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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 2017

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 (collectively, the “Group”) for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | 2017 (Unaudited) HK\$'000 | For the six months ended 30 June 2016 (Unaudited) HK\$'000 |
|---|----|---------------------------------|---|
| Turnover | 5 | 437,637 | 363,948 |
| Cost of sales | | (80,077) | (68,696) |
| Gross profit | | 357,560 | 295,252 |
| Other revenue, and other gains and losses | 6 | 4,034 | 2,685 |
| Distribution and selling expenses | | (247,835) | (202,686) |
| Administrative expenses | | (17,357) | (20,681) |
| Finance costs | 7 | (4,955) | (2,010) |
| Profit before income tax | 8 | 91,447 | 72,560 |
| Income tax | 9 | (14,327) | (10,573) |
| Profit for the period | | 77,120 | 61,987 |
| Other comprehensive income for the period | | | |
| Items that may be classified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of foreign operations | | 17,435 | (9,430) |
| Change in fair value of available-for-sale financial assets, net of tax | | (16,847) | – |
| Total comprehensive income for the period | | 77,708 | 52,557 |
| Profit attributable to owners of the Company | | 77,120 | 61,987 |
| Earnings per share | | | |
| – Basic | 11 | HK13.72 cents | HK11.08 cents |
| – Diluted | 11 | HK13.56 cents | HK10.92 cents |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | At 30 June 2017 (Unaudited) HK\$'000 | At 31 December 2016 (Audited) HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 165,878 | 163,902 |
| Land use rights | | 6,305 | 6,189 |
| Goodwill | | 2,314 | 2,228 |
| Other intangible assets | 13 | 89,616 | 74,700 |
| Convertible loan receivables | | 26,521 | 27,017 |
| Available-for-sale financial assets | 14 | 68,895 | 83,397 |
| Deposits and prepayments | 17 | 2,133 | 382 |
| Pledged bank deposit | | – | 20,000 |
| Total non-current assets | | 361,662 | 377,815 |
| Current assets | | | |
| Inventories | 15 | 94,202 | 106,216 |
| Trade and other receivables | 16 | 319,004 | 256,007 |
| Deposits and prepayments | 17 | 58,327 | 35,328 |
| Convertible loan receivables | | – | 1,751 |
| Pledged bank deposits | | 47,069 | – |
| Cash and cash equivalents | | 168,923 | 156,180 |
| Total current assets | | 687,525 | 555,482 |
| Total assets | | 1,049,187 | 933,297 |
| Current liabilities | | | |
| Trade and other payables | 18 | 238,615 | 195,127 |
| Bank borrowings | 19 | 38,780 | 38,780 |
| Current tax liabilities | | 16,652 | 10,049 |
| Total current liabilities | | 294,047 | 243,956 |
| Net current assets | | 393,478 | 311,526 |
| Total assets less current liabilities | | 755,140 | 689,341 |
| Non-current liabilities | | | |
| Convertible loan payable | 20 | 126,256 | 121,434 |
| Deferred tax liabilities | | 11,298 | 11,043 |
| Total non-current liabilities | | 137,554 | 132,477 |
| Total liabilities | | 431,601 | 376,433 |
| NET ASSETS | | 617,586 | 556,864 |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | | 56,215 | 56,215 |
| Reserves | | 561,371 | 500,649 |
| TOTAL EQUITY | | 617,586 | 556,864 |

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> | Available- for-sale financial assets reserve <i>HK\$'000</i> | Conversion component of convertible loan payable <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---------------------------------------|--|--|---|---|--|---|--------------------------|
| At 1 January 2016 | 55,954 | 9,908 | 362 | 41,517 | (2,025) | 17,531 | - | - | 289,700 | 412,947 |
| Profit for the period | - | - | - | - | - | - | - | - | 61,987 | 61,987 |
| Other comprehensive income: | | | | | | | | | | |
| Exchange differences on translation of financial statements of foreign operations | - | - | - | - | (9,430) | - | - | - | - | (9,430) |
| Total comprehensive income for the period | - | - | - | - | (9,430) | - | - | - | