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ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1061)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors of Essex Bio-Technology Limited (the “Company”) presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2014 (Unaudited) HK\$'000	For the six months ended 30 June 2013 (Unaudited) HK\$'000
	<i>Notes</i>		
Turnover	2	231,332	165,150
Cost of sales		<u>(41,444)</u>	<u>(14,879)</u>
Gross profit		189,888	150,271
Other revenue	2	1,001	216
Distribution and selling expenses		(129,846)	(102,958)
Administrative expenses		(21,844)	(10,894)
Finance costs		<u>(1,836)</u>	<u>(1,153)</u>
Profit before income tax expense	4	37,363	35,482
Income tax expense	5	<u>(6,775)</u>	<u>(8,609)</u>
Profit for the period		30,588	26,873
Other comprehensive (expense)/income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		<u>(1,768)</u>	2,943
Total comprehensive income for the period		<u>28,820</u>	<u>29,816</u>
Profit attributable to owners of the Company		<u>30,588</u>	<u>26,873</u>
Total comprehensive income attributable to owners of the Company		<u>28,820</u>	<u>29,816</u>
Earnings per share – Basic and diluted	7	<u>HK5.49 cents</u>	<u>HK4.83 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2014 (Unaudited) <i>HK\$'000</i>	At 31 December 2013 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	184,871	185,687
Land use rights		7,400	7,545
Goodwill		2,578	2,602
Other intangible assets		18,620	15,898
		213,469	211,732
Total non-current assets			
Current assets			
Inventories		18,961	6,449
Trade and other receivables	9	153,665	108,707
Deposits and prepayments		6,520	2,897
Convertible note receivable		2,700	2,700
Cash and cash equivalents		50,320	54,527
		232,166	175,280
Total assets			
		445,635	387,012
Current liabilities			
Trade and other payables	10	103,138	77,174
Bank borrowings – secured	11	56,668	50,768
Taxation		3,704	315
		163,510	128,257
Net current assets			
		68,656	47,023
Total assets less current liabilities			
		282,125	258,755
Non-current liabilities			
Deferred tax liabilities		3,033	4,761
		3,033	4,761
Total liabilities			
		166,543	133,018
NET ASSETS			
		279,092	253,994
Capital and reserves attributable to owners of the Company			
Share capital		55,675	55,675
Reserves		223,417	198,319
		279,092	253,994
TOTAL EQUITY			
		279,092	253,994

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Foreign currency translation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	55,675	970	362	24,308	15,277	–	99,681	196,273
Profit for the period	–	–	–	–	–	–	26,873	26,873
Other comprehensive income	–	–	–	–	2,943	–	–	2,943
Total comprehensive income for the period	–	–	–	–	2,943	–	26,873	29,816
Dividend paid	–	–	–	–	–	–	(5,567)	(5,567)
Appropriation of profits	–	–	–	3,058	–	–	(3,058)	–
At 30 June 2013 (Unaudited)	<u>55,675</u>	<u>970</u>	<u>362</u>	<u>27,366</u>	<u>18,220</u>	<u>–</u>	<u>117,929</u>	<u>220,522</u>
At 1 January 2014	55,675	970	362	31,345	20,592	3,076	141,974	253,994
Profit for the period	–	–	–	–	–	–	30,588	30,588
Other comprehensive income	–	–	–	–	(1,768)	–	–	(1,768)
Total comprehensive income for the period	–	–	–	–	(1,768)	–	30,588	28,820
Dividend paid	–	–	–	–	–	–	(10,022)	(10,022)
Equity settled share-based transaction	–	–	–	–	–	6,300	–	6,300
Appropriation of profits	–	–	–	3,983	–	–	(3,983)	–
At 30 June 2014 (Unaudited)	<u>55,675</u>	<u>970</u>	<u>362</u>	<u>35,328</u>	<u>18,824</u>	<u>9,376</u>	<u>158,557</u>	<u>279,092</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
NET CASH GENERATED FROM OPERATING ACTIVITIES	8,767	23,377
NET CASH USED IN INVESTING ACTIVITIES	(8,891)	(16,004)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,705)</u>	<u>(11,785)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,829)	(4,412)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,527	59,831
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(378)</u>	<u>1,189</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u><u>50,320</u></u>	<u><u>56,608</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<u><u>50,320</u></u>	<u><u>56,608</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with the Hong Kong Accounting Standards 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements have been prepared under the historical cost basis.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2013 (“2013 Financial Statements”), except for the amendments and interpretations of Hong Kong Financial Reporting Standards (“New HKFRSs”) issued by HKICPA which have become effective in this period as detailed in note 2 of the 2013 Financial Statements. The adoption of such New HKFRSs has no material impact on the accounting policies in the Group’s interim financial statements for the period.

2. TURNOVER AND OTHER REVENUE

The principal activities of the Group are manufacturing, sales and distribution of pharmaceutical products and provision of services relating to distribution, marketing and promotion of pharmaceutical products.

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). The amount of each significant category of revenue recognised in turnover during the period is as follows:

	2014 (Unaudited) <i>HK\$’000</i>	For the six months ended 30 June 2013 (Unaudited) <i>HK\$’000</i>
Turnover:		
Sales of pharmaceutical products	223,277	165,150
Rendering of services	8,055	–
	<u>231,332</u>	<u>165,150</u>
Other revenue:		
Bank interest income	96	116
Others	905	100
	<u>1,001</u>	<u>216</u>
	<u>232,333</u>	<u>165,366</u>

3. SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments effective from 1 January 2014:

- Pharmaceutical products: Manufacture and sales of pharmaceutical products
- Rendering of services: Provision of distribution, marketing and promotion services for third party products

(a) Reporting segments

Management 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 2014		
	Sales of	Rendering of	Total
	pharmaceutical	services	Total
	products	services	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue			
– Revenue from external customers	<u>223,277</u>	<u>8,055</u>	<u>231,332</u>
Reportable segment profit	<u>46,269</u>	<u>2,068</u>	<u>48,337</u>

The totals presented for the Group's operating segments reconciled to the Group's key financial figures as presented in the Interim Financial Statements as follows:

	For the
	six months
	ended 30 June
	2014
	(Unaudited)
	HK\$'000
Reportable segment profit	48,337
Other income not allocated	1,001
Other expenses not allocated	(10,139)
Finance costs	<u>(1,836)</u>
Profit before income tax	<u>37,363</u>

Reportable segment profit represents the gross profit by each segment. This is the measure reported to the executive directors for the purpose of resources allocation and performance assessment.

The executive directors are of opinion that the presentation of assets and liabilities in accordance with the operating segments is not meaningful as the executive directors monitored the Group's assets and liabilities as a whole which is more efficient and effective. Accordingly, no segment assets and liabilities are presented.

No separate business segment information is presented for the period ended 30 June 2013 as the Group has only one business segment which is the manufacture and sale of pharmaceutical products.

(b) Geographical information and major customers

For the six months ended 30 June 2014 and 2013, the Group's revenue from external customers is derived solely from its operations in the PRC (country of domicile), where all of the Group's non-current assets are located in the PRC. The geographical location of external customers is based on the location at which the goods are delivered.

Revenues from one customer of the Group amounted to approximately HK\$46,831,000 (2013: HK\$29,387,000) which represent 21% (2013: 18%) of the Group's revenue.

4. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2014 (Unaudited) HK\$'000	For the six months ended 30 June 2013 (Unaudited) HK\$'000
Cost of inventories recognised as expenses	35,457	14,879
Amortisation of other intangible assets	63	62
Amortisation of land use rights	85	82
Depreciation of property, plant and equipment	4,724	603
Equity settled share-based payment expense	300	–
Staff cost including directors' remuneration:–		
Salaries and allowances	26,147	12,566
Pension fund contributions	878	130
Equity settled share-based payment expense	6,000	–
Auditor's remuneration:–		
Current year	260	260
Under provision for last year	–	50
Research and development expenses	<u>5,884</u>	<u>4,414</u>

5. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had incurred losses for Hong Kong profits tax purpose.

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 enterprises. This subsidiary had obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and was entitled to enjoy the enterprise income tax at the concessionary rate of 15% up to 31 December 2013. The application for the renewal of High Technology Enterprise Certificate at concessionary rate of 15% for 2014 is in progress. The Group expects that such subsidiary in Zhuhai is able to fulfill the requirements and will continue to enjoy the concessionary rate of 15% in 2014.

A unified enterprise income tax rate of 25% is applied to the other operating subsidiary in Zhuhai, the PRC (2013: 25%).

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

7. 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:

	2014 (Unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2013 (Unaudited) <i>HK\$'000</i>
Earnings for the purposes of calculation of basic and diluted earnings per share	<u><u>30,588</u></u>	<u><u>26,873</u></u>

The denominator used in calculating the earnings per share for the period ended 30 June 2014 is 556,750,000 (2013: 556,750,000) ordinary shares in issue during the period.

No diluted earnings per share is presented as the Company did not have any potential ordinary shares in issue during both periods.

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1 January 2013	4,406	99,601	47,974	2,148	3,363	157,492
Additions	–	28,485	2,921	2,387	206	33,999
Transfer from construction in progress	120,458	(129,920)	9,462	–	–	–
Write offs	–	–	(423)	(504)	–	(927)
Exchange adjustment	1,560	1,834	1,671	74	109	5,248
At 31 December 2013	126,424	–	61,605	4,105	3,678	195,812
Additions	4,236	–	681	250	191	5,358
Write offs	(4,524)	–	–	–	–	(4,524)
Exchange adjustment	(847)	–	(484)	(28)	(29)	(1,388)
At 30 June 2014 (Unaudited)	<u>125,289</u>	<u>–</u>	<u>61,802</u>	<u>4,327</u>	<u>3,840</u>	<u>195,258</u>
Accumulated depreciation and impairment						
At 1 January 2013	4,406	–	663	1,597	1,699	8,365
Charge of the year	–	–	1,632	214	485	2,331
Write offs	–	–	(244)	(458)	–	(702)
Exchange adjustment	–	–	39	32	60	131
At 31 December 2013	4,406	–	2,090	1,385	2,244	10,125
Charge for the period	1,226	–	3,017	294	187	4,724
Write offs	(4,524)	–	–	–	–	(4,524)
Exchange adjustment	114	–	(26)	(8)	(18)	62
At 30 June 2014 (Unaudited)	<u>1,222</u>	<u>–</u>	<u>5,081</u>	<u>1,671</u>	<u>2,413</u>	<u>10,387</u>
Carrying amount						
At 30 June 2014 (Unaudited)	<u>124,067</u>	<u>–</u>	<u>56,721</u>	<u>2,656</u>	<u>1,427</u>	<u>184,871</u>
At 31 December 2013 (Audited)	<u>122,018</u>	<u>–</u>	<u>59,515</u>	<u>2,720</u>	<u>1,434</u>	<u>185,687</u>

As at 30 June 2014, the buildings and leasehold improvements of HK\$124,067,000 (31 December 2013: HK\$122,018,000) were pledged for bank borrowings as set out in note 11.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
Trade receivables	153,504	107,977
Other receivables	161	730
	<hr/>	<hr/>
Total	153,665	108,707
	<hr/> <hr/>	<hr/> <hr/>

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

The following is an ageing analysis of trade receivables, net of allowance for impairment of trade receivables, as at the end of the reporting period:

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
0-60 days	92,644	61,817
61-90 days	36,166	20,724
> 90 days	24,694	25,436
	<hr/>	<hr/>
	153,504	107,977
	<hr/> <hr/>	<hr/> <hr/>

10. TRADE AND OTHER PAYABLES

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
Trade payables	1,990	435
Other payables	24,203	20,816
Accruals	71,618	53,366
VAT payable	5,327	2,557
	<hr/>	<hr/>
	103,138	77,174
	<hr/> <hr/>	<hr/> <hr/>

The following is an ageing analysis of trade payables at the end of the reporting period:

	At 30 June	At 31 December
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0-60 days	1,960	435
61-90 days	30	–
> 90 days	–	–
	<hr/>	<hr/>
	1,990	435
	<hr/> <hr/>	<hr/> <hr/>

11. BANK BORROWINGS – SECURED

The bank borrowings are secured by charges over the assets of a subsidiary company.

MANAGEMENT DISCUSSION AND ANALYSIS

The vision of Essex Bio-Technology Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is to be a great corporation and be socially responsible. Strategically, the Group is in pursuit of innovations in biotechnology and pharmaceuticals to enhance the efficacy of healing and wellness of patients.

The completion and commission of the new factory at Zhuhai, the People’s Republic of China (the “PRC”) in December 2013 offers the Group a manufacturing floor area of approximately 20,000 sq.m, an increase of 15,000 sq.m over the previous factory premises. Together with the state-of-the-art technology of manufacturing plant and equipment installed, the new manufacturing facilities with advanced quality control systems have expanded the Group’s manufacturing capacity and capability. The factory was granted with Good Manufacturing Practice (“GMP”) certification in December 2013 from China Food and Drug Administration (“CFDA”) of the PRC and operations of the new factory have commenced since January 2014.

