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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 2018

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 2018 together with the comparative figures for the corresponding period in 2017 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2018 (Unaudited) HK\$'000	For the six months ended 30 June 2017 (Unaudited) HK\$'000
	Notes		
Turnover	5	561,278	437,637
Cost of sales		<u>(101,983)</u>	<u>(80,077)</u>
Gross profit		459,295	357,560
Other revenue, and other gains and losses	6	3,404	4,034
Distribution and selling expenses		(312,757)	(247,835)
Administrative expenses		(24,904)	(17,357)
Finance costs	7	<u>(3,397)</u>	<u>(4,955)</u>
Profit before income tax	8	121,641	91,447
Income tax	9	<u>(22,725)</u>	<u>(14,327)</u>
Profit for the period		98,916	77,120

		For the six months ended 30 June
	2018	2017
	(Unaudited)	(Unaudited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of available-for-sale financial assets	–	(16,847)
Exchange differences on translation of financial statements of foreign operations	<u>(13,157)</u>	<u>17,435</u>
	(13,157)	588
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets at fair value through other comprehensive income	<u>(3,542)</u>	<u>–</u>
Other comprehensive income for the period	<u>(16,699)</u>	<u>588</u>
Total comprehensive income for the period	<u>82,217</u>	<u>77,708</u>
Earnings per share attributable to owners of the Company		
Basic	<i>11</i> <u>HK17.46 cents</u>	<u>HK13.72 cents</u>
Diluted	<i>11</i> <u>HK16.98 cents</u>	<u>HK13.56 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	12	166,392	171,239
Land use rights		6,329	6,494
Goodwill		2,397	2,435
Other intangible assets	13	144,348	138,130
Convertible loan receivables	14	22,731	33,062
Available-for-sale financial assets	15	–	90,393
Financial assets at fair value through other comprehensive income	15	148,983	–
Deposits and prepayments	18	9,148	2,806
Pledged bank deposit		13,750	–
Total non-current assets		514,078	444,559
Current assets			
Inventories	16	115,955	102,870
Trade and other receivables	17	416,271	335,983
Deposits and prepayments	18	9,159	7,508
Convertible loan receivable	14	17,149	–
Financial assets at fair value through profit or loss	15	1,064	–
Pledged bank deposit		–	28,229
Cash and cash equivalents		308,380	240,627
Total current assets		867,978	715,217
Total assets		1,382,056	1,159,776
Current liabilities			
Trade and other payables	19	314,591	225,190
Bank borrowings	20	–	29,004
Current tax liabilities		16,710	22,959
Total current liabilities		331,301	277,153
Net current assets		536,677	438,064
Total assets less current liabilities		1,050,755	882,623

		At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current liabilities			
Bank borrowings	20	55,000	–
Convertible loan payable	21	131,601	128,974
Deferred tax liabilities		<u>13,257</u>	<u>14,161</u>
Total non-current liabilities		<u>199,858</u>	<u>143,135</u>
Total liabilities		<u>531,159</u>	<u>420,288</u>
NET ASSETS		<u>850,897</u>	<u>739,488</u>
Capital and reserves attributable to owners of the Company			
Share capital	22	57,101	56,349
Reserves		<u>793,796</u>	<u>683,139</u>
TOTAL EQUITY		<u>850,897</u>	<u>739,488</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Foreign currency translation reserve	Share option reserve	Available-for-sale financial assets reserve	Fair value through other comprehensive income reserve	Conversion component of convertible loan payable	Retained earnings	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1 January 2017	56,215	17,554	362	41,517	(34,438)	16,895	13,440	–	33,323	411,996	556,864
Profit for the period	–	–	–	–	–	–	–	–	–	77,120	77,120
Other comprehensive income:											
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	(16,847)	–	–	–	(16,847)
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	17,435	–	–	–	–	–	17,435
Total comprehensive income for the period	–	–	–	–	17,435	–	(16,847)	–	–	77,120	77,708
Dividend paid	–	–	–	–	–	–	–	–	–	(17,989)	(17,989)
Equity-settled share-based payments	–	–	–	–	–	1,003	–	–	–	–	1,003
At 30 June 2017 (Unaudited)	<u>56,215</u>	<u>17,554</u>	<u>362</u>	<u>41,517</u>	<u>(17,003)</u>	<u>17,898</u>	<u>(3,407)</u>	<u>–</u>	<u>33,323</u>	<u>471,127</u>	<u>617,586</u>
At 1 January 2018											
As originally presented	56,349	21,858	362	41,517	7,925	17,196	13,708	–	33,323	547,250	739,488
Initial application of HKFRS 9 (Note 3(a))	–	–	–	–	–	–	(13,708)	37,383	–	1,830	25,505
As restated	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 financial assets 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>–</u>	<u>33,841</u>	<u>33,323</u>	<u>633,746</u>	<u>850,897</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June 2017 (Unaudited) HK\$'000
	2018 (Unaudited) HK\$'000	
Notes		HK\$'000
Cash flows from operating activities		
Profit before income tax	121,641	91,447
Adjustments for:		
Interest income from convertible loan receivables	6 (1,375)	(1,740)
Interest income from bank deposits	6 (881)	(578)
Change in fair value of derivative component of convertible loan receivables	6 –	4,061
Change in fair value of financial assets at fair value through profit or loss	6 611	–
Finance costs	7 3,397	4,955
Amortisation of land use rights	8 83	76
Amortisation of other intangible assets	8 2,215	565
Depreciation of property, plant and equipment	8 7,335	5,840
Equity-settled share-based payments	648	1,003
Exchange gains, net	(4,169)	(1,712)
Write-off of inventories	8 386	393
	<u>129,891</u>	<u>104,310</u>
Operating cash flows before working capital changes		
(Increase)/decrease in inventories	(15,369)	14,657
Increase in trade and other receivables	(87,280)	(53,824)
Increase in deposits and prepayments	(1,811)	(23,279)
Increase in trade and other payables	95,027	35,863
	<u>120,458</u>	<u>77,727</u>
Cash generated from operations		
Taxes paid	(29,647)	(7,318)
	<u>90,811</u>	<u>70,409</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2,282)	(2,766)
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)	(11,274)
Purchase of convertible loan receivable	(5,884)	–
Purchase of available-for-sale financial assets/ financial assets at fair value through other comprehensive income	(40,219)	(2,344)
Bank interest received	881	578
Interest received from convertible loan receivables	230	766
Decrease/(increase) in pledged bank deposit	15,182	(26,575)
Proceeds from disposal of financial assets at fair value through profit or loss	1,056	–
	<u>(49,333)</u>	<u>(41,615)</u>
Net cash used in investing activities		

	For the six months ended 30 June	
	2018 (Unaudited) <i>HK\$'000</i>	2017 (Unaudited) <i>HK\$'000</i>
Cash flows from financial activities		
Proceeds from bank borrowings	55,000	–
Repayments of bank borrowings	(29,502)	–
Proceeds from shares issued under share option scheme	17,289	–
Interest paid on bank borrowings	(420)	(378)
Interest paid on convertible loan payable	(1,441)	(1,433)
Dividends paid to owners of the Company	(14,250)	(17,989)
	<u>26,676</u>	<u>(19,800)</u>
Net cash generated from/(used in) financing activities		
Net increase in cash and cash equivalents	68,154	8,994
Cash and cash equivalents at beginning of period	240,627	156,180
Effect of foreign exchange rate changes on cash and cash equivalents	(401)	3,749
	<u>308,380</u>	<u>168,923</u>
Cash and cash equivalents at end of period		
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>308,380</u>	<u>168,923</u>

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 bio-pharmaceutical 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 2018 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 2017 (the “2017 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 2017 Financial Statements, except for the adoption of new and amended standards effective for annual periods beginning on or after 1 January 2018 as set out below. 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 9 *Financial Instruments* (see note 3(a) below) and HKFRS 15 *Revenue from Contracts with Customers* (see note 3(b) below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group’s accounting policies.

(a) **HKFRS 9 – Financial Instruments**

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the interim condensed consolidated financial statements.

(i) ***Classification and measurement of financial instruments***

The following table summarised the impact of transition to HKFRS 9 on the opening balance of reserves as at 1 January 2018 (increase/(decrease)):

Available-for-sale financial assets reserve	<i>HK\$'000</i>
Balance as at 31 December 2017 (Audited)	13,708
Reclassify investments from available-for-sale at fair value to fair value through other comprehensive income (“FVTOCI”) (<i>note 3(a)(i)(a)</i>)	(13,019)
Reclassify investments from available-for-sale at fair value to fair value through profit or loss (“FVTPL”) (<i>note 3(a)(i)(b)</i>)	(689)
Restated balance as at 1 January 2018 (Unaudited)	<u><u>–</u></u>
FVTOCI reserve	<i>HK\$'000</i>
Balance as at 31 December 2017 (Audited)	–
Reclassify investments from unlisted equity investments to FVTOCI (<i>note 3(a)(i)(c)</i>)	24,364
Reclassify investments from available-for-sale at fair value to FVTOCI (<i>note 3(a)(i)(a)</i>)	13,019
Restated balance as at 1 January 2018 (Unaudited)	<u><u>37,383</u></u>
Retained earnings	<i>HK\$'000</i>
Balance as at 31 December 2017 (Audited)	547,250
Reclassify the entire convertible loan receivable to FVTPL (<i>note 3(a)(i)(d)</i>)	1,141
Reclassify investments from available-for-sale at fair value to FVTPL (<i>note 3(a)(i)(b)</i>)	689
Restated balance as at 1 January 2018 (Unaudited)	<u><u>549,080</u></u>

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost; (ii) financial assets at FVTOCI; or (iii) financial assets at FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed; and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified as at amortised cost or FVTOCI as described above are classified as at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets:

Financial assets at FVTPL	Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Financial assets at amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
Financial assets at FVTOCI (equity investments)	Equity investments at FVTOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

- (a) As at 1 January 2018, certain listed equity securities were reclassified from available-for-sale financial assets to financial assets at FVTOCI. The Group intends to hold these listed equity securities for long term strategic purposes. Under HKFRS 9, the Group has designated these listed equity securities at the date of initial application as measured at FVTOCI. As a result, financial assets with a fair value of approximately HK\$51.8 million were reclassified from available-for-sale financial assets at fair value to financial assets at FVTOCI and fair value gains of approximately HK\$13.0 million were reclassified from the available-for-sale financial assets reserve to the FVTOCI reserve on 1 January 2018.
- (b) As at 1 January 2018, certain listed equity securities were reclassified from available-for-sale financial assets to financial assets at FVTPL. The Group intends to hold these listed equity securities for trading. Under HKFRS 9, the Group has designated these listed equity securities at the date of initial application as measured at FVTPL. As a result, financial assets with a fair value of approximately HK\$2.4 million were reclassified from available-for-sale financial assets at fair value to financial assets at FVTPL and fair value gains of approximately HK\$0.7 million were reclassified from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.
- (c) As at 1 January 2018, unlisted equity investments were reclassified from available-for-sale financial assets at cost to financial assets at FVTOCI. These unlisted equity investments have no quoted price in an active market. The Group intends to hold these unlisted equity investments for long term strategic purposes. In addition, the Group has designated these unlisted equity investments at the date of initial application as measured at FVTOCI. As at 1 January 2018, the difference between the previous carrying amount and the fair value of approximately HK\$24.4 million has been included in the opening FVTOCI reserve.

- (d) As at 1 January 2018, the entire of debt component and derivative component of one of the convertible loan receivables were reclassified to financial assets at FVTPL. The derivative component causes the financial assets to fail to meet the SPPI criterion. This is because the embedded feature cannot be separated and the contractual terms of that convertible loan receivable as a whole do not give rise solely to payments of principal and interest on the principal amount outstanding of the loan. As a result, that convertible loan receivable in its entirety is classified as at FVTPL. As at 1 January 2018, the difference between the previous carrying amount and the fair value of approximately HK\$1.1 million has been included in the opening retained earnings.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK\$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK\$'000
Listed equity securities	Available-for-sale (at fair value) (note 3(a)(i)(a))	FVTOCI	51,793	51,793
Listed equity securities	Available-for-sale (at fair value) (note 3(a)(i)(b))	FVTPL	2,451	2,451
Unlisted equity investments	Available-for-sale (at cost) (note 3(a)(i)(c))	FVTOCI	36,149	60,513
Convertible loan receivable	Debt component: Amortised cost Derivative component: FVTPL (note 3(a)(i)(d))	As a whole: FVTPL	16,202	17,343
Convertible loan receivable	Debt component: Amortised cost	FVTPL	16,860	16,860
Trade and other receivables	Loans and receivables (note 3(a)(ii))	Amortised cost	335,983	335,983
Cash and cash equivalents	Loans and receivables	Amortised cost	240,627	240,627

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade and other receivables and financial assets at amortised cost earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; or (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the number of days past due. No additional impairment for trade receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECLs model is immaterial.

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group include other receivables. Applying the ECLs model, no additional impairment for other receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECLs model is immaterial.

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL; and
- The designation of certain equity investments not held for trading as at FVTOCI.

If a debt investment had low credit risk at the DIA, the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(b) HKFRS 15 – Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The Directors consider that the application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognised for contracts from (i) development, manufacture and sale of bio-pharmaceutical products; and (ii) provision of marketing services in the PRC in the respective reporting periods upon its initial adoption because the Directors are of the view that the Group’s inputs are expected to be proportionate, in material aspect, to the progress in satisfying the performance obligation in rendering the services with reference to the Group’s typical contracts.

Based on the current assessment of the Group, no adjustments to the opening balance of equity at 1 January 2018 have been made on the initial application of HKFRS 15. Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various goods and services are set out below:

Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Development, manufacture and sale of bio-pharmaceutical products	<p>Customers obtain control of the bio-pharmaceutical products when the goods are delivered to and have been accepted. Revenue is thus recognised when the customers accepted the bio-pharmaceutical products. There is generally only one performance obligation. Invoices are usually payable within 90 days.</p> <p>Right of return</p> <p>The Group's contracts with customers from the sale of bio-pharmaceutical products provide customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refunded in cash.</p>	<p>Right of return</p> <p>Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provided that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.</p> <p>Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised.</p> <p>Impact</p> <p>The Directors considered that the financial impact of the returned goods is minimal, with reference to the historical returned goods pattern and the management assessment of possible return of goods.</p>
Provision of marketing services	<p>Revenue is recognised at a point in time when those services are provided. Invoices are usually payable within 90 days.</p>	<p>Impact</p> <p>HKFRS 15 did not result in significant impact on the Group's accounting policies.</p>

4. SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the chief operating decision-maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

- Pharmaceutical products: Manufacture and sale of pharmaceutical products
- Provision of marketing services

(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. The chief operating decision-maker has been identified as the Company's executive directors. Segment performance is evaluated based on the results from the reportable segments as explained in the table below.

For the six months ended 30 June 2018

	Pharmaceutical products (Unaudited) HK\$'000	Provision of marketing services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reportable segment revenue			
– Revenue from external customers	<u>514,569</u>	<u>46,709</u>	<u>561,278</u>
Reportable segment profit	<u>98,564</u>	<u>32,217</u>	<u>130,781</u>

For the six months ended 30 June 2017

	Pharmaceutical products (Unaudited) HK\$'000	Provision of marketing services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reportable segment revenue			
– Revenue from external customers	<u>427,948</u>	<u>9,689</u>	<u>437,637</u>
Reportable segment profit	<u>88,507</u>	<u>9,689</u>	<u>98,196</u>

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

	2018	For the six months ended 30 June 2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reportable segment profit	130,781	98,196
Unallocated corporate income and expenses, net	(5,095)	(791)
Equity-settled share-based payments	(648)	(1,003)
Finance costs	(3,397)	(4,955)
	<u>121,641</u>	<u>91,447</u>
Profit before income tax	121,641	91,447

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

Analysis of segment assets and liabilities has not been presented as the Group's provision of marketing services segment is with low utilisation of physical assets and the measure of segment assets are not regularly provided to the Company's executive directors.

(b) Geographical information

For the six months ended 30 June 2018 and 2017, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile). As at 30 June 2018 and 31 December 2017, all of the Group's non-current assets were located in the PRC.

The revenue information above is based on the location at which the goods are delivered and services rendered. The non-current asset information above is based on the physical locations of the respective assets and excludes convertible loan receivables, financial assets at FVTOCI/available-for-sale financial assets and pledged bank deposit. For goodwill and other intangible assets, geographical location is based on the area of the group entities' operations.

(c) Information about a major customer

Revenue from a customer of the Group amounted to approximately HK\$145.6 million (For the six months ended 30 June 2017: approximately HK\$110.7 million), which represented 25.9% (For the six months ended 30 June 2017: 25.3%) of the Group's 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>	2017 (Unaudited) <i>HK\$'000</i>
Interest income from convertible loan receivables	1,375	1,740
Government grants	1,757	5,737
Interest income from bank deposits	881	578
Sundry income	2	40
Change in fair value of derivative component of convertible loan receivables	–	(4,061)
Change in fair value of financial assets at FVTPL	(611)	–
	<u>3,404</u>	<u>4,034</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2018 (Unaudited) <i>HK\$'000</i>	2017 (Unaudited) <i>HK\$'000</i>
Interest expense on bank borrowings	420	378
Imputed interest expense on convertible loan payable	4,068	6,254
Less: Amount capitalised	(1,091)	(1,677)
	<u>3,397</u>	<u>4,955</u>

8. PROFIT BEFORE INCOME TAX

This is arrived at after charging:

	2018 (Unaudited) HK\$'000	For the six months ended 30 June 2017 (Unaudited) HK\$'000
Amortisation of land use rights	83	76
Amortisation of other intangible assets	2,215	565
Auditor's remuneration	710	448
Cost of inventories	87,105	80,077
Cost of services	14,492	–
Depreciation of property, plant and equipment	7,335	5,840
Employee costs excluding directors' emoluments:		
Salaries and other benefits	61,925	46,681
Pension fund contributions	3,837	3,289
Equity-settled share-based payments to the employees	348	1,003
Equity-settled share-based payments to the consultant of the Group	300	–
Research and development costs recognised as expenses	5,367	3,355
Write-off of inventories	386	393

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 8 August 2018 to declare an interim dividend of HK\$0.03 (For the six months ended 30 June 2017: HK\$0.025) per ordinary share for the six months ended 30 June 2018, 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

	2018 (Unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2017 (Unaudited) <i>HK\$'000</i>
Profit attributable to owners of the Company for the purposes of calculating basic earnings per share	98,916	77,120
Interest expense on convertible loan payable	2,977	N/A
	<hr/>	<hr/>
Profit attributable to owners of the Company for the purposes of calculating diluted earnings per share	101,893	77,120
	<hr/> <hr/>	<hr/> <hr/>

Number of shares

	2018 (Unaudited)	For the six months ended 30 June 2017 (Unaudited)
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	566,395,569	562,149,000
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	8,340,370	6,726,971
– convertible loan payable	25,423,728	N/A
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	600,159,667	568,875,971
	<hr/> <hr/>	<hr/> <hr/>

The computation of diluted earnings per share for the six months ended 30 June 2018 does not assume the conversion of potential ordinary shares in relation to certain share options granted (For the six months ended 30 June 2017: certain share options granted and the convertible loan payable) 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>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2017	113,614	72,326	6,922	3,821	196,683
Additions	1,532	3,475	3,045	–	8,052
Disposal	–	(184)	(36)	–	(220)
Exchange adjustment	8,628	5,590	591	288	15,097
	<u>123,774</u>	<u>81,207</u>	<u>10,522</u>	<u>4,109</u>	<u>219,612</u>
At 31 December 2017	123,774	81,207	10,522	4,109	219,612
Additions	465	2,912	356	835	4,568
Exchange adjustment	(1,614)	(1,167)	(137)	(53)	(2,971)
	<u>122,625</u>	<u>82,952</u>	<u>10,741</u>	<u>4,891</u>	<u>221,209</u>
At 30 June 2018 (Unaudited)	<u>122,625</u>	<u>82,952</u>	<u>10,741</u>	<u>4,891</u>	<u>221,209</u>
Accumulated depreciation:					
At 1 January 2017	6,706	19,864	3,177	3,034	32,781
Charge for the year	2,341	8,910	1,344	241	12,836
Disposal	–	(162)	(31)	–	(193)
Exchange adjustment	603	1,862	246	238	2,949
	<u>9,650</u>	<u>30,474</u>	<u>4,736</u>	<u>3,513</u>	<u>48,373</u>
At 31 December 2017	9,650	30,474	4,736	3,513	48,373
Charge for the period	1,286	4,890	1,047	112	7,335
Exchange adjustment	(173)	(579)	(91)	(48)	(891)
	<u>10,763</u>	<u>34,785</u>	<u>5,692</u>	<u>3,577</u>	<u>54,817</u>
At 30 June 2018 (Unaudited)	<u>10,763</u>	<u>34,785</u>	<u>5,692</u>	<u>3,577</u>	<u>54,817</u>
Carrying amount:					
At 30 June 2018 (Unaudited)	<u>111,862</u>	<u>48,167</u>	<u>5,049</u>	<u>1,314</u>	<u>166,392</u>
At 31 December 2017 (Audited)	<u>114,124</u>	<u>50,733</u>	<u>5,786</u>	<u>596</u>	<u>171,239</u>

13. OTHER INTANGIBLE ASSETS

	Development expenditure <i>HK\$'000</i>	Distribution rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 January 2017	69,617	23,310	92,927
Additions	22,413	38,079	60,492
Exchange adjustment	6,111	3,342	9,453
	<hr/>	<hr/>	<hr/>
At 31 December 2017	98,141	64,731	162,872
Additions	10,478	–	10,478
Exchange adjustment	(1,606)	(844)	(2,450)
	<hr/>	<hr/>	<hr/>
At 30 June 2018 (Unaudited)	<u>107,013</u>	<u>63,887</u>	<u>170,900</u>
Accumulated amortisation and impairment losses:			
At 1 January 2017	14,947	3,280	18,227
Amortisation	–	4,935	4,935
Exchange adjustment	1,127	453	1,580
	<hr/>	<hr/>	<hr/>
At 31 December 2017	16,074	8,668	24,742
Amortisation	–	2,215	2,215
Exchange adjustment	(210)	(195)	(405)
	<hr/>	<hr/>	<hr/>
At 30 June 2018 (Unaudited)	<u>15,864</u>	<u>10,688</u>	<u>26,552</u>
Carrying amount			
At 30 June 2018 (Unaudited)	<u>91,149</u>	<u>53,199</u>	<u>144,348</u>
At 31 December 2017 (Audited)	<u>82,067</u>	<u>56,063</u>	<u>138,130</u>

14. CONVERTIBLE LOAN RECEIVABLES

In 2015, the Group entered into a convertible loan agreement with an independent third party, 武漢佶典生物科技股份有限公司 (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.

In 2016, the Group entered into another 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.

The components of Convertible Loan B, other than the debt component, are set out below:

- (1) The Group shall have the right to convert the principal amount of the Convertible Loan B into such equity interest representing 10% of the entire equity interest of Guangxi Medictop at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the conversion option (“Conversion Option”).
- (2) The Group shall have the right to demand early repayment of the entire principal amount of the Convertible Loan B together with the accrued interest in accordance with the terms and conditions of the convertible loan agreement at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the redemption option (“Redemption Option”).
- (3) In the event that the Convertible Loan B is converted into equity interest of Guangxi Medictop in accordance with the Conversion Option above whilst the shares of Guangxi Medictop fail to be listed on a stock exchange as specified in the agreement of Convertible Loan B before 31 October 2018, the Group is entitled to sell its converted equity interest to the existing equity holders of Guangxi Medictop at a price determined at principal amount of Convertible Loan B plus 10% interest since the date of the request of exercise of this option by the Group up to the execution. This option of the Group as the holder of the convertible loan is referred to the put option (“Put Option”). The Put Option can only be exercised for the period between 31 October 2018 and 30 November 2018.

The above Conversion Option, Redemption Option and Put Option are collectively known as the derivative component, which lapsed in 2017.

The initial fair value of the debt component is the residual value after separating out the initial fair value of derivative component. Subsequent to initial recognition, the debt component is carried at amortised cost using the effective interest method and the derivative component is carried at fair value. The fair value of derivative component as at 31 December 2017 was determined by the Directors with reference to the valuation performed by International Valuation Limited, an independent firm of professionally qualified valuers. As at 1 January 2018, Convertible Loan A and Convertible Loan B were reclassified to financial assets at FVTPL upon the transition to HKFRS 9.

During the six months ended 30 June 2018, the Group entered into a convertible loan agreement with an independent third party, Global Health Byte Pte. Ltd. (“Global Health”), 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”). Convertible Loan C will be disbursed to Global Health in three tranches and the first tranche in the principal amount of SG\$1.0 million (equivalent to approximately HK\$5.9 million) (“Tranche A of Convertible Loan C”) was disbursed to Global Health during the period. The principal amount of Convertible Loan C can be converted into such number of shares representing 40% of the enlarged total issued share capital of Global Health at any time before the maturity date. In the event that no conversion has been taken place before the maturity date, Global Health 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 assets at FVTPL upon the initial recognition.

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

	Total <i>HK\$’000</i>
As at 30 June 2018	
– Convertible Loan A	16,847
– Convertible Loan B	17,149
– Tranche A of Convertible Loan C	<u>5,884</u>
Total	39,880
Less: Current portion	<u>(17,149)</u>
Non-current portion	<u><u>22,731</u></u>

	Debt component <i>HK\$’000</i>	Derivative component <i>HK\$’000</i>	Total <i>HK\$’000</i>
As at 31 December 2017			
– Convertible Loan A	8,884	7,318	16,202
– Convertible Loan B	<u>16,860</u>	<u>–</u>	<u>16,860</u>
Total, classified under non-current assets	<u><u>25,744</u></u>	<u><u>7,318</u></u>	<u><u>33,062</u></u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS, FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Non-current		
Unlisted equity investments, at cost <i>(Note (a))</i>	–	36,149
Unlisted equity investments, at FVTOCI <i>(Note (a))</i>	68,152	–
Listed equity securities, at FVTOCI <i>(Note (b))</i>	80,831	54,244
	148,983	90,393
Current		
Listed equity securities, at FVTPL <i>(Note (b))</i>	1,064	–

Notes:

- (a) The balance as at 30 June 2018 represents two (31 December 2017: two) unlisted equity investments, namely the investment in (i) series B preferred stock of a private company; and (ii) series C preferred stock and common stock (31 December 2017: series C preferred stock and warrants) of another private company, both of which are incorporated in the United States of America.
- (b) The balance as at 30 June 2018 represents two (31 December 2017: one) listed equity securities which are listed on the NASDAQ Stock Market of the United States. The fair value was based on quoted market price as at 30 June 2018.

During the six months ended 30 June 2018, the Group subscribed convertible preferred C shares of MeiraGTx Limited (“MeiraGTx”), a then private company, for a consideration of approximately US\$5.0 million (equivalent to approximately HK\$39.2 million). On 8 June 2018, the shares of MeiraGTx were listed on the NASDAQ Stock Market of the United States, and the convertible preferred C shares held by the Group were converted into 477,158 ordinary shares of MeiraGTx.

16. INVENTORIES

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Raw materials	7,308	7,339
Work in progress	5,079	5,504
Finished goods	<u>103,568</u>	<u>90,027</u>
Total	<u>115,955</u>	<u>102,870</u>

17. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Trade receivables	400,035	319,788
Value-added tax recoverable	8,976	12,790
Other receivables	<u>7,260</u>	<u>3,405</u>
Total	<u>416,271</u>	<u>335,983</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 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
0-60 days	248,075	188,510
61-90 days	55,904	44,654
Over 90 days	<u>96,056</u>	<u>86,624</u>
Total	<u>400,035</u>	<u>319,788</u>

18. DEPOSITS AND PREPAYMENTS

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Deposits paid for acquisition of land use rights	3,319	–
Deposits paid for acquisition of property, plant and equipment	5,829	2,806
Prepayments for purchase of finished goods	1,273	1,215
Other deposits	317	302
Other prepayments	<u>7,569</u>	<u>5,991</u>
Total	18,307	10,314
Less: Current portion	<u>(9,159)</u>	<u>(7,508)</u>
Non-current portion	<u>9,148</u>	<u>2,806</u>

19. TRADE AND OTHER PAYABLES

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Trade payables	44,743	1,266
Other payables and accruals (<i>Note</i>)	<u>269,848</u>	<u>223,924</u>
Total	<u>314,591</u>	<u>225,190</u>

Note:

Other payables and accruals included the accruals for sales and marketing costs of approximately HK\$223.1 million (31 December 2017: approximately HK\$203.3 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 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
0-60 days	44,743	1,240
61-90 days	-	-
Over 90 days	-	26
	<hr/>	<hr/>
Total	44,743	1,266
	<hr/> <hr/>	<hr/> <hr/>

20. BANK BORROWINGS

As at 30 June 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 approximately HK\$13.8 million.

As at 31 December 2017, 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 RMB23.5 million (equivalent to approximately HK\$28.2 million).

As at 30 June 2018, the Group obtained banking facilities of HK\$220.3 million (31 December 2017: approximately HK\$149.1 million), of which HK\$55.0 million (31 December 2017: approximately HK\$38.8 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 2018, the fair value of the make whole premium was determined by the Directors to be minimal.

Movements of the Convertible Loan Payable during the period ended 30 June 2018 are as follows:

	Debt component	Conversion component	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2017	121,434	33,323	154,757
Imputed interest expense	10,303	–	10,303
Interest paid	(2,763)	–	(2,763)
	<hr/>	<hr/>	<hr/>
As at 31 December 2017 (Audited)	128,974	33,323	162,297
Imputed interest expense	4,068	–	4,068
Interest paid	(1,441)	–	(1,441)
	<hr/>	<hr/>	<hr/>
As at 30 June 2018 (Unaudited)	<u>131,601</u>	<u>33,323</u>	<u>164,924</u>

There was no conversion of the Convertible Loan Payable during the six months ended 30 June 2018.

22. SHARE CAPITAL

Authorised

	At 30 June 2018		At 31 December 2017	
	<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 2017	562,149,000	56,215
Employee share options exercised	<u>1,344,000</u>	<u>134</u>
At 31 December 2017 (Audited)	563,493,000	56,349
Employee share options exercised	<u>7,517,000</u>	<u>752</u>
At 30 June 2018 (Unaudited)	<u>571,010,000</u>	<u>57,101</u>

23. 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 and equity investments included in the interim condensed consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value of financial assets 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 below.

