



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)

2022 INTERIM
REPORT



The background is a light blue gradient with abstract, semi-transparent geometric shapes and binary code (0s and 1s) scattered throughout, suggesting a digital or technological theme.

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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 2022 together with the comparative figures for the corresponding period in 2021 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Turnover	4 & 5	655,825	737,374
Cost of sales		(69,181)	(114,680)
Gross profit		586,644	622,694
Other revenue, and other gains and losses	6	24,081	12,083
Distribution and selling expenses		(363,808)	(377,280)
Administrative expenses		(79,564)	(69,061)
Finance costs	7	(4,652)	(5,362)
Profit before income tax	8	162,701	183,074
Income tax	9	(23,470)	(20,888)
Profit for the period		139,231	162,186
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		(78,111)	18,586
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Changes in fair value of equity instruments at fair value through other comprehensive income		(15,090)	(560)
Other comprehensive income for the period		(93,201)	18,026
Total comprehensive income for the period		46,030	180,212
Earnings per share attributable to owners of the Company			
Basic	11	HK24.21 cents	HK28.12 cents
Diluted	11	HK23.52 cents	HK27.38 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	12	382,328	347,159
Right-of-use assets		3,445	4,744
Land use rights		16,059	17,009
Goodwill	23	84,359	50,898
Other intangible assets	13	922,349	775,308
Convertible loan receivables	14	9,497	–
Financial assets at fair value through other comprehensive income	15	34,810	50,161
Financial assets at fair value through profit or loss	15	3,193	6,416
Deposits and prepayments	18	13,663	64,353
Total non-current assets		1,469,703	1,316,048
Current assets			
Inventories	16	84,278	97,573
Trade and other receivables	17	537,780	674,268
Deposits and prepayments	18	7,531	10,748
Convertible loan receivables	14	28,676	39,977
Financial assets at fair value through profit or loss	15	11	15
Pledged bank deposits		25,188	53,474
Cash and cash equivalents		641,136	671,336
Total current assets		1,324,600	1,547,391
Total assets		2,794,303	2,863,439
Current liabilities			
Trade and other payables	19	443,381	468,762
Bank borrowings	20	111,346	153,366
Lease liabilities		2,545	2,549
Current tax liabilities		63,901	64,908
Total current liabilities		621,173	689,585
Net current assets		703,427	857,806
Total assets less current liabilities		2,173,130	2,173,854
Non-current liabilities			
Bank borrowings	20	252,925	263,417
Lease liabilities		1,338	2,781
Convertible loan payable	21	144,363	143,073
Deferred tax liabilities		31,598	30,306
Total non-current liabilities		430,224	439,577
Total liabilities		1,051,397	1,129,162
NET ASSETS		1,742,906	1,734,277
Capital and reserves attributable to owners of the Company			
Share capital	22	57,417	57,556
Reserves		1,685,489	1,676,721
TOTAL EQUITY		1,742,906	1,734,277

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	Fair value through other comprehensive income reserve	Fair value reserve	Conversion component of convertible loan payable	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	57,690	71,106	362	90,683	24,536	4,535	(31,266)	18,096	15,227	1,175,222	1,426,191
Profit for the period	-	-	-	-	-	-	-	-	-	162,186	162,186
Other comprehensive income:											
- Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(560)	-	-	-	(560)
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	18,586	-	-	-	-	-	18,586
Total comprehensive income for the period	-	-	-	-	18,586	-	(560)	-	-	162,186	180,212
Dividend paid	-	-	-	-	-	-	-	-	-	(28,824)	(28,824)
Exercise of share options	32	2,190	-	-	-	(334)	-	-	-	-	1,888
Equity-settled share-based payments	-	-	-	-	-	175	-	-	-	-	175
Shares repurchased and cancelled	(50)	(1)	-	-	-	-	-	-	-	(2,238)	(2,289)
At 30 June 2021 (Unaudited)	57,672	73,295	362	90,683	43,122	4,376	(31,826)	18,096	15,227	1,306,346	1,577,353
At 1 January 2022	57,556	73,293	362	90,683	74,183	1,681	(60,376)	18,096	15,227	1,463,572	1,734,277
Profit for the period	-	-	-	-	-	-	-	-	-	139,231	139,231
Other comprehensive income:											
- Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(15,090)	-	-	-	(15,090)
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(78,111)	-	-	-	-	-	(78,111)
Total comprehensive income for the period	-	-	-	-	(78,111)	-	(15,090)	-	-	139,231	46,030
Dividend paid	-	-	-	-	-	-	-	-	-	(31,610)	(31,610)
Equity-settled share-based payments	-	-	-	-	-	87	-	-	-	-	87
Shares repurchased and cancelled	(139)	(3)	-	-	-	-	-	-	-	(5,736)	(5,878)
At 30 June 2022 (Unaudited)	57,417	73,290	362	90,683	(3,928)	1,768	(75,466)	18,096	15,227	1,565,457	1,742,906

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Cash flows from operating activities			
Profit before income tax		162,701	183,074
Adjustments for:			
Interest income from convertible loan receivables	6	(1,038)	(1,488)
Interest income from bank deposits	6	(2,424)	(1,623)
Change in fair value of financial assets at fair value through profit or loss	6	3,451	1,390
Gain on settlement of financial instruments	6	(11,972)	–
Finance costs	7	4,652	5,362
Amortisation of land use rights	8	200	199
Amortisation of other intangible assets	8	7,093	5,353
Depreciation of property, plant and equipment	8	12,080	9,750
Depreciation of right-of-use assets	8	1,122	1,114
Equity-settled share-based payments	8	87	175
Exchange losses/(gains), net	8	1,743	(385)
Loss/(gain) on disposal of property, plant and equipment	8	100	(8)
Write-off of inventories	8	2,290	2,243
Operating cash flows before working capital changes		180,085	205,156
Decrease/(increase) in inventories		14,209	(20,206)
Decrease/(increase) in trade and other receivables		158,856	(52,091)
Decrease in deposits and prepayments		412	16,163
(Decrease)/increase in trade and other payables		(103,920)	50,893
Cash generated from operations		249,642	199,915
Tax (paid)/refunded		(19,250)	9,909
Net cash generated from operating activities		230,392	209,824
Cash flows from investing activities			
Acquisition of property, plant and equipment		(43,395)	(28,279)
Deposits paid for acquisition of property, plant and equipment		(12,367)	(4,925)
Increase in other intangible assets		(119,461)	(73,246)
Acquisition of a subsidiary		3,472	–
Purchase of convertible loan receivables		(2,063)	(15,140)
Purchase of financial assets at fair value through profit or loss		–	(2,936)
Bank interest received		2,424	1,623
Decrease in pledged bank deposits		27,772	3,325
Proceeds from disposal of property, plant and equipment		1	115
Net cash used in investing activities		(143,617)	(119,463)

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Cash flows from financing activities		
Proceeds from bank borrowings	–	15,450
Repayments of bank borrowings	(49,189)	(16,625)
Payment of lease liabilities	(1,311)	(1,228)
Proceeds from shares issued under share option scheme	–	1,888
Payments for shares bought back	(5,878)	(2,289)
Interest paid on bank borrowings	(5,159)	(4,619)
Interest paid on convertible loan payable	(1,441)	(1,441)
Dividends paid to owners of the Company	(31,610)	(28,824)
Net cash used in financing activities	(94,588)	(37,688)
Net (decrease)/increase in cash and cash equivalents	(7,813)	52,673
Cash and cash equivalents at beginning of period	671,336	599,782
Effect of foreign exchange rate changes on cash and cash equivalents	(22,387)	5,299
Cash and cash equivalents at end of period	641,136	657,754
Analysis of balances of cash and cash equivalents		
Cash and bank balances	472,394	408,727
Non-pledged time deposits with original maturity of less than three months when acquired	168,742	249,027
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	641,136	657,754