The Group entered into an import and service agreement with Pfizer International Trading (Shanghai) Limited (“Pfizer”) on 17 February 2014. Pursuant to the import and service agreement, the Group is appointed and/or authorized by Pfizer as its exclusive importer, distributor and promoter for Xalatan® eye drops and Xalacom® eye drops (collectively the “Pfizer Eye Drops”) in the Mainland China (excluding Taiwan, Hong Kong and Macau) (“China”). The Pfizer Eye Drops are medicines to lower raised pressure within the eye.

The establishment of business relationship with Pfizer will expand the range of the Group’s eye drops products, benefiting the Group in striving for sustainable growth in the ophthalmology arena in China.

Business Review and Prospects

During the period under review, the Group’s emphasis continued primarily on manufacturing and selling of its flagship biopharmaceutical products for the treatment and healing of surface wounds and eye wounds.

For the period ended 30 June 2014, the Group achieved a revenue of approximately HK\$231.3 million (2013: HK\$165.2 million), representing a growth rate of 40.1%. The increase was attributed from:

- (1) Beifushu and Beifuji series 29%; and
- (2) Pfizer Eye Drops and services provided 11%.

The Group’s sustaining growth performance year-on-year is a proof of clinical acceptance of its products that are well executed by its robust distribution network for sales and marketing activities in the PRC.

During the period under review, more than 60% of revenue has been contributed from the ophthalmic pharmaceutical products. With the leading position of Beifushu series in this field and the addition of Pfizer's Eye Drops products recently concluded in the agreement, the Group expects to maintain a steady growth rate in the ophthalmic products.

Having built a sustainable business for the ophthalmic products, the Group is ready and determined to develop a 2nd engine of growth from its surface wound healing and treatment product, the Beifuji series. For this purpose, the Group has expanded the surgical division with a total of 250 dedicated sales and marketing staff as at 30 June 2014. The Company is optimistic of experiencing an accelerated growth from the Beifuji series in coming years, barring unforeseen circumstances.

Another focus in the period under review is to improve capacity utilization and search for new clinical applications for our products and aim for leadership position in strategic markets.

We will work strategically to seek investment opportunities and scout for new technologies and/or products.

Market Development

The Group's sales are propelled by its robust network of independent agents/distributors and directly owned regional sales offices ("RSOs"). At present the Group has 28 RSOs spreading across major cities and provinces of the PRC, which are effectively tasked with the function of promotional program of the Group's products to and interaction with medical practitioners and hospitals. In addition, these RSOs served another vital role, as market intelligence for the Group's planning on clinical studies and research and development pipeline development.

The Group's flagship products are being marketed by more than 2,900 hospitals spreading across in major cities and provinces in the PRC. During the period under review, the Group had conducted/participated in over 90 seminars and 270 market promotion activities in major cities and provinces in the PRC. Our sales and marketing team is in constant interaction with over 32,000 doctors in briefing and educating them on the clinical applications of our products.

Research and Development

The Group's technology platform is built upon the recombinant of DNA ("rDNA") more particularly, the basic fibroblast growth factor ("bFGF") and its genetic engineering know-how. To capitalize on the proprietary technique on bFGF the Company plans to deliver a series of high quality products to establish itself as market leader in the arena of biopharmaceutical products for wounds healing and treatment.

Apart from its genetic engineering know-how, the Group has channeled its resources and investment in recent years to establish a new production technology platform – the Blow-Fill-Seal (“BFS”). The BFS platform would enable the Group to develop and produce a series of single dose, preservative free, eye drops. The establishment of BFS shall strengthen the Group’s core competency in the field of ophthalmology.

On 16 April 2014, 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited) (“Zhuhai Essex”), an indirect wholly-owned subsidiary of the Company was granted a 國產保健食品批准證書 (Certificate of Domestic Health Food) (the “Health Food Certificate”) by 國家食品藥品監督管理總局 (China Food and Drug Administration) for a period from 16 April 2014 to 15 April 2019 in respect of the product known as 「貝復®舒輝膠囊 (beifu®shuhui capsules)」 (“Approved Product”). The Approved Product is to alleviate the tiresome of eyes.