(ii) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, deposits and prepayments, pledged bank deposit, trade and other payables, bank borrowings and convertible loan payable.

The carrying amounts of cash and cash equivalents, trade and other receivables, deposits and prepayments, pledged bank deposit and trade and other payables approximate to their fair values due to the short term maturities of these instruments.

The fair values of bank borrowings and convertible loan payable for disclosure purposes have been determined using discounted cash flow models and is classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risks of the borrowers or the Company.

(iii) Information about Level 2 fair value measurement

The fair values of the financial assets included in the level 2 category have been determined in accordance with generally accepted pricing models based on quoted prices for identical or similar assets or liabilities in markets that are not active.

(iv) Information about Level 3 fair value measurement

The fair value of convertible loan receivables as at end of the current period was determined by the Directors with reference to the valuation performed by International Valuation Limited. As at 30 June 2018, the fair value of convertible loan receivables was calculated using Binominal Share Option Model with the following key assumptions:

Dividend yield	Nil
Expected volatility	38% – 47%

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

The following table provides an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	As at 30 June 2018			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement				
Financial assets:	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Listed equity securities	81,895	–	–	81,895
Unlisted equity investments	–	68,152	–	68,152
Convertible loan receivables	–	–	39,880	39,880
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	As at 31 December 2017			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement				
Financial assets:	(Audited)	(Audited)	(Audited)	(Audited)
Listed equity securities	54,244	–	–	54,244
Derivative component of convertible loan receivables	–	–	7,318	7,318
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There was no transfer under the fair value hierarchy classification during the six months ended 30 June 2018.

Movements in fair value of convertible loan receivables during the period are as follows:

	<i>HK\$000</i>
At 1 January 2018, as originally presented	33,062
Initial application of HKFRS 9 (Note 3(a))	<u>1,141</u>
At 1 January 2018, as restated	34,203
Addition	5,884
Change in fair value recognised in profit or loss	(280)
Exchange differences	<u>73</u>
At 30 June 2018 (Unaudited)	<u>39,880</u>

24. CAPITAL COMMITMENTS

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Contracted but not provided for:		
– property, plant and equipment	1,477	1,579
– development expenditure	<u>29,947</u>	<u>29,776</u>
 Total	 <u><u>31,424</u></u>	 <u><u>31,355</u></u>

25. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2018, the Group entered into the following transactions with related parties:

(a) Purchase of finished goods

	2018 (Unaudited) HK\$'000	For the six months ended 30 June 2017 (Unaudited) HK\$'000
Related party relationship		
Associate	<u>462</u>	<u>233</u>

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

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Related party relationship		
Associate	<u>1,026</u>	<u>965</u>

(c) Year-end balance arising from trade payable for purchase of finished goods

	At 30 June 2018 <i>HK\$'000</i> (Unaudited)	At 31 December 2017 <i>HK\$'000</i> (Audited)
Related party relationship		
Associate	<u>51</u>	<u>146</u>

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

	2018 (Unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2017 (Unaudited) <i>HK\$'000</i>
Salaries and other benefits	3,059	2,562
Pension fund contributions	<u>21</u>	<u>20</u>
	<u>3,080</u>	<u>2,582</u>

26. EVENTS AFTER THE REPORTING PERIOD

- (a) On 16 July 2018, Essex Bio-Investment Limited (“Essex Bio-Investment”), a direct wholly-owned subsidiary of the Company, entered into a co-development agreement with Mitotech S.A. (“Mitotech”) and Mitotech LLC under which Essex Bio-Investment has agreed to fund to a maximum of approximately US\$16.5 million (equivalent to approximately HK\$129.7 million), for a clinical development in the United States Food and Drug Administration first phase 3 clinical trial of the product (the “Product”), being an ophthalmic solution containing SkQ₁ as its sole active pharmaceutical ingredient 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 Product in accordance with the agreed percentage allocation between Essex Bio-Investment and Mitotech. Please refer to the announcement of the Company dated 16 July 2018 for details.
- (b) On 18 July 2018, 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*) (“Zhuhai Essex”), an indirect wholly-owned subsidiary of the Company, entered into a licence agreement with Mitotech, pursuant to which Mitotech agreed to grant to Zhuhai Essex an exclusive and royalty-bearing licence of the necessary intellectual property rights for, among others, undertaking development, manufacturing, marketing and commercialising of the Product in Singapore and the PRC (including Hong Kong, Macau and Taiwan). Zhuhai Essex shall pay Mitotech royalties on aggregate net sales of the Product labelled for treatment of uveitis and dry eye disease at a royalty rate of 6.5% and 5.5%, respectively.

- (c) On 18 July 2018, Zhuhai Essex successfully tendered for one plot of state-owned land in Zhuhai, the PRC (the “Land”) at a total consideration of approximately RMB9.6 million (equivalent to approximately HK\$11.2 million) for the purpose of the construction of a production plant on the Land and the Land Use Rights Transfer Contract has been entered into between The Land and Resources Bureau of Zhuhai and Zhuhai Essex on 18 July 2018. Therefore, the investment agreement entered into between Zhuhai Essex and 珠海（國家）高新技術產業開發區管理委員會 (Zhuhai National High-Tech Industrial Development Zone Management Committee*) dated 29 June 2018 (the “Investment Agreement”) shall take effect and the construction of the production plant will proceed as contemplated under the Investment Agreement. The capital expenditures in connection with the design and construction of the production plant on the Land are estimated to be approximately RMB227.6 million (equivalent to approximately HK\$266.3 million). Please refer to the announcements of the Company dated 29 June 2018 and 18 July 2018 for details.
- (d) On 18 July 2018, (i) 成都上工醫信科技有限公司 (Chengdu Shanggong Medical Technology Co., Ltd.*) (“Chengdu Shanggong”); (ii) 珠海億勝科技發展有限公司 (Zhuhai Essex Technology Development Company Limited*) (“Zhuhai Essex Tech”), an indirect wholly-owned subsidiary of the Company; and (iii) 9 other independent third parties, entered into an investment agreement, pursuant to which, among other things, Zhuhai Essex Tech shall make an investment in cash in the amount of RMB20.0 million (equivalent to approximately HK\$23.4 million) as capital contribution in Chengdu Shanggong, which will increase the registered capital, and the capital reserve, of Chengdu Shanggong (the “Investment”). Upon completion of the Investment, Zhuhai Essex Tech will hold 8% of equity interests in Chengdu Shanggong. As at the date of this announcement, the Group has paid the investment of RMB20.0 million to Chengdu Shanggong. Please refer to the announcement of the Company dated 18 July 2018 for details.

Chengdu Shanggong is a medical data analytics (AI Algorithm) company in the medical service industry in the PRC, having fully curated, quality controlled approximately 700,000 retinal images of diabetic patients in the PRC, which forms a retinopathy big data that enables AI Algorithm to perform its diagnosis. The AI Algorithm can screen retinal images of patients and detect diabetic retinopathy, which affects almost a third of diabetes patients that would otherwise be examined by highly trained ophthalmologists.

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.

Currently the Group has five commercialised bio-pharmaceutical products, formulated with rb-bFGF, in the People’s Republic of China (the “PRC”), out of which three were approved by 國家藥品監督管理局 (State Drug Administration (the “SDA”)) as Category I drugs. The products are being marketed and sold as Beifushu for treatment of ocular wounds, Beifuji and Beifuxin for treatment of topical (skin) surface wounds.

In addition, the Group has recently obtained approval from the SDA for the registration and commercialisation of the preservative-free single-dose Tobramycin Eye Drops and Levofloxacin Eye Drops in April 2017 and June 2018 respectively. Tobramycin Eye Drops has been extensively used for the treatment of various eye infections. Levofloxacin Eye Drops is used to treat blepharitis, hordeolum, dacryocystitis, conjunctivitis, tarsadentitis and keratitis, and for aseptic treatment during the perioperative period of ocular surgery.

