 to 10 November 2021 (both dates inclusive);
  - (iv) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2018 to 10 November 2021 (both dates inclusive); and
  - (v) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2019 to 10 November 2021 (both dates inclusive).
- (c) All outstanding or unexercised Options granted to the grantees shall lapse after 10 November 2021.
- (3) As disclosed in the announcement of the Company dated 1 November 2017, the Company entered into the service contract with Hong Kong Zhixin Financial News Agency Limited (“HK Zhixin”) for the appointment of HK Zhixin as the Company’s investor and media relations consultant. HK Zhixin shall act as the Company’s investor and media relations consultant and shall provide to the Company certain services related to relations with investors and media for a term commencing on 1 November 2017 up to 31 October 2021 (both days inclusive). In consideration of the provision of the services by HK Zhixin to the Company, the Company shall grant an aggregate of 5,000,000 Options to HK Zhixin to subscribe for up to 5,000,000 Shares under the Scheme. Set out below are the details of such Options granted on 1 November 2017:
- (a) The exercise price for:
    - (i) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2018 to 31 October 2019 (both dates inclusive), will be HK\$6.50 per Share;
    - (ii) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2019 to 31 October 2020 (both dates inclusive), will be HK\$7.50 per Share; and
    - (iii) Options to subscribe for up to 1,600,000 Shares, representing 32% of the total number of Options granted, the exercise period of which is from 1 November 2020 to 31 October 2021 (both dates inclusive), will be HK\$8.50 per Share.
  - (b) HK Zhixin is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:
    - (i) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2018 to 31 October 2019 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options X the average number of Shares traded per day during the period from 1 November 2017 to 31 October 2018 (both days inclusive)/500,000, whichever is lower (*Note*);

*Note:* As at 30 June 2019, total number of Options exercisable was 1,700,000.

- (ii) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2019 to 31 October 2020 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options X the average number of Shares traded per day during the period from 1 November 2018 to 31 October 2019 (both days inclusive)/750,000, whichever is lower; and
- (iii) up to 32% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2020 to 31 October 2021 (both dates inclusive). The number of Options exercisable is 1,600,000 Options or 1,600,000 Options X the average number of Shares traded per day during the period from 1 November 2019 to 31 October 2020 (both days inclusive)/1,000,000, whichever is lower;

the term “average number of Shares traded per day” means the total number of Shares traded on the trading days during the relevant period/the total number of trading days in the relevant period, and the number of Shares traded as set out on the website of the Stock Exchange shall be relied upon in respect of the number of Shares traded on each trading day.

- (c) Each of the outstanding or unexercised Options granted to HK Zhixin shall lapse after the respective exercise periods. The vesting periods shall be subject to the provisions of the service contract of HK Zhixin in relation to early termination of the service contract.
- (4) As disclosed in the announcement of the Company dated 27 June 2018, 1,000,000 Options were granted to an eligible person under the Scheme. Set out below are details of such Options granted on 27 June 2018:
- (a) Exercise price of the Options granted: HK\$10.00 per Share.
  - (b) The grantee is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:
    - (i) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2020 to 26 June 2023 (both dates inclusive);
    - (ii) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2021 to 26 June 2023 (both dates inclusive); and
    - (iii) up to 40% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2022 to 26 June 2023 (both dates inclusive).
  - (c) All outstanding or unexercised Options granted to the grantee shall lapse after 26 June 2023.

## Details of the Options Granted

The following table discloses the movements in the Company's share options held by each of the employees of the Company in aggregate and other participants granted under the Scheme during the period ended 30 June 2019:

Participants	Date of grant	Exercise price HK\$	Exercisable period	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Outstanding as at 30 June 2019
Employees	11.11.2016	5.9	11.05.2017–10.11.2021	460,000	0	57,000	403,000
	11.11.2016	5.9	11.11.2017–10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.05.2018–10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.11.2018–10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.05.2019–10.11.2021	460,000	0	0	460,000
	27.06.2018	10.0	27.06.2020–26.06.2023	300,000	0	0	300,000
	27.06.2018	10.0	27.06.2021–26.06.2023	300,000	0	0	300,000
	27.06.2018	10.0	27.06.2022–26.06.2023	400,000	0	0	400,000
<b>Total for employees</b>				<u>3,300,000</u>	<u>0</u>	<u>57,000</u>	<u>3,243,000</u>
An investor relations consultant	01.11.2017	6.5	01.11.2018–31.10.2019	1,700,000	0	0	1,700,000
	01.11.2017	7.5	01.11.2019–31.10.2020	1,700,000	0	0	1,700,000
	01.11.2017	8.5	01.11.2020–31.10.2021	1,600,000	0	0	1,600,000
<b>Total for an investor relations consultant</b>				<u>5,000,000</u>	<u>0</u>	<u>0</u>	<u>5,000,000</u>
<b>Total for the Scheme</b>				<u>8,300,000</u>	<u>0</u>	<u>57,000</u>	<u>8,243,000</u>

The weighted average share price for Options exercised during the period ended 30 June 2019 immediately before the dates of exercise was HK\$6.98 per Share.

During the period under review, no Option has been cancelled or lapsed.

## ADDITIONAL INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the shares of the Company:

Name	Capacity	Number of ordinary shares/ underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 30 June 2019
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,645,667 (Note 1)	26.55%
Fang Haizhou	Beneficial owner	5,244,300 (Note 2)	0.91%
Zhong Sheng	Beneficial owner	2,036,150 (Note 3)	0.35%

Notes:

- 146,979,000 ordinary shares were registered in the name of Ngiam Mia Je Patrick.
  - 6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore. Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mia Je Patrick was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
- 5,244,300 ordinary shares were registered in the name of Fang Haizhou.
- 2,036,150 ordinary shares were registered in the name of Zhong Sheng.

Save as disclosed above, as at 30 June 2019, none of the Directors and the chief executive of the Company had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 30 June 2019, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the shares of the Company:

Name	Capacity	Number of ordinary shares/ underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 30 June 2019
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	152,020,667 (Note 1)	26.26%
Lauw Hui Kian	Family interest	153,645,667 (Note 2)	26.55%

Notes:

- 145,354,000 ordinary shares were registered in the name of Ngiam Mia Kiat Benjamin.
  - 6,666,667 shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
- Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested under the SFO.

Save as disclosed above, as at 30 June 2019, no other persons or entities (other than the Directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the period under review.



## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters, including reviewing the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019.

## **INTERIM DIVIDEND**

The Board has resolved on 12 August 2019 to declare an interim dividend of HK\$0.035 (For the six months ended 30 June 2018: HK\$0.03) per ordinary share for the six months ended 30 June 2019 (the "Interim Dividend"), which is payable in cash on or about Friday, 20 September 2019. The Interim Dividend will be paid to shareholders of the Company whose names appear in the Company's register of members at the close of business on Wednesday, 4 September 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 2 September 2019 to Wednesday, 4 September 2019 (both days inclusive) during which period no share transfer will be effected. To qualify for the Interim Dividend, all transfers of Shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 30 August 2019.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code. Having made specific enquiries with all the Directors, all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the 6-month period ended 30 June 2019.

ON BEHALF OF THE BOARD

**Ngiam Mia Je Patrick**

*Chairman*

Hong Kong  
12 August 2019

*Executive directors of the Company as at the date of this announcement are Mr Ngiam Mia Je Patrick, Mr Fang Haizhou and Mr Zhong Sheng. Independent non-executive directors of the Company as at the date of this announcement are Mr Fung Chi Ying, Mr Mauffrey Benoit Jean Marie and Ms Yeow Mee Mooi.*

\* *For identification purpose only*