The Group currently has two more eye-care health products under research and development.

Financial Review

During the period under review, the Group achieved turnover of approximately HK\$231.3 million (2013: HK\$165.2 million), representing a growth rate of 40.1%. The increase was attributed from:

- (1) Beifushu and Beifuji series 29%; and
- (2) Pfizer Eye Drops and services provided 11%.

The Group’s gross profit has grown in tandem with expanded sales. The gross profit for the period ended 30 June 2014 was approximately HK\$189.9 million (2013: HK\$150.3 million), an increase of 26.4%.

The current period’s profit attributable to owners of the Company was approximately HK\$30.6 million compared to the previous period’s approximately HK\$26.9 million, an increase of 13.8%. The current period’s profit was weighed down by a non-cash provision of HK\$6.3 million equity settled share-based payment expense for the options granted in October 2013.

The distribution and selling expenses for the period under review were approximately HK\$129.8 million as compared to the previous period’s approximately HK\$103.0 million, an increase of 26.1%, which is mainly due to the expansion of sales and marketing function for promotion of the wound healing and treatment products and organization of seminars for product training and awareness.

The administrative expenses for the period under review were approximately HK\$21.8 million compared to approximately HK\$10.9 million of corresponding period of last year. The increase of administrative expenses is mainly due to the provision of HK\$6.3 million equity settled share-based payment expense for the options granted in October 2013. Research and development expenses were increased to approximately HK\$5.9 million for the period ended 30 June 2014 as compared to approximately HK\$4.4 million for the corresponding previous period.

The Group had cash and cash equivalents of approximately HK\$50.3 million as at 30 June 2014 (31 December 2013: HK\$54.5 million).

The bank borrowings as at 30 June 2014 were RMB45 million (equivalent to approximately HK\$56.7 million). They are repayable within five years and bear interest at prevailing interest rate and are secured by certain assets of the Group's subsidiary.

The total finance costs of the Group for the period ended 30 June 2014 were HK\$1.8 million.

Future Plans for material investments or capital assets

Save as disclosed in this announcement, as at 30 June 2014, the Group does not have an immediate plan for any other material investments or acquisition of material capital assets.

Liquidity and Financial Resources

As at 30 June 2014, the Group had cash and cash equivalents of approximately HK\$50.3 million as compared to approximately HK\$54.5 million as at 31 December 2013.

The Group monitors its capital structure on the basis of a net debts-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debts (which include interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio at 30 June 2014 was 39.2% (31 December 2013: 28.9%).

Charges on Group Assets

As at 30 June 2014, the Group's certain assets with carrying amount in aggregate of approximately HK\$124.1 million were pledged to secure its bank borrowings.

Capital Commitments

As at 30 June 2014, the Group had no material capital commitments.

Foreign Exchange Exposure

The Group's assets, liabilities and transactions are mainly denominated either Hong Kong dollars or Renminbi, the directors of the Company are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. 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 when appropriate.

Contingent Liabilities

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

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 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 and Hong Kong Dollar.

Employees

As at 30 June 2014, the Group had a total of 651 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\$33.0 million and approximately HK\$13.8 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. Details of the share option scheme of the Company are disclosed on pages 17 to 20 to this announcement.

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2013 and expiring on 26 June 2016 unless terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive Directors was fixed in his service agreements and he is also entitled to a discretionary annual bonus of such amount (if any) as the Board may determined in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all directors of the Company in any financial year shall not exceed 5% of the consolidated net profit after taxation and non-controlling

interests but before extraordinary items of the Company as shown in its consolidated audited accounts for such financial year (“Net Profit”); (b) the Net Profit for such financial year exceeds HK\$30,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.3 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three (3) months after the issue of the consolidated audited accounts of the Group for such financial year.

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

Share-Based Payments

(a) Equity-settled share option scheme

The share option scheme adopted by the Company (the “Scheme”) was approved on 3 May 2013. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, person or entity that provides research, development or other technological support to the Group, and any minority shareholder in the Company’s subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme must not exceed 30% of the shares in issue from time to time. A nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option.

The subscription price of shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of; (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Pursuant to a board resolution on 30 October 2013, the Company granted 19,500,000 share options to certain employees of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

- (1) All options granted were at an exercise price of HK\$2.30 per share;
- (2) All holders of options might only exercise their options in the following manner:

the share options will be vested in 5 tranches, i.e. the first 20% from six months after the date of grant, the second 20% from one year after the date of grant, the third 20% from one and half years after the date of grant, the fourth 20% from two years after date of grant and the balance 20% from two and half years after the date of grant;

- (3) All outstanding or unexercised share options granted to the grantees shall lapse on 29 October 2018.