The Company focuses on two main therapeutic areas: (i) ophthalmology; and (ii) surgical arena of topical (skin) surface wounds which primarily covers dermatology, stomatology and obstetrics and gynaecology, while selectively pursuing therapeutics in neurology, oncology and orthopaedics. The Company maintains a pipeline of multi projects in research and development, 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’s major third party products 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.; (iii) 伊血安顆粒 (Yi Xue An Granules*) for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion; and (iv) Carisolv products for treating dental caries by using minimally invasive techniques.

For the six months ended 30 June 2018, the Group achieved a consolidated turnover of approximately HK\$561.3 million (For the six months ended 30 June 2017: approximately HK\$437.6 million), representing a growth rate of 28.3%. Profit after tax for the period ended 30 June 2018 increased to approximately HK\$98.9 million (For the six months ended 30 June 2017: approximately HK\$77.1 million), representing an increase of 28.3% over the same period last year.

Since 2015, the Group initiated and implemented an enrichment programme (the “Enrichment Programme”) for enhancing its research and development pipeline and expanding its products portfolio, with an objective of enabling the Group to scale further heights in the years to come. 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 research and development and clinical programmes, primarily focusing on ophthalmology, dermatology, oncology and neurology. As at the date of this announcement, the Group has invested in 9 entities with a total of approximately US\$31.6 million, plus an impending investment of approximately US\$16.5 million to be made by the Group, for the development of an ophthalmic solution (the “Product”) containing SkQ1 as its sole active pharmaceutical ingredient for dry eye disease in the United States Food and Drug Administration (“US FDA”) first phase 3 clinical trial, under a co-development agreement with Mitotech S.A. (“Mitotech”) and Mitotech LLC (“Russia Mitotech”) on 16 July 2018.

Each of the investments represented less than 5% of the Group’s total assets as at 30 June 2018.

A summary of the Group’s investments and collaboration arrangements made during the period ended 30 June 2018 and up to the date of this announcement is outlined as follows:

Subscription of Convertible Preferred C Shares in MeiraGTx Limited (“MeiraGTx”)

As disclosed in the announcement of the Company dated 23 February 2018, Essex Bio-Investment Limited (“Essex Bio-Investment”), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement with MeiraGTx on 23 February 2018, pursuant to which Essex Bio-Investment agreed to subscribe for the convertible preferred C shares of MeiraGTx (the “Preferred C Shares”) at a total consideration of approximately US\$5.0 million (equivalent to approximately HK\$39.2 million).

MeiraGTx was subsequently listed on the NASDAQ Stock Market of the United States (NASDAQ: MGTX) on 8 June 2018 and the Preferred C Shares were converted into ordinary shares upon listing with a reverse-split exercise. The initial public offering (“IPO”) price was at US\$15.0 per ordinary share and the net proceeds from the IPO were approximately US\$67.0 million. At post-IPO, Essex Bio-Investment holds 477,158 ordinary shares, representing 1.76% of the fully enlarged share capital of MeiraGTx.

MeiraGTX, a company incorporated and registered in England and Wales, is a clinical-stage biotech company developing novel gene therapy treatments for a wide range of inherited and acquired disorders for which there are no effective treatments available. The Group plans to establish a business relationship with MeiraGTX for offering their treatment solutions in the PRC.

Convertible Loan Agreement with Global Health Byte Pte. Ltd. (“Global Health”)

On 21 May 2018, Essex Bio-Investment entered into a convertible loan agreement with Global Health and its shareholder, pursuant to which Essex Bio-Investment agreed to make available a convertible loan in the principal amount of SG\$2.0 million (equivalent to approximately HK\$11.8 million) in three tranches to Global Health at an interest rate of 2.5% per annum for a term of 5 years and an internal rate of return of 6% if no conversion has been taken place before the maturity date. The first tranche of the convertible loan in the principal amount of SG\$1.0 million (equivalent to approximately HK\$5.9 million) was disbursed to Global Health on 1 June 2018.

The conversion of the principal amount of the convertible loan into such number of shares will represent 40% of the enlarged total issued share capital of Global Health. As at the date of this announcement, Essex Bio-Investment has not converted any of the principal amount of the convertible loan into shares of Global Health.

Global Health, a Singapore company incorporated in September 2015, operates a Software as a Service (SaaS) cloud-based intelligent, scalable clinics management and digital medical records system. The system developed by Global Health provides accurate, up-to-date and actionable data to enable physicians, clinics and individuals to make the best outcome for patients’ treatment and operational efficiency of clinics. The investment in Global Health will lead the Group into the Southeast Asia healthcare market via Singapore.

Co-Development Agreement with Mitotech and Russia Mitotech

As disclosed in the announcement of the Company dated 16 July 2018, Essex Bio-Investment entered into a co-development agreement (the “Co-Development Agreement”) with Mitotech and Russia Mitotech on 16 July 2018 under which Essex Bio-Investment has agreed to fund to a maximum of approximately US\$16.5 million (equivalent to approximately HK\$129.7 million), for a clinical development in the US FDA first phase 3 clinical trial of the Product, being an ophthalmic solution containing SkQ₁ as its sole active pharmaceutical ingredient 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 Product in accordance with the agreed percentage allocation between Essex Bio-Investment and Mitotech.

Mitotech is a clinical-stage Luxembourg-based biotechnology company developing novel drugs for the treatment of predominantly age-related disorders. Russia Mitotech is a Moscow-based drug development company concentrating its research on age-related disorders.

The Co-Development Agreement presents a good opportunity for the parties to leverage on their respective strengths and resources to jointly pursue and accelerate the development of ophthalmic products for the global market. The Co-Development Agreement enables the Group to the share of achievements of commercial value of the Product which may be successfully derived in each country in the world excluding (a) countries of the Eurasian Economic Union (including, in any event, Russia), (b) the PRC and (c) Japan. This cooperation further extends the commercialisation of the Product in the PRC (including Hong Kong, Macau and Taiwan) and Singapore by the Group under the licence agreement with Mitotech on 18 July 2018.

Licence Agreement with Mitotech

On 18 July 2018, 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*) (“Zhuhai Essex”), an indirect wholly-owned subsidiary of the Company, entered into a licence agreement with Mitotech, pursuant to which Mitotech agreed to grant to Zhuhai Essex an exclusive and royalty-bearing licence of the necessary intellectual property rights for, among others, undertaking development, manufacturing, marketing and commercialising of the Product in Singapore and the PRC (including Hong Kong, Macau and Taiwan). Zhuhai Essex shall pay Mitotech royalties on aggregate net sales of the Product labelled for treatment of uveitis and dry eye disease at a royalty rate of 6.5% and 5.5%, respectively.

Investment Agreement with 成都上工醫信科技有限公司 (Chengdu Shanggong Medical Technology Co., Ltd.*) (“Chengdu Shanggong”)

As disclosed in the announcement of the Company dated 18 July 2018, (i) Chengdu Shanggong; (ii) 珠海億勝科技發展有限公司 (Zhuhai Essex Technology Development Company Limited*) (“Zhuhai Essex Tech”), an indirect wholly-owned subsidiary of the Company; and (iii) 9 other independent third parties, entered into an investment agreement on 18 July 2018, pursuant to which, among other things, Zhuhai Essex Tech shall make an investment in cash in the amount of RMB20.0 million (equivalent to approximately HK\$23.4 million) as capital contribution in Chengdu Shanggong, which will increase the registered capital, and the capital reserve, of Chengdu Shanggong (the “Investment”). Upon completion of the Investment, Zhuhai Essex Tech will hold 8% of equity interests in Chengdu Shanggong. As at the date of this announcement, the Group has paid the investment of RMB20.0 million to Chengdu Shanggong.