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 Act Chapter 22 (Act 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 biologic drugs 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 2022 have been prepared in accordance with Hong Kong Accounting Standard 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 2021 (the “2021 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 2021 Financial Statements, except for the adoption of amended standards effective for annual periods beginning on or after 1 January 2022. The adoption of these amended standards has no material impact on the Group’s interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. SEGMENT REPORTING

The Group manages its businesses by business lines. The segment information is reported internally to the chief operating decision-maker (i.e. executive Directors) for the purposes of resources allocation and performance assessment. The Group's reportable and operating segments for financial reporting purposes are as follows:

- Ophthalmology
- Surgical

(a) Reportable segments

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

	For the six months ended 30 June 2022		
	Ophthalmology (Unaudited)	Surgical (Unaudited)	Total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue			
– Revenue from external customers	269,444	386,381	655,825
Reportable segment profit	86,684	106,379	193,063

	For the six months ended 30 June 2021		
	Ophthalmology (Unaudited)	Surgical (Unaudited)	Total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue			
– Revenue from external customers	294,013	443,361	737,374
Reportable segment profit	87,343	131,369	218,712

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

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Reportable segment profit	193,063	218,712
Unallocated corporate income and expenses, net	(22,172)	(28,711)
Change in fair value of financial assets at fair value through profit or loss ("FVTPL")	(3,451)	(1,390)
Equity-settled share-based payments	(87)	(175)
Finance costs	(4,652)	(5,362)
Profit before income tax	162,701	183,074

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

Analysis of segment assets and liabilities has not been presented as the measure of segment assets and liabilities is not regularly provided to the executive Directors.

4. SEGMENT REPORTING (CONTINUED)

(b) Geographical information

(i) Revenue from external customers

For the six months ended 30 June 2022 and 2021, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile).

(ii) Non-current assets

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
PRC	1,194,109	1,031,973
Hong Kong	178,290	176,658
Overseas	49,804	50,840
	1,422,203	1,259,471

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

(c) Information about major customers

For the six months ended 30 June 2022, revenue of HK\$176.8 million and HK\$72.0 million (For the six months ended 30 June 2021: HK\$169.9 million) was derived from sales to two customers (For the six months ended 30 June 2021: one customer), which individually accounted for over 10% of the Group's total revenue.

5. TURNOVER

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

6. OTHER REVENUE, AND OTHER GAINS AND LOSSES

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Interest income from convertible loan receivables	1,038	1,488
Government grants	5,460	4,762
Interest income from bank deposits	2,424	1,623
Sundry income	5,227	2,799
Change in fair value of financial assets at FVTPL	(3,451)	(1,390)
Licensing income	1,411	2,801
Gain on settlement of financial instruments	11,972	–
	24,081	12,083

7. FINANCE COSTS

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Interest expense on bank borrowings	5,159	4,619
Interest expense on lease liabilities	64	95
Imputed interest expense on convertible loan payable	2,731	2,682
Less: Amount capitalised	(3,302)	(2,034)
	4,652	5,362

8. PROFIT BEFORE INCOME TAX

This is arrived at after charging/(crediting):

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Amortisation of land use rights	200	199
Amortisation of other intangible assets	7,093	5,353
Auditor's remuneration	755	630
Cost of inventories	58,502	71,291
Cost of services	8,389	41,146
Depreciation of property, plant and equipment	12,080	9,750
Depreciation of right-of-use assets	1,122	1,114
Employee costs excluding Directors' emoluments:		
– Salaries and other benefits	149,273	141,235
– Pension fund contributions	8,189	5,506
– Equity-settled share-based payments to the employees	87	175
Exchange losses/(gains), net	1,743	(385)
Research and development costs recognised as expenses	11,606	11,080
Write-off of inventories	2,290	2,243
Loss/(gain) on disposal of property, plant and equipment	100	(8)

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%, 17%, 27.3% and 22% is applied to the Group's other operating subsidiaries in the PRC, Singapore, the United States and Indonesia respectively.

Income tax for the six months ended 30 June 2021 included the tax deduction of approximately HK\$10.0 million for expenditures approved by the tax authority.

10. DIVIDENDS

The Board has resolved on 23 August 2022 to declare an interim dividend of HK\$0.04 (For the six months ended 30 June 2021: HK\$0.04) per ordinary share for the six months ended 30 June 2022, 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

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Profit attributable to owners of the Company for the purposes of calculating basic earnings per share	139,231	162,186
Interest expense on convertible loan payable, net of amount capitalised	1,998	2,682
Profit attributable to owners of the Company for the purposes of calculating diluted earnings per share	<u>141,229</u>	<u>164,868</u>

Number of shares

	2022 (Unaudited)	For the six months ended 30 June 2021 (Unaudited)
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	575,043,801	576,669,061
Effect of dilutive potential ordinary shares: – convertible loan payable	25,423,728	25,423,728
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>600,467,529</u>	<u>602,092,789</u>

The computation of diluted earnings per share for the six months ended 30 June 2022 does not assume the issue of potential ordinary shares in relation to all share options granted as they have anti-dilutive effect.

The computation of diluted earnings per share for the six months ended 30 June 2021 did not assume the issue of potential ordinary shares in relation to all share options granted as they had anti-dilutive effect.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:						
At 1 January 2021	122,981	101,053	40,262	6,865	100,341	371,502
Additions	78	5,687	8,602	–	69,139	83,506
Acquisition of subsidiaries	–	–	1,316	2	–	1,318
Disposals	–	(1,060)	(936)	(199)	–	(2,195)
Exchange adjustment	3,998	3,365	1,403	167	4,474	13,407
At 31 December 2021	127,057	109,045	50,647	6,835	173,954	467,538
Additions	423	1,500	22,450	106	39,725	64,204
Acquisition of a subsidiary	–	–	191	290	–	481
Disposals	–	(14)	(1,803)	–	–	(1,817)
Transfers	–	6,838	–	–	(6,838)	–
Exchange adjustment	(5,657)	(5,096)	(2,802)	(275)	(8,727)	(22,557)
At 30 June 2022 (Unaudited)	121,823	112,273	68,683	6,956	198,114	507,849
Accumulated depreciation:						
At 1 January 2021	16,864	60,425	16,353	4,913	–	98,555
Charge for the year	2,494	10,683	5,502	514	–	19,193
Acquisition of subsidiaries	–	–	966	1	–	967
Disposals	–	(777)	(832)	(179)	–	(1,788)
Exchange adjustment	593	2,137	590	132	–	3,452
At 31 December 2021	19,951	72,468	22,579	5,381	–	120,379
Charge for the period	1,252	5,730	4,754	344	–	12,080
Acquisition of a subsidiary	–	–	99	261	–	360
Disposals	–	(13)	(1,703)	–	–	(1,716)
Exchange adjustment	(924)	(3,392)	(1,039)	(227)	–	(5,582)
At 30 June 2022 (Unaudited)	20,279	74,793	24,690	5,759	–	125,521
Carrying amount:						
At 30 June 2022 (Unaudited)	101,544	37,480	43,993	1,197	198,114	382,328
At 31 December 2021 (Audited)	107,106	36,577	28,068	1,454	173,954	347,159

13. OTHER INTANGIBLE ASSETS

	Development expenditure HK\$'000	Acquired intangible assets HK\$'000	Total HK\$'000
Cost:			
At 1 January 2021	178,765	464,427	643,192
Additions	41,565	127,761	169,326
Acquisition of subsidiaries	1,524	13,591	15,115
Exchange adjustment	5,894	12,359	18,253
At 31 December 2021	227,748	618,138	845,886
Additions	20,353	165,410	185,763
Disposal	–	(2,417)	(2,417)
Exchange adjustment	(9,755)	(25,102)	(34,857)
At 30 June 2022 (Unaudited)	238,346	756,029	994,375
Accumulated amortisation and impairment losses:			
At 1 January 2021	32,958	24,441	57,399
Amortisation	5,136	6,004	11,140
Exchange adjustment	1,139	900	2,039
At 31 December 2021	39,233	31,345	70,578
Amortisation	2,640	4,453	7,093
Disposal	–	(2,417)	(2,417)
Exchange adjustment	(1,784)	(1,444)	(3,228)
At 30 June 2022 (Unaudited)	40,089	31,937	72,026
Carrying amount:			
At 30 June 2022 (Unaudited)	198,257	724,092 [#]	922,349
At 31 December 2021 (Audited)	188,515	586,793 [#]	775,308

[#] The carrying amount of acquired intangible assets as at 30 June 2022 mainly included (i) the project development cost of an ophthalmic solution containing SkQ1 as its sole active pharmaceutical ingredient of approximately HK\$325.7 million (31 December 2021: approximately HK\$331.4 million); (ii) the project development cost of a pharmaceutical product that contains an anti-vascular endothelial growth factor (anti-VEGF) as a drug substance of approximately HK\$187.5 million (31 December 2021: approximately HK\$165.1 million); and (iii) the carrying amount of intellectual property rights and right of Marketing Authorisation Holder relating to 適麗順® (Iodized Lecithin Capsules*) of approximately HK\$106.9 million (31 December 2021: Nil).

14. CONVERTIBLE LOAN RECEIVABLES

- (i) In 2018, the Group entered into an agreement with an independent third party (“Investee A”) to subscribe for a convertible loan with principal amount of US\$4.5 million (approximately HK\$35.3 million) which carries interest at 5% per annum with maturity on 31 July 2022 (“Convertible Loan A”). On 7 January 2022, the Group entered into a supplementary agreement with Investee A to extend the maturity date of Convertible Loan A to 31 July 2024. The entire principal amount of Convertible Loan A can be converted into such number of shares representing 45% of the enlarged and fully diluted share capital of Investee A at any time before the maturity date. In the event that no conversion has been taken place before maturity date, Investee A shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan A of 8% per annum. The first tranche in the principal amount of US\$0.6 million (approximately HK\$4.7 million) (“Tranche A of Convertible Loan A”) was disbursed to Investee A in 2018. During the six months ended 30 June 2022, the second tranche in the principal amount of US\$0.6 million (approximately HK\$4.7 million) (“Tranche B of Convertible Loan A”) was subscribed by the Group. Tranches A and B of Convertible Loan A are classified as financial assets at FVTPL upon the initial recognition.
- (ii) In 2019, the Group entered into a convertible loan agreement with an independent third party, a private company incorporated in Singapore (“Investee B”), with principal amount of US\$2.0 million (approximately HK\$15.6 million) (“Convertible Loan B”) which would yield a return of 25% per annum for the Group on the principal amount of Convertible Loan B if no conversion has been taken place before the maturity date (i.e. 5 January 2021). On 4 January 2021, the Group entered into an amendment deed with Investee B to extend the maturity date of Convertible Loan B to 5 November 2022. The Group’s shareholding in Investee B upon full conversion of Convertible Loan B represents 60% of the enlarged and fully diluted share capital of Investee B. Convertible Loan B is classified as financial asset at FVTPL upon the initial recognition.

In 2021, Convertible Loan B was eliminated at consolidation level upon the acquisition of 100% equity interest in Investee B.

- (iii) In 2019, the Group entered into a convertible loan agreement with an independent third party, 成都上工醫信科技有限公司 (Chengdu Shanggong Medical Technology Co., Ltd.*) (“Shanggong”), with principal amount of RMB15.0 million (approximately HK\$17.0 million) which carries interest at 10% per annum with maturity on 1 January 2021 (“Convertible Loan C”). On 23 December 2020, the Group entered into a supplementary agreement with Shanggong to (i) extend the maturity date of Convertible Loan C to 1 January 2022; and (ii) adjust the interest rate to 12% per annum. The principal amount of Convertible Loan C can be converted into such equity interest representing approximately 8.11% of the entire equity interest of Shanggong at any time before the maturity date. Convertible Loan C is classified as financial asset at FVTPL upon the initial recognition.

During the six months ended 30 June 2022, Convertible Loan C was settled by way of acquiring certain intellectual property rights from Shanggong.

- (iv) In 2020 and 2021, the Group made available certain convertible loans to Antikor Biopharma Limited (“Antikor”) in the aggregate principal amount of approximately US\$2.3 million (approximately HK\$17.5 million) which carry interest at 5% per annum with maturity on 30 September 2022 (“Convertible Loan D”). The aggregate principal amount of Convertible Loan D can be converted into such number of shares representing 25.59% of the enlarged and fully diluted share capital of Antikor at any time before the maturity date. Convertible Loan D is classified as financial asset at FVTPL upon the initial recognition.
- (v) In 2021, the Group entered into a convertible loan agreement with an independent third party, Mitotech S.A. (“Mitotech”), with principal amount of US\$1.2 million (approximately HK\$9.3 million) which carries interest at 8% per annum with maturity on 15 October 2022 (“Convertible Loan E”). The principal amount of Convertible Loan E can be converted into such number of shares representing 1% of the enlarged and fully diluted share capital of Mitotech at any time before the maturity date. Convertible Loan E is classified as financial asset at FVTPL upon the initial recognition.

14. CONVERTIBLE LOAN RECEIVABLES (CONTINUED)

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

	HK\$'000
As at 30 June 2022	
– Tranches A and B of Convertible Loan A	9,497
– Convertible Loan D	19,545
– Convertible Loan E	9,131
Total	38,173
Less: Current portion	(28,676)
Non-current portion	9,497
	HK\$'000
As at 31 December 2021	
– Tranche A of Convertible Loan A	5,874
– Convertible Loan C	6,246
– Convertible Loan D	19,197
– Convertible Loan E	8,660
Total, classified under current assets	39,977

The movements in fair value of convertible loan receivables classified as level 3 in the fair value hierarchy during the six months ended 30 June 2022 are as follows:

	HK\$'000
At 1 January 2022	39,977
Additions	4,666
Settlement	(6,155)
Change in fair value recognised in profit or loss	(224)
Exchange differences	(91)
At 30 June 2022 (Unaudited)	38,173

As at 30 June 2022, the fair values of convertible loan receivables are calculated using Binomial Share Option Model with the following key assumptions:

	Convertible Loan A	Convertible Loan D	Convertible Loan E
Dividend yield	Nil	Nil	Nil
Expected volatility	167%	64%	96%

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

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

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Non-current		
Equity investments designated at FVTOCI (<i>Note (a)</i>)		
– Listed equity investments (<i>Note (b)</i>)	19,570	31,125
– Unlisted equity investments (<i>Note (c)</i>)	15,240	19,036
	34,810	50,161
Equity investments designated at FVTPL (<i>Note (d)</i>)		
– Unlisted equity investments (<i>Note (c)</i>)	3,193	6,416
Current		
Equity investments designated at FVTPL (<i>Note (d)</i>)		
– Listed equity investments (<i>Note (b)</i>)	11	15

Notes:

- (a) The equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.
- (b) The balance as at 30 June 2022 represents two (31 December 2021: two) listed equity securities which are listed on the NASDAQ Stock Market of the United States, namely AC Immune SA and Humacyte Inc. The fair value was based on quoted market price as at 30 June 2022.
- (c) The balance as at 30 June 2022 represents five (31 December 2021: five) unlisted equity investments, namely the investments in (i) series C preferred stock and common stock of a private company incorporated in the United States; (ii) equity interest in Shanggong; (iii) ordinary shares of Antikor; (iv) series pre-A preferred stock of a private company incorporated in Singapore; and (v) ordinary shares of another private company incorporated in Singapore.
- (d) The equity investments were irrevocably designated at FVTPL as the Group considers these investments to be held for trading.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The movements in fair value of equity interest in Shanggong classified as level 3 in the fair value hierarchy during the six months ended 30 June 2022 are as follows:

	HK\$'000
At 1 January 2022	8,240
Change in fair value recognised in other comprehensive income	(3,474)
Exchange differences	(261)
At 30 June 2022 (Unaudited)	4,505

As at 30 June 2022, the fair value of equity interest in Shanggong is calculated using Value Allocation Model with the following key assumptions:

Expected volatility	70%
Risk-free interest rate	1.93%

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

16. INVENTORIES

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Raw materials	13,976	12,901
Work in progress	13,800	14,194
Finished goods	56,502	70,478
	84,278	97,573

17. TRADE AND OTHER RECEIVABLES

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Trade receivables	516,415	651,930
Other receivables	21,365	22,338
	537,780	674,268

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 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
0-60 days	296,401	442,988
61-90 days	103,677	75,298
Over 90 days	116,337	133,644
	516,415	651,930

18. DEPOSITS AND PREPAYMENTS

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Deposits paid for acquisition of property, plant and equipment	13,663	21,432
Deposits paid for acquisition of other intangible assets	-	42,920
Prepayments for purchase of finished goods	351	1,490
Other deposits	917	1,157
Other prepayments	6,263	8,102
Total	21,194	75,101
Less: Current portion	(7,531)	(10,748)
Non-current portion	13,663	64,353

19. TRADE AND OTHER PAYABLES

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Trade payables	8,154	4,466
Other payables and accruals (<i>Note</i>)	435,227	464,296
	443,381	468,762

Note:

Other payables and accruals included the accruals for sales and marketing costs of approximately HK\$377.5 million (31 December 2021: approximately HK\$354.8 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 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
0–60 days	8,041	4,466
61–90 days	49	–
Over 90 days	64	–
	8,154	4,466

20. BANK BORROWINGS

As at 30 June 2022, certain of the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and its certain subsidiaries; and (ii) pledged bank deposits of approximately HK\$25.2 million.

As at 31 December 2021, certain of the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and its certain subsidiaries; and (ii) pledged bank deposits of approximately HK\$53.5 million.

As at 30 June 2022, the Group obtained banking facilities of approximately HK\$629.7 million (31 December 2021: approximately HK\$763.0 million), of which approximately HK\$505.8 million (31 December 2021: approximately HK\$491.2 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 prior to the maturity date on 2 August 2021. On 10 July 2020, the Group and IFC entered into an amendment agreement to the convertible loan agreement to extend the maturity date for a period of 3 years to 2 August 2024. The Group accounted for the extension as a derecognition of the existing financial liability and the recognition of a new financial liability with a gain recognised on extinguishment, being the difference between the fair value of consideration given to extinguish the financial liability and its previous carrying amount.

21. CONVERTIBLE LOAN PAYABLE (CONTINUED)

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 calculated at (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.

The fair value of the debt component and the equity conversion component were determined at the issuance/ extinguishment of the Convertible Loan Payable where appropriate. 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 2022, the fair value of the make whole premium was determined by the Directors to be minimal.

The movements of the Convertible Loan Payable are as follows:

	Debt component	Conversion component	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	140,529	15,227	155,756
Imputed interest expense	5,433	–	5,433
Interest paid	(2,889)	–	(2,889)
At 31 December 2021 (Audited)	143,073	15,227	158,300
Imputed interest expense	2,731	–	2,731
Interest paid	(1,441)	–	(1,441)
At 30 June 2022 (Unaudited)	144,363	15,227	159,590

22. SHARE CAPITAL

Authorised

	At 30 June 2022		At 31 December 2021	
	Number (Unaudited)	HK\$'000 (Unaudited)	Number (Audited)	HK\$'000 (Audited)
Ordinary shares at HK\$0.1 each	1,000,000,000	100,000	1,000,000,000	100,000

Issued and fully paid

	Number	HK\$'000
At 1 January 2021	576,903,000	57,690
Employee share options exercised	320,000	32
Shares repurchased and cancelled	(1,665,000)	(166)
At 31 December 2021 (Audited)	575,558,000	57,556
Shares repurchased and cancelled (<i>Note</i>)	(1,387,000)	(139)
At 30 June 2022 (Unaudited)	574,171,000	57,417

Note:

During the six months ended 30 June 2022, the Company repurchased 1,498,000 of its shares on the Stock Exchange for a total consideration of approximately HK\$6.2 million which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The repurchased shares (together with 122,000 shares repurchased by the end of December 2021 and excluding 233,000 shares repurchased by the end of June 2022) were cancelled during the six months ended 30 June 2022 and the total amount paid for the repurchase of the shares has been charged to retained profits of the Company.

23. BUSINESS COMBINATION

On 8 March 2022, the Group acquired effectively 100% equity interest in Guangdong Hanfeng Baisheng Pharmaceutical Co., Ltd. ("Hanfeng Baisheng") from an independent third party with nil consideration. Hanfeng Baisheng is engaged in the sale of pharmaceutical products. The acquisition was in line with the Group's expansion strategies and will enable the Group to strengthen its ophthalmology business.

The fair values of the identifiable assets and liabilities of Hanfeng Baisheng as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	121
Inventories	7,418
Trade and other receivables	53,099
Bank balances	3,472
Other payables	(101,158)
Total identifiable net liabilities at fair value	(37,048)
Goodwill on acquisition	37,048
Consideration	–

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

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

23. BUSINESS COMBINATION (CONTINUED)

An analysis of the cash flows in respect of the acquisition of Hanfeng Baisheng is as follows:

	HK\$'000
Bank balances acquired and net inflow of cash and cash equivalents included in cash flows from investing activities	3,472

Since the acquisition, Hanfeng Baisheng contributed approximately HK\$33.7 million to the Group's revenue and approximately HK\$3.3 million to the Group's profit for the six months ended 30 June 2022.

Had the combination taken place at the beginning of the period, the revenue and profit of the Group for the period would have been approximately HK\$658.7 million and approximately HK\$137.1 million, respectively.

The movements in the carrying amount of goodwill during the six months ended 30 June 2022 are as follows:

	HK\$'000
Cost:	
At 1 January 2022	50,898
Acquisition of a subsidiary	37,048
Exchange adjustment	(3,587)
At 30 June 2022 (Unaudited)	84,359

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(i) Financial assets measured at fair value

As at the end of the reporting period, 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 instruments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

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

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Financial instruments not measured at fair value

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

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

The fair values of non-current portion of bank borrowings, lease liabilities and convertible loan payable for disclosure purposes have been determined using discounted cash flow models and are 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 instruments included in the level 2 category have been determined with reference to 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 values of the financial instruments included in the level 3 category as at the end of the current period have been determined by the Directors with reference to the valuation performed by International Valuation Limited, an independent firm of professionally qualified valuers, details of which are set out in notes 14 and 15.

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

Recurring fair value measurement Financial assets:	As at 30 June 2022			Total (Unaudited) HK\$'000
	Level 1 (Unaudited) HK\$'000	Level 2 (Unaudited) HK\$'000	Level 3 (Unaudited) HK\$'000	
Listed equity investments	19,581	–	–	19,581
Unlisted equity investments	–	13,928	4,505	18,433
Convertible loan receivables	–	–	38,173	38,173
		As at 31 December 2021		
Recurring fair value measurement Financial assets:	Level 1 (Audited) HK\$'000	Level 2 (Audited) HK\$'000	Level 3 (Audited) HK\$'000	Total (Audited) HK\$'000
Listed equity investments	31,140	–	–	31,140
Unlisted equity investments	–	17,212	8,240	25,452
Convertible loan receivables	–	–	39,977	39,977

There was no transfer under the fair value hierarchy classification during the six months ended 30 June 2022.

25. CAPITAL COMMITMENTS

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Contracted but not provided for:		
– property, plant and equipment	1,439	18,719
– development expenditure	73,814	68,202
– acquired intangible assets	211,251	290,228
– construction of the new factory	167,531	175,334
– expansion of the existing factory	20,271	30,097
	474,306	582,580

26. RELATED PARTY TRANSACTIONS

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

	2022 (Unaudited) HK\$'000	For the six months ended 30 June 2021 (Unaudited) HK\$'000
Salaries and other benefits	4,076	4,827
Pension fund contributions	29	22
	4,105	4,849

27. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 23 August 2022.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

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

The Group’s turnover is primarily made up from the segments of Ophthalmology and Surgical (wound care and healing) covering dermatology, stomatology, obstetrics and gynaecology; while pursuing new therapeutics in oncology, orthopaedics and neurology through the Group’s strategic investments.

Currently the Group has six commercialised biologics, formulated with rb-bFGF (collectively referred to as the “bFGF Series”), that are marketed and sold as Beifushu eye drops, Beifushu eye gel and Beifushu unit-dose eye drops for treatment of ocular wounds, Beifuji spray, Beifuji lyophilised powder and Beifuxin gel for treatment of surface wounds, in the People’s Republic of China (the “PRC”). The bFGF Series are developed and manufactured by the Group, three of which were approved by 國家藥品監督管理局 (National Medical Products Administration) as Category I biologics and four of which are on the list of the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance issued by the National Healthcare Security Administration and the Ministry of Human Resources and Social Security of the PRC. Collectively, the combined turnover of the bFGF Series represented about 86.5% of the Group’s total turnover for the period under review.

Apart from the bFGF Series, the Group has a portfolio of commercialised preservative-free unit-dose eye drops, namely Tobramycin, Levofloxacin, Sodium Hyaluronate and Moxifloxacin Hydrochloride Eye Drops.

On 8 March 2022, the acquisition of intellectual property rights relating to technologies and process of product research and development (“R&D”), production and right of Marketing Authorisation Holder of 適麗順® (Iodized Lecithin Capsules*) was completed and 適麗順® (Iodized Lecithin Capsules*) is being regarded as one of the Group’s core products since then.

In addition, the Group has 2 oral care products, namely Carisolv® dental caries removal gel and 佶典醫生 (Dr. YaDian) mouth wash.

Leveraging on its established market access capability, the Group undertakes the promotion and selling of a range of products and medical devices that are to complement the Group’s therapeutics business of Ophthalmology and Surgical, including 伊血安顆粒 (Yi Xue An Granules*), Soft Hydrophilic Contact Lens, Ultrasound Cycloplasty (UCP), Foldable Capsular Vitreous Body and Portable Ultraviolet Phototherapy Devices.

On the building of mid-term and long-term growth drivers, the Group maintains a pipeline of multi-project in R&D at various stages of clinical programmes, which cover a handful of unit-dose ophthalmic products and biologics in growth factors and antibody.

Significant Business Development Activities

We are committed to pragmatically investing in new products and technologies to strengthen the Group’s product and R&D pipeline as near to mid-term growth driver in ophthalmology and long-term plan for new therapeutics in oncology. Major investments in ophthalmic products that are under advanced stage of clinical development are outlined as follows:

Investments in Ophthalmology

In 2018, the Group entered into a co-development agreement with Mitotech S.A. (“Mitotech”) and Mitotech LLC for the United States Food and Drug Administration (the “US FDA”) phase 3 clinical trial of an ophthalmic solution containing SkQ1 for dry eye disease (the “SkQ1 Product”). As disclosed in the announcement of the Company dated 24 February 2021, positive outcome was achieved during second phase 3 clinical trial (VISTA-2). The clinical trial study repeated statistically significant positive results on key predefined secondary end-point (Central Corneal Fluorescein Staining). The board (the “Board”) of directors of the Company (the “Directors”) is enthusiastic about the read-out of clearing of central staining of the cornea (defined as zero staining in central cornea), which reveals the potential of SkQ1 in addressing oxidative stress in dry eye diseases. Following the positive trial outcome of VISTA-2, Mitotech has planned a pivotal trial (VISTA-3), which will commence once Mitotech’s management team has fully assessed there is no potential disruption to trial centres and patient recruitment during the ongoing COVID-19 pandemic. However, recent developments in Ukraine have led to governments and industries reacting to business relationships with Russia in a way that could potentially induce delays in Mitotech’s VISTA clinical trial programme.

Mitotech is a clinical-stage Luxembourg-based biotechnology company developing novel drugs for the treatment of predominantly age-related disorders.

Total actual investment cost of approximately HK\$325.7 million for the clinical development of the SkQ1 Product with Mitotech is presented as “Acquired Intangible Assets” under the Group’s interim condensed consolidated financial statements as at 30 June 2022. The investment cost represented 11.7% of the Group’s total assets as at 30 June 2022. According to Frost & Sullivan, the estimated number of patients of moderate-to-severe dry eye disease is over 117 million in the PRC in 2019. It is expected that the size of the potential market of the SkQ1 Product will be significant.

In 2020, the Group entered into a co-development and exclusive license agreement with Shanghai Henlius Biotech, Inc. (“Henlius”) to co-develop a pharmaceutical product that contains an anti-vascular endothelial growth factor (“anti-VEGF”) as a drug substance (the “Anti-VEGF Licensed Product”), which is intended for the treatment of exudative (wet) age-related macular degeneration (“wet-AMD”). As at the date of this report, the recombinant anti-VEGF humanised monoclonal antibody injection HLX04-O (“HLX04-O”) for the treatment of wet-AMD has been approved to commence the phase 3 clinical trial in Australia, the United States, Singapore, Russia, Serbia and European Union countries such as Hungary, Spain, Latvia, the Czech Republic and Poland. Also, the first patient has been dosed in a phase 3 clinical study for HLX04-O for the treatment of wet-AMD in the PRC, Latvia and Australia.

Henlius is the holding company of a group principally engaged in (i) the research and development, production and sale of monoclonal antibody (mAb) drugs and the provision of related technical services (except for the development and application of human stem cells, genetic diagnosis and therapy technology); and (ii) the transfer of its own technology and provision of the related technology consultation services.

Total maximum commitment in relation to the co-development of the Anti-VEGF Licensed Product with Henlius is US\$49.0 million (equivalent to approximately HK\$384.5 million). Total actual investment cost of approximately HK\$187.5 million is presented as “Acquired Intangible Assets” under the Group’s interim condensed consolidated financial statements as at 30 June 2022. The investment cost represented 6.7% of the Group’s total assets as at 30 June 2022. The Anti-VEGF Licensed Product can be used for treating wet-AMD, diabetic macular edema, macular edema caused by retinal vein occlusion and myopic choroidal neovascularisation. According to Frost & Sullivan, the estimated number of patients of these 4 categories of disease is over 15.5 million in the PRC in 2019. Assuming each patient applies 4 doses in the first year of treatment and 2 to 3 doses in subsequent years, it is expected that the size of the potential market of the Anti-VEGF Licensed Product will be significant.

Apart from the investments in the SkQ1 Product and the Anti-VEGF Licensed Product, as at 30 June 2022 and the date of this report, each of the investments made and held by the Group represented less than 5% of the Group’s total assets.

HONOURS AND AWARDS OBTAINED IN 2022

珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*), a wholly-owned subsidiary of the Company, has been recognised as one of the 2021 年度珠海市醫藥健康製造業十強企業 (2021 top 10 pharmaceutical and health manufacturing companies in Zhuhai*). It has also been recognised as one of the 2021 年度TOP100中國化藥企業 (2021 top 100 chemical pharmaceutical companies in the PRC*).

The Group's Beifushu has been awarded as one of the Chinese reputable medicine brands in four consecutive years. This is a testament of the recognition by the industry for the efficacy and quality of our flagship biologic drug.

The Company has been included in 2022 Forbes Asia's Best Under A Billion list, which is a testimony to the Group's achievements over the past few years. Forbes Asia's Best Under A Billion list spotlights 200 top-performing publicly listed small and mid-sized companies in the Asia-Pacific region with sales under US\$1 billion.

MARKET DEVELOPMENT

Over the years, the Group has been relentlessly investing in establishing and strengthening its market access capability. As at 30 June 2022, the Group maintains a network of 43 regional sales offices in the PRC and a total number of about 1,255 sales and marketing representatives, out of which 64% are full-time employees and 36% are on contract basis or from appointed agents. The Group expanded its presence in Singapore in 2020 as a strategic base for market access expansion into Southeast Asian countries.

During the period under review, the Group's therapeutic products are being prescribed in more than 10,710 hospitals and medical providers, coupled with approximately 2,120 pharmaceutical stores, which are widely located in the major cities, provinces and county cities in the PRC.

For achieving a sustainable traction on growth for currently marketed products as well as for near-term to mid-term new products being commercialised, the Group initiated investments to improve its competitiveness and widen its customers base under the following plans:

- Investing in clinical observation programmes for affirming additional clinical indications of its commercialised products;
- Reaching out to market in lower-tier cities;
- Cultivating pharmaceutical stores, where possible, as complementary sales channel; and
- Building on-line platform for medical consultation and e-prescription for patients with chronic diseases under its healthtech initiative.

RESEARCH AND DEVELOPMENT

The Group renewed its R&D's vision in 2020, emphasising the dedication to science and innovation, with a mission to develop therapeutics that would meet unmet clinical and/or commercial needs. The Group concurrently kick-started a 5-year (2021 to 2025) R&D's development plan to further strengthen its R&D capability and its position in ophthalmology.

The Group's key R&D initiatives comprise of growth factor, antibody (i.e. mAb, bsAb, sdAb, scFv, ADC/FDC, etc.), drug formulation know-how and Blow-Fill-Seal ("BFS") platform. Growth factor, antibody and drug formulation know-how are used for the development of therapeutic drugs in ophthalmology, surgical (wound care and healing) and oncology, whereas BFS platform is a state-of-the-art manufacturing facility for producing preservative-free unit-dose drugs, in particular for ophthalmic drugs.

One of the Group's technology platforms is built on a recombinant proteins, in particular, the basic fibroblast growth factor ("bFGF"). The Group has been able to capitalise on its biologic facility, built with its proprietary technique and know-how, delivering high-quality bFGF Series of biologics in the Ophthalmology and Surgical business segments that constituted the Group's primary current growth driver. Strengthening on the Group's biologics-based R&D, the strategic alliances forged with Antikor Biopharma Limited and Henlius are in furtherance of our R&D plans for biologics in oncology and in ophthalmology for wet-AMD, diabetic macular edema, macular edema caused by retinal vein occlusion and myopic choroidal neovascularisation for mid-term to long-term growth driver.

The establishment of the BFS platform formed part of the Group's core competency to develop and produce a series of preservative-free unit-dose drugs. As at 30 June 2022, the Group has 5 commercialised preservative-free unit-dose eye drops in the product pipeline. A handful of preservative-free unit-dose ophthalmic drugs are under development with targeted commercialisation within the next 2 to 5 years.

As at 30 June 2022, there are 15 R&D programmes in the pre-clinical to clinical stage, out of which 3 ophthalmology programmes are in clinical stage. The 3 ophthalmology programmes listed below are targeted as mid-term growth driver.

1. EB11-18136P: SkQ1 eye drops, second phase 3 clinical trial (US FDA) (VISTA-2) topline data released on 24 February 2021
2. EB11-15120P: Azithromycin eye drops, ongoing review by external key opinion leaders (National Medical Products Administration ("NMPA") in the PRC)
3. EB12-20145P: Bevacizumab intravitreal injection for wet-AMD, phase 3 clinical trial (US FDA, European Medicines Agency, Therapeutic Goods Administration and NMPA in the PRC)

As at the date of this report, the Group has obtained a total of 64 patent certificates or authorisation letters: 47發明專利 (invention patents), 12實用新型專利 (utility model patents) and 5外觀專利 (design patents).

The Group currently has diversified its R&D resources to multiple research sites in Zhuhai (PRC), Boston (United States), London (United Kingdom) and Singapore which supports not only our pursuit for new therapeutics but also our acquisition of global talent.

PRODUCTION CAPABILITY

The Group's factory in Zhuhai is fully equipped with production plants for the production of rb-bFGF as active pharmaceutical substance for the Group's flagship biologic formulations. The state-of-the-art BFS production plants in the factory enables the production of preservative-free unit-dose drugs, including Beifushu unit-dose eye drops.

CONSTRUCTION OF THE SECOND FACTORY IN THE PRC

For the near-term expansion of the Group, a piece of land of about 15,000 square metres located at 珠海高新區科技創新海岸 (Zhuhai Hi-Tech Industrial Park*) was acquired in 2018. The land is within walking distance from the Group's existing factory. The plan is to construct the Group's second factory with a gross floor area (GFA) of about 58,000 square metres to house the Group's R&D centre, additional manufacturing facility, administrative office and staff hostel. Construction work of the second factory has started on 1 January 2020 and is planned to be completed by 2023, but is now subject to timely resolution with the main contractor as explained further below.

The overall construction work was substantially completed as at the date of this report. However, in November 2021, the main contractor has unilaterally suspended the construction work without a valid reason, which may cause undue delay to the completion of the construction. In August 2022, the Group has initiated legal proceedings against the main contractor seeking compensation for the breach of contract, and has planned to appoint a new main contractor. The Board will closely monitor the situation and make appropriate announcement(s) when necessary.

FINANCIAL REVIEW

The Group's revenue is chiefly derived and denominated in Renminbi from its operations in the PRC. For the six months ended 30 June 2022, the Group achieved a consolidated turnover of approximately HK\$655.8 million, with a decrease of 11.1% as compared to the same period last year.

Correspondingly, the Group's profit decreased by 14.2% to approximately HK\$139.2 million as compared to approximately HK\$162.2 million for the same period last year.

The decrease is attributable to the governmental restrictions in place in a number of provinces and municipalities in the PRC to curb the spread of COVID-19, which disrupted the clinical operations of hospitals in the PRC and prevented non-emergency patients from visiting hospitals and outpatient clinics during the period under review. As at the date of this report, the clinical operations of hospitals and outpatient clinics remained disrupted sporadically from cities to cities. The Board will continue to monitor and mitigate the impact on the Group's operation and financial performance.

The Group's turnover is primarily made up from the segments of Ophthalmology and Surgical (wound care and healing). The core products that are of current growth driver under each segment are:

1. Ophthalmology – Beifushu series (Beifushu eye drops, Beifushu eye gel and Beifushu unit-dose eye drops), Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops and 適麗順® (Iodized Lecithin Capsules*); and
2. Surgical (wound care and healing) – Beifuji series (Beifuji spray, Beifuji lyophilised powder and Beifuxin gel), Carisolv® dental caries removal gel, 佻典醫生 (Dr. YaDian) mouth wash and 伊血安顆粒 (Yi Xue An Granules*).

The sectoral turnover of Ophthalmology and Surgical is approximately 41.1% and 58.9% of the Group's turnover, respectively. The combined turnover of the Group's flagship biologics, Beifushu series and Beifuji series, the bFGF based biologic drugs, represented about 86.5% of the Group's total turnover, of which Beifushu series and Beifuji series accounted for 28.4% and 58.1% of the Group's turnover, respectively. The remaining 13.5% of the Group's turnover is mainly contributed from sales of Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops, 適麗順® (Iodized Lecithin Capsules*), Carisolv® dental caries removal gel, 佻典醫生 (Dr. YaDian) mouth wash and 伊血安顆粒 (Yi Xue An Granules*), collectively.

Composition of turnover for the six months ended 30 June 2022 and 2021, respectively, is shown in the following table:

Expressed in HK\$' million	For the six months ended 30 June 2022	For the six months ended 30 June 2021
Ophthalmology	269.4	294.0
Surgical	386.4	443.4
Total	655.8	737.4

Ophthalmology contributed approximately HK\$269.4 million to the Group's turnover for the six months ended 30 June 2022, representing a decrease of 8.4% as compared to the same period last year. Surgical recorded a total turnover of approximately HK\$386.4 million for the six months ended 30 June 2022, representing a decrease of 12.9% as compared to the same period last year. The decrease was attributable to the aforementioned impact of COVID-19 outbreak in the PRC.