The estimated fair values of share options granted on 30 October 2013 were HK\$19,550,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

At 30 October 2013

Share price	HK\$1.90
Exercise price	HK\$2.30
Expected volatility	67.18%
Expected life	5 years
Risk-free interest rate	1.825%

The risk-free rate was based on market yield rate of Hong Kong Monetary Authority Exchange Fund Note with maturity on 30 October 2023 as of the date of valuation on 30 October 2013. Expected volatility was based on the historical volatility of the share prices of comparable companies over the periods that are equal to the expected life before the grant date.

Set out below are details of movements of the outstanding options granted under the Scheme during the period ended 30 June 2014:

	Number of share options					
	Exercise price	Outstanding as at 1 January 2014	Granted during the Period	Exercised during the Period	Forfeited during the Period	Outstanding as at 30 June 2014
Executive directors						
– Ngiam Mia Je Patrick	HK\$2.30	500,000	–	–	–	500,000
– Fang Haizhou	HK\$2.30	3,500,000	–	–	–	3,500,000
– Zhong Sheng	HK\$2.30	3,500,000	–	–	–	3,500,000
Employees	HK\$2.30	12,000,000	–	–	–	12,000,000
Total		19,500,000	–	–	–	19,500,000

During the period under review, no option was granted, exercised or forfeited under the Scheme.

(b) Equity-settled service contract

On 30 October 2013, 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 Group’s investor relations consultant in the PRC and the provision of the services by HK Zhixin to the Group for three years. In consideration of the provision of the services by HK Zhixin, the Company shall grant share options to HK Zhixin. The HK Zhixin share options are granted subject to undertaking of HK Zhixin to hold such share options on the terms and conditions contained in the offer letter and to be bound by the provision of the rule of the share option scheme.

The Company granted 2,500,000 share options to HK Zhixin under the offer letter. Set out below were details of the outstanding options granted under the offer letter:

- (1) All options granted were at an exercise price of HK\$2.30 per share;
- (2) HK Zhixin might only exercise their options in the following manner:
 - (i) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 April 2014 to 29 October 2016; and
 - (ii) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 October 2014 to 29 October 2016;

(3) All outstanding or unexercised HK Zhixin share options shall lapse on 29 October 2016.

The fair values of share option granted on 30 October 2013 were HK\$1,926,000. These fair values were calculated using the Binomial model.

During the period under review, no option was granted, exercised or forfeited under the share option scheme.

ADDITIONAL INFORMATION

Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2014, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules were as follows:

Name	Capacity	Number of ordinary shares in the Company	Approximate percentage of interest in the Company's issued share capital as at 30 June 2014
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,145,667 (Notes 1 and 2)	27.51%
Fang Haizhou	Beneficial owner	4,738,300	0.85%
Zhong Sheng	Beneficial owner	2,869,150	0.52%

Long positions in ordinary shares of the Company:

Notes:

- 146,479,000 shares were registered in the name of Ngiam Mia Je Patrick.
- 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore was 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 as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.

Save as disclosed above, as at 30 June 2014, none of the Directors and the chief executive of the Company or their respective associates 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 2014, 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 ordinary shares of the Company:

Name	Capacity	Number of ordinary shares in the Company	Approximate percentage of interest in the Company's issued share capital as at 30 June 2014
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	151,220,667 <i>(Note 1)</i>	27.16%
Lauw Hui Kian	Family interest	153,145,667 <i>(Note 2)</i>	27.51%

Notes:

- 144,554,000 shares were registered directly in the name of Ngiam Mia Kiat Benjamin.
 - 6,666,667 shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
- Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested of which 500,000 shares are Ngiam Mia Je Patrick's interest in option to subscribe for ordinary shares of the Company granted/exercisable under the Scheme.

Save as disclosed above, as at 30 June 2014, 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 the shares, underlying shares and debentures above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices 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 with management the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters, including reviewing the Group’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014.

Directors’ Securities Transactions

The Company has adopted procedures governing directors’ securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry of all Directors, all Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the period ended 30 June 2014.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong

7 August 2014

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