Chengdu Shanggong is a medical data analytics (AI Algorithm) company in the medical service industry in the PRC, having fully curated, quality controlled approximately 700,000 retinal images of diabetic patients in the PRC, which forms a retinopathy big data that enables AI Algorithm to perform its diagnosis. The AI Algorithm can screen retinal images of patients and detect diabetic retinopathy, which affects almost a third of diabetes patients that would otherwise be examined by highly trained ophthalmologists.

The Investment is a strategic consideration that is to enhance the Group's market positioning in the ophthalmology business and Chengdu Shangong can leverage on the Group's about 1,400 sales force for penetrating into more hospitals of its AI Algorithm.

Market Development

As at 30 June 2018, the Group has 39 regional sales offices ("RSOs") and a total number of about 1,400 sales and marketing representatives, out of which approximately 750 people are full-time staff and approximately 650 people are being hired on contract basis or engaged from appointed agents. However, as part of the Group's objective to achieve a higher market penetration rate for the products, as at the date of this announcement, the number of RSOs has increased to 42.

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 research and development planning and clinical studies.

During the period under review, the Group's pharmaceutical products are being prescribed in over 5,600 hospitals in the PRC, which are mainly located in the major cities and provinces.

Research and Development

The Group's key research and development platforms comprise growth factor, novel antibody, drug formulation and Blow-Fill-Seal ("BFS") platform. Growth factor, novel antibody, and drug formulation are technology platforms 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 the ophthalmic drugs.

The Group's technology platform is built upon 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 bio-pharmaceutical products for wounds healing and treatment. Furthermore, the Group has developed a nano-antibody research and development platform over the past few years. Through the nano-antibody platform, a new vascular endothelial growth factor ("VEGF") nano-antibody has been investigated for formulation into therapeutic products for the treatment of cancers and age-related macular degeneration.

The establishment of the BFS platform has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single-dose drugs. The Group currently has 10 categories of drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the research and development pipeline. Approval from the SDA for the commercialisation of two of these products, namely Tobramycin Eye Drops and Levofloxacin Eye Drops, has been obtained in April 2017 and June 2018, respectively. The Good Manufacturing Practices ("GMP") certification in respect of eye drops has been obtained in March 2018. It is expected that the remaining preservative-free single-dose drugs under the development of the Group would be approved within the next 3 years.

The Group has submitted seven invention patent applications for anti-VEGF antibody in 2018. As at the date of this announcement, the Group has fourteen patent certificates or authorisation letters in total, including eleven 發明專利 (invention patents) and three 實用新型專利 (utility model patents), and has eighteen invention patent applications which are accepted or at the review stage.

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, namely the bFGF; (ii) four of which are for the production of the Group's flagship bio-pharmaceutical formulations; and (iii) the remaining two are the state-of-the-art BFS production plants for the production of preservative-free single-dose drugs.

As disclosed in the announcement of the Company dated 18 July 2018, Zhuhai Essex successfully tendered for one plot of state-owned land in Zhuhai, the PRC (the "Land") at a total consideration of approximately RMB9.6 million (equivalent to approximately HK\$11.2 million) for the purpose of the construction of a production plant on the Land. The capital expenditures in connection with the design and construction of the production plant on the Land are estimated to be approximately RMB227.6 million (equivalent to approximately HK\$266.3 million). The usable area of the new factory is around 45,000 square metres. The acquisition of the rights to use the Land and the construction of the production plant are in line with the Group's long-term strategic needs of expansion for sustainable development and growth.

The application for the European Union's GMP ("EU GMP") is in progress and it is expected that the EU GMP certificate will be obtained in 2019.

Financial Review

During the period under review, the Group achieved a turnover of approximately HK\$561.3 million (For the six months ended 30 June 2017: approximately HK\$437.6 million), representing a growth rate of 28.3% as compared to the turnover for the corresponding period last year.

Composition of turnover for the six months ended 30 June 2018 and 2017, respectively, is shown in the following table:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017		% change
	HK\$' million	%	HK\$' million	%	
Ophthalmology products					
<i>Own products:</i>					
Beifushu series	158.4		150.4		5.3
<i>Third party products:</i>					
Sale of pharmaceutical products	65.0		64.0		
Provision of marketing services	45.2		1.1		
	<u>110.2</u>		<u>65.1</u>		69.3
Overall ophthalmology products	<u>268.6</u>	47.9	<u>215.5</u>	49.2	24.6
Surgical products					
<i>Own products:</i>					
Beifuji series	281.9		198.8		41.8
<i>Third party products:</i>					
Sale of pharmaceutical products	9.3		14.7		
Provision of marketing services	1.5		8.6		
	<u>10.8</u>		<u>23.3</u>		-53.6
Overall surgical products	<u>292.7</u>	52.1	<u>222.1</u>	50.8	31.8
Total turnover	<u>561.3</u>	100	<u>437.6</u>	100	28.3
	For the six months ended 30 June 2018		For the six months ended 30 June 2017		% change
	HK\$' million	%	HK\$' million	%	
Own products	440.3	78.4	349.2	79.8	26.1
Third party products	<u>121.0</u>	21.6	<u>88.4</u>	20.2	36.9
Total turnover	<u>561.3</u>	100	<u>437.6</u>	100	28.3

The overall ophthalmology products contributed approximately HK\$268.6 million to the Group's revenue for the period ended 30 June 2018, representing an increase of 24.6% as compared to the corresponding period last year. The increase in the period ended 30 June 2018 was attributable to the significant growth of 69.3% in revenue from third party's ophthalmology products (including Pfizer's products and 適麗順 (Iodized Lecithin Capsules*)) to approximately HK\$110.2 million as compared to approximately HK\$65.1 million in the corresponding period last year.

Surgical products recorded a total revenue of approximately HK\$292.7 million for the period ended 30 June 2018, representing an increase of 31.8% as compared to the corresponding period last year. The increase was attributable to Beifuji series which recorded a significant growth in revenue of 41.8%, but was weighed down by a decrease of 53.6% in revenue from third party products, primarily from sales of 伊血安顆粒 (Yi Xue An Granules*).

The revenue of HK\$440.3 million from the Group's flagship bio-pharmaceutical products represented 78.4% of the Group's overall revenue, representing an increase of 26.1% for the period ended 30 June 2018 as compared to the corresponding period last year. The revenue of HK\$121.0 million from the Group's third party products represented 21.6% of the Group overall revenue, representing an increase of 36.9% as compared to the corresponding period last year.

Combining the Group's flagship bio-pharmaceutical products and third party products, the overall revenue contributed from the ophthalmology and surgical segments is represented as 47.9% and 52.1%, respectively.

The Group's gross profit has grown in tandem with expanded sales. The gross profit for the period ended 30 June 2018 was approximately HK\$459.3 million (For the six months ended 30 June 2017: approximately HK\$357.6 million), representing an increase of 28.5%.

During the period under review, the Group achieved a profit of approximately HK\$98.9 million as compared to that of approximately HK\$77.1 million in the corresponding period last year, representing an increase of 28.3%.

The distribution and selling expenses for the period under review were approximately HK\$312.8 million as compared to approximately HK\$247.8 million for the corresponding period last year, representing an increase of 26.2%. Such expenses primarily consisted of staff remuneration, travelling and transportation costs, marketing costs, costs for organising product trainings and clinical studies.

The increase in staff remuneration costs was due to salary scale adjustment in the PRC, inflation and competitiveness in local labour market conditions. Other selling and marketing expenses for the period ended 30 June 2018 were increased due to the increase in marketing activities carried out to sustain the Group's brand-name retention and product awareness.