The distribution and selling expenses for the period under review were approximately HK\$363.8 million as compared to approximately HK\$377.3 million for the corresponding period last year, representing a decrease of 3.6%. Such expenses primarily consisted of remuneration, advertising costs, travelling and transportation costs, costs for the organisation of seminars and conferences for product training and awareness, etc. The decrease was in line with the decrease in turnover for the six months ended 30 June 2022.

The administrative expenses for the period under review were approximately HK\$79.6 million as compared to approximately HK\$69.1 million for the corresponding period last year. The increase in administrative expenses was mainly due to (i) an increase in costs for expansion of operations in the United States and Singapore and the establishment of on-line platform for medical consultation by approximately HK\$9.9 million; and (ii) an increase in R&D expenses of approximately HK\$0.5 million.

Total expenditures (inclusive of acquired intangible assets) incurred in R&D for the period under review were approximately HK\$197.4 million (For the six months ended 30 June 2021: approximately HK\$85.9 million), representing 30.1% (For the six months ended 30 June 2021: 11.7%) of the turnover, of which approximately HK\$185.8 million (For the six months ended 30 June 2021: approximately HK\$74.8 million) were capitalised. The increase during the period under review was mainly due to the aforementioned acquisition of intellectual property rights of 適麗順® (Iodized Lecithin Capsules*).

The Group had cash and cash equivalents of approximately HK\$641.1 million as at 30 June 2022 (31 December 2021: approximately HK\$671.3 million).

The Group's bank borrowings as at 30 June 2022 were approximately HK\$364.3 million (31 December 2021: approximately HK\$416.8 million), among which 20.3% was repayable within 1 year and 79.7% was repayable in more than 1 year but within 5 years. Among the Group's bank borrowings as at 30 June 2022, 27.5% was denominated in Hong Kong Dollar, 19.3% was denominated in Renminbi and 53.2% was denominated in US Dollar. All of the Group's bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings ranged from 2.2% to 4.5% as at 30 June 2022. 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 2022 were approximately HK\$4.7 million (For the six months ended 30 June 2021: approximately HK\$5.4 million), including an imputed interest expense on the convertible loan payable and interest expenses on bank borrowings amounting to approximately HK\$7.9 million (For the six months ended 30 June 2021: approximately HK\$7.3 million) of which approximately HK\$3.3 million (For the six months ended 30 June 2021: approximately HK\$2.0 million) was capitalised during the period under review.

Convertible Loan from International Finance Corporation ("IFC")

On 6 July 2016, the Company entered into a convertible loan agreement (the "Convertible Loan Agreement") with IFC, being a member of the World Bank Group and an international organisation established by Articles of Agreement among its member countries including the PRC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK\$150.0 million at an interest rate of 1.9% per annum. Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into ordinary shares of the Company (the "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 prior to the maturity date on 2 August 2021.

On 10 July 2020, the Company and IFC entered into an amendment agreement to the Convertible Loan Agreement (the "Amendment Agreement") to extend the maturity date for a period of 3 years to 2 August 2024 (the "Extension"). Save as amended by the Amendment Agreement, the Convertible Loan Agreement and the terms and conditions of the convertible loan shall continue to be in full force and effect. Please refer to the announcement of the Company dated 10 July 2020 for details.

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 utilised for the Company's strategic investment in and development of the Group's biologic business and general working capital requirements. All net proceeds had been utilised in 2018 according to the intended use.

Dilutive effect of the conversion of the convertible loan

As at 30 June 2022, 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 2022:

Shareholders	As at 30 June 2022		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	147,279,000	25.65	147,279,000	24.56
Ngiam Mia Kiat Benjamin	145,354,000	25.32	145,354,000	24.24
Dynatech Ventures Pte Ltd (<i>Note 1</i>)	6,666,667	1.16	6,666,667	1.11
Directors within last 12 months (other than Ngiam Mia Je Patrick) (<i>Note 2</i>)	7,329,300	1.28	7,329,300	1.22
IFC	–	–	25,423,728	4.24
Other shareholders	267,542,033	46.59	267,542,033	44.63
	<u>574,171,000</u>	<u>100</u>	<u>599,594,728</u>	<u>100</u>

Notes:

- (1) 6,666,667 ordinary 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 7,329,300 shares, 5,244,300 shares were registered in the name of Fang Haizhou, 2,039,000 shares were registered in the name of Ngiam Hian Leng Malcolm and 46,000 shares were registered in the name of Yau Lai Man.
- (3) Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director) and is deemed to be interested in the shares in which Ngiam Mia Je Patrick is interested/deemed to be interested.

Dilutive effect on earnings per share

Based on the profit attributable to owners of the Company for the six months ended 30 June 2022 of approximately HK\$139.2 million, the basic and diluted earnings per share attributable to owners of the Company, after considering the full conversion of the convertible loan, were HK24.21 cents and HK23.52 cents respectively.

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

Based on the cash and cash equivalents as at 30 June 2022 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 2022.

Based on the implied internal rate of return of the convertible loan, the Company's share price on the maturity date at which it would be equally financially advantageous for IFC to convert or redeem the convertible loan would be HK\$8.13 per share.

General Disclosure under Rules 13.18 and 13.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") – Loan from IFC

As disclosed in the announcement of the Company dated 10 July 2020, the Group entered into a loan agreement with IFC (the "Loan Agreement") to borrow a loan in the aggregate principal amount of US\$25.0 million (equivalent to approximately HK\$193.7 million) (the "Loan"). On 13 October 2020, the Loan has been fully drawn by the Group.

Pursuant to the Loan Agreement, the occurrence of any of the following events would constitute an event of default, and as a result, IFC may require the Group to immediately repay the Loan and all interest accrued and all other amounts payable in accordance with the Loan Agreement:

(i) Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, for any reason ceases to own, directly and indirectly:

(A) at any time prior to the Loan Permitted Dilution Event (as defined below), at least 40%; and

(B) at any time on or after the Loan Permitted Dilution Event (as defined below), at least 35%,

of both the economic and voting interests in the Company's share capital (determined on a fully diluted basis), and for the purpose of this paragraph (i), the "Loan Permitted Dilution Event" means the consummation of an acquisition permitted under the Loan Agreement with the consideration payable in whole or in part by the Company in the form of shares that causes Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, to own, directly and indirectly, less than 40% of both the economic and voting interests in the Company's share capital (determined on a fully diluted basis); or

(ii) Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, at any time and for any reason ceases to be the single largest direct and indirect shareholder of the Company (determined on a fully diluted basis).

Due to the outbreak of COVID-19, the Group's business operation and financial performance have been negatively impacted. The Board considers that the Extension of the Convertible Loan Agreement and the obtain of the Loan are prudent measures, which would effectively provide the Group with flexibility in relation to the Group's deployment of its financial resources to fund its operation and development plans during the difficult period of COVID-19. Accordingly, the Board considers the respective terms of the Amendment Agreement and the Loan Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, as at 30 June 2022, the Group did not have any immediate plan for material investments or acquisition of material capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group obtained banking facilities of approximately HK\$629.7 million, of which approximately HK\$505.8 million was utilised. Certain of the banking facilities were secured by the corporate guarantees provided by the Company and its certain subsidiaries and pledged deposits which amounted to approximately HK\$25.2 million.

As at 30 June 2022, the Group had cash and cash equivalents of approximately HK\$641.1 million as compared to approximately HK\$671.3 million as at 31 December 2021.

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 2022 was 37.6% (31 December 2021: 39.4%).

CHARGES ON GROUP ASSETS

As at 30 June 2022, bank deposits of approximately HK\$25.2 million (31 December 2021: approximately HK\$53.5 million) were pledged to secure the Group's banking facilities.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments amounted to approximately HK\$474.3 million (31 December 2021: approximately HK\$582.6 million).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).

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

Save as disclosed in this report, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the period ended 30 June 2022.

SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this report, the Group did not hold any significant investments as at 30 June 2022.

FOREIGN EXCHANGE EXPOSURE

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

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

TREASURY POLICY

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

EMPLOYEES

As at 30 June 2022, the Group had a total of 1,423 full-time employees (31 December 2021: 1,379 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\$161.2 million and approximately HK\$151.2 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.

The remuneration of each executive Director has been determined with reference to the time commitment and responsibilities of each executive Director, and to the operating results of the Group and his/her performance in the relevant financial year.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the period under review. Please refer to the sub-section headed "Purchase, Redemption or Sale of Listed Securities of the Company" for details of the share repurchase of the Company conducted during the period under review. For the period ended 30 June 2022, there was no exercise of 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 report:

25,375,000 Shares.

- (b) Percentage of the issued share capital that it represents as at the date of this report:

4.43%.

- 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 0.8 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 11 November 2016, 2,300,000 Options were granted to three eligible persons (one of which was appointed as an executive Director with effect from 19 September 2020) 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.

(2) As disclosed in the announcement of the Company dated 1 November 2017, the Company entered into the service contract with Hong Kong Zhixin Financial News Agency Limited (“HK Zhixin”) for the appointment of HK Zhixin as the Company’s investor and media relations consultant. HK Zhixin shall act as the Company’s investor and media relations consultant and shall provide to the Company certain services related to relations with investors and media for a term commencing on 1 November 2017 up to 31 October 2021 (both days inclusive). In consideration of the provision of the services by HK Zhixin to the Company, the Company shall grant an aggregate of 5,000,000 Options to HK Zhixin to subscribe for up to 5,000,000 Shares under the Scheme. Set out below are the details of such Options granted on 1 November 2017:

(a) The exercise price for:

- (i) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2018 to 31 October 2019 (both dates inclusive), will be HK\$6.50 per Share;
- (ii) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2019 to 31 October 2020 (both dates inclusive), will be HK\$7.50 per Share; and
- (iii) Options to subscribe for up to 1,600,000 Shares, representing 32% of the total number of Options granted, the exercise period of which is from 1 November 2020 to 31 October 2021 (both dates inclusive), will be HK\$8.50 per Share.

(b) HK Zhixin is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:

- (i) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2018 to 31 October 2019 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options X the average number of Shares traded per day during the period from 1 November 2017 to 31 October 2018 (both days inclusive)/500,000, whichever is lower (*Note 1*);

Note 1: On 1 November 2018, the number of Options exercisable was determined to be 1,700,000 which were lapsed on 31 October 2019.

- (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 (*Note 2*); and

Note 2: On 1 November 2019, the number of Options exercisable was determined to be 1,085,507 which were lapsed on 31 October 2020.

- (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 (*Note 3*);

Note 3: On 1 November 2020, the number of Options exercisable was determined to be 765,537 which were lapsed on 31 October 2021.

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.
- (3) 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 an employee of the Company during the period ended 30 June 2022:

Participants	Date of grant	Exercise price HK\$	Exercisable period	Outstanding as at 1 January 2022	Granted during the period	Exercised during the period	Outstanding as at 30 June 2022
Employee	27.06.2018	10.0	27.06.2020–26.06.2023	300,000	0	0	300,000
	27.06.2018	10.0	27.06.2021–26.06.2023	300,000	0	0	300,000
	27.06.2018	10.0	27.06.2022–26.06.2023	400,000	0	0	400,000
Total for the Scheme				<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>

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

* For identification purpose only

ADDITIONAL INFORMATION

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

As at 30 June 2022, 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 Listing Rules were as follows:

Long positions in 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 2022
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,945,667 <i>(Note 1)</i>	26.81%
Fang Haizhou	Beneficial owner	5,244,300 <i>(Note 2)</i>	0.91%
Ngiam Hian Leng Malcolm	Beneficial owner	2,039,000 <i>(Note 3)</i>	0.36%
Yau Lai Man	Beneficial owner	46,000 <i>(Note 4)</i>	0.01%

Notes:

- 147,279,000 ordinary shares were registered in the name of Ngiam Mia Je Patrick.
 - 6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore. Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mia Je Patrick was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
- 5,244,300 ordinary shares were registered in the name of Fang Haizhou.
- 2,039,000 ordinary shares were registered in the name of Ngiam Hian Leng Malcolm.
- 46,000 ordinary shares were registered in the name of Yau Lai Man.

Save as disclosed above, as at 30 June 2022, 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 2022, 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 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 2022
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	152,020,667 <i>(Note 1)</i>	26.48%
Lauw Hui Kian	Family interest	153,945,667 <i>(Note 2)</i>	26.81%

Notes:

1. (a) 145,354,000 ordinary shares were registered in the name of Ngiam Mia Kiat Benjamin.
 (b) 6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
2. Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,945,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested under the SFO.

Save as disclosed above, as at 30 June 2022, 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

During the period under review, the Company repurchased 1,498,000 of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company as at the date of this report. The total amount paid for the repurchases of HK\$6,183,250 was paid wholly out of retained profits. Details of those transactions are as follows:

Month	Number of shares repurchased	Price per share		Total price paid HK\$
		Highest HK\$	Lowest HK\$	
January 2022	393,000	5.15	4.72	1,927,420
February 2022	88,000	5.16	4.90	441,220
March 2022	102,000	4.35	4.08	423,910
April 2022	118,000	4.35	4.09	491,540
May 2022	278,000	3.87	3.26	986,920
June 2022	519,000	4.01	3.36	1,912,240
	<u>1,498,000</u>			<u>6,183,250</u>

Subsequent to the end of the reporting period and up to the date of this report, the Company repurchased 987,000 of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company as at the date of this report. The highest and lowest price per share paid was HK\$3.94 and HK\$3.61 respectively and the total amount paid for the repurchases of HK\$3,643,160 was paid wholly out of retained profits.

The repurchase of the Company's shares was effected by the Directors, pursuant to the mandate granted by the shareholders of the Company to the Directors at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, 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 2022.

INTERIM DIVIDEND

The Board has resolved on 23 August 2022 to declare an interim dividend of HK\$0.04 (For the six months ended 30 June 2021: HK\$0.04) per ordinary share for the six months ended 30 June 2022 (the "Interim Dividend"), which is payable in cash on Wednesday, 21 September 2022. 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, 9 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 September 2022 to Friday, 9 September 2022 (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, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 6 September 2022.

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 2022.

FORWARD-LOOKING STATEMENT

The sporadic emergence of COVID-19 in the PRC if persists will adversely influence our performance in the second half of 2022, despite the strong fundamentals and demands of our products in the market.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong

23 August 2022

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ngiam Mia Je Patrick (*Chairman*)
Fang Haizhou (*Managing Director*)
Ngiam Hian Leng Malcolm (*Deputy Managing Director*)
Yau Lai Man

Independent Non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

AUDIT COMMITTEE

Fung Chi Ying (*Chairperson*)
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

REMUNERATION COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

NOMINATION COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

CORPORATE GOVERNANCE COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Yau Lai Man
Fung Chi Ying
Mauffrey Benoit Jean Marie

COMPANY SECRETARY

Yau Lai Man MBA, ACA, CPA (practising)

AUTHORISED REPRESENTATIVES

Fang Haizhou
Yau Lai Man

AUDITOR

BDO Limited
(*Registered Public Interest Entity Auditors*)

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HEADQUARTER IN ZHUHAI

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Hi-Tech Zone
Zhuhai
Guangdong, China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Bank of Communications Co., Ltd.
China Merchants Bank
China Construction Bank
Industrial and Commercial Bank of China (Asia) Limited

STOCK CODE

01061