The administrative expenses for the period under review were approximately HK\$24.9 million as compared to approximately HK\$17.4 million for the corresponding period last year. The increase in administrative expenses was mainly due to (i) the increase in staff costs; and (ii) the increase in amortisation of other intangible assets by approximately HK\$2.1 million, resulted from the additional license fees of RMB35.0 million (equivalent to approximately HK\$40.4 million), in relation to the extended term of distribution and marketing right of 適麗順 (Iodized Lecithin Capsules*) from the existing 7 years to 16 years.

Research and development expenditures incurred during the period ended 30 June 2018 increased to approximately HK\$14.8 million of which approximately HK\$9.4 million were capitalised, whereas total expenditures incurred during the period ended 30 June 2017 were approximately HK\$14.6 million of which approximately HK\$11.3 million were capitalised. Hence the research and development expenses incurred as administrative expenses for the period ended 30 June 2018 increased to approximately HK\$5.4 million as compared to approximately HK\$3.3 million for the corresponding period last year.

The Group had cash and cash equivalents of approximately HK\$308.4 million as at 30 June 2018 (31 December 2017: approximately HK\$240.6 million).

The Group's bank borrowings as at 30 June 2018 were HK\$55.0 million (31 December 2017: approximately HK\$29.0 million), which were 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 2.8% as at 30 June 2018. 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 2018 were approximately HK\$3.4 million (For the six months ended 30 June 2017: approximately 5.0 million), including an imputed interest expense on the convertible loan payable amounting to approximately HK\$4.1 million (For the six months ended 30 June 2017: approximately HK\$6.3 million) of which approximately HK\$1.1 million (For the six months ended 30 June 2017: approximately HK\$1.7 million) was capitalised during the period.

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 2018 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 research and development expenditure of approximately HK\$27.0 million on the Group’s bio-pharmaceutical business.

The balance of approximately HK\$11.9 million is expected to be utilised for research and development expenditure on the Group’s bio-pharmaceutical business.

Dilution effect of the conversion of the convertible loan

As at 30 June 2018, 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 2018:

Shareholders	As at 30 June 2018		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	25.74	146,979,000	24.64
Ngiam Mia Kiat Benjamin	145,354,000	25.46	145,354,000	24.37
Dynatech Ventures Pte Ltd (<i>Note 1</i>)	6,666,667	1.17	6,666,667	1.12
Directors of the Company (the “Directors”) (other than Ngiam Mia Je Patrick) (<i>Note 2</i>)	7,218,450	1.26	7,218,450	1.21
IFC	–	–	25,423,728	4.26
Other shareholders	264,791,883	46.37	264,791,883	44.40
	<u>571,010,000</u>	<u>100</u>	<u>596,433,728</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 7,218,450 shares, 5,182,300 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 in.

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

Based on the cash and cash equivalents as at 30 June 2018 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 2018.

Future Plans for material investments or capital assets

Save as disclosed in this announcement, as at 30 June 2018, the Group does not have an immediate plan for any other material investments or acquisition of material capital assets.

Liquidity and Financial Resources

As at 30 June 2018, the Group obtained banking facilities of HK\$220.3 million, of which HK\$55.0 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 approximately HK\$13.8 million.

As at 30 June 2018, the Group had cash and cash equivalents of approximately HK\$308.4 million as compared to approximately HK\$240.6 million as at 31 December 2017.

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 2018 was 38.4% (31 December 2017: 36.2%).

Charges on Group Assets

As at 30 June 2018, bank deposit of approximately HK\$13.8 million (31 December 2017: approximately HK\$28.2 million) was pledged to secure the Group's banking facilities.

Capital Commitments

As at 30 June 2018, the Group had capital commitments amounted to approximately HK\$31.4 million (31 December 2017: approximately HK\$31.4 million).

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the period ended 30 June 2018.

Significant Investments Held

Save as disclosed in this announcement, the Group did not hold any significant investments as at 30 June 2018.

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 either 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 rate 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 2018, the Group had a total of 1,018 full-time employees (31 December 2017: 1,024 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\$68.5 million and approximately HK\$53.6 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 for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 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 2018, 7,517,000 ordinary shares of the Company were issued as a result of the exercise of 7,517,000 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:

4.44%.

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 4.8 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 outstanding or unexercised Options granted to the grantees shall lapse on 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;
- (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 Directors, the substantial shareholders of the Company, the employees of the Company in aggregate and other participants granted under the Scheme during the period ended 30 June 2018:

Participants	Date of grant	Exercise price HK\$	Exercisable period	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Outstanding as at 30 June 2018
Ngiam Mia Je Patrick <i>Director and substantial shareholder of the Company</i>	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	100,000	0
Fang Haizhou <i>Director</i>	30.10.2013	2.3	30.04.2014 – 29.10.2018	700,000	0	700,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2018	700,000	0	700,000	0
	30.10.2013	2.3	30.04.2015 – 29.10.2018	700,000	0	300,000	400,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	700,000	0	0	700,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	0	700,000
Zhong Sheng <i>Director</i>	30.10.2013	2.3	30.10.2015 – 29.10.2018	360,000	0	360,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	700,000	0
Ngiam Mia Kiat Benjamin <i>Non-executive director of a wholly-owned subsidiary of the Company and substantial shareholder of the Company</i>	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	100,000	0
Total for directors of the Group				5,560,000	0	3,760,000	1,800,000
Employees	30.10.2013	2.3	30.04.2014 – 29.10.2018	1,937,000	0	1,937,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2018	1,940,000	0	1,620,000	320,000
	30.10.2013	2.3	30.04.2015 – 29.10.2018	1,940,000	0	200,000	1,740,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	1,940,000	0	0	1,940,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	1,940,000	0	0	1,940,000
	11.11.2016	5.9	11.05.2017 – 10.11.2021	460,000	0	0	460,000
	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	0	300,000	0	300,000
	27.06.2018	10.0	27.06.2021 – 26.06.2023	0	300,000	0	300,000
	27.06.2018	10.0	27.06.2022 – 26.06.2023	0	400,000	0	400,000
	Total for employees				11,997,000	1,000,000	3,757,000
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
Total for an investor relations consultant				5,000,000	0	0	5,000,000
Total for the Scheme				22,557,000	1,000,000	7,517,000	16,040,000

The weighted average share price for Options exercised during the period ended 30 June 2018 at the date of exercise was HK\$7.87 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 2018, 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 2018
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,645,667 (Note 1)	26.91%
Fang Haizhou	Beneficial owner	6,982,300 (Note 2)	1.22%
Zhong Sheng	Beneficial owner	2,036,150 (Note 3)	0.36%

Notes:

1. (a) 146,979,000 ordinary shares were registered in the name of Ngiam Mia Je Patrick.

(b) 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 Mie Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
2. Comprised (i) 5,182,300 ordinary shares held by him; and (ii) 1,800,000 underlying shares, which are his share option entitlement granted on 30 October 2013 under the Scheme.
3. 2,036,150 ordinary shares were registered in the name of Zhong Sheng.

Save as disclosed above, as at 30 June 2018, 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 2018, 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 2018
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	152,020,667 (Note 1)	26.62%
Lauw Hui Kian	Family interest	153,645,667 (Note 2)	26.91%

Notes:

1. (a) 145,354,000 ordinary shares were registered in the name of Ngiam Mia Kiat Benjamin.

(b) 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 as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
2. 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.

Save as disclosed above, as at 30 June 2018, 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 2018.

Interim Dividend

The Board has resolved on 8 August 2018 to declare an interim dividend of HK\$0.03 (For the six months ended 30 June 2017: HK\$0.025) per ordinary share for the six months ended 30 June 2018 (the “Interim Dividend”), which is payable in cash on or about Friday, 21 September 2018. 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 Friday, 7 September 2018.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 5 September 2018 to Friday, 7 September 2018 (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 Tuesday, 4 September 2018.

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 2018.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong
8 August 2018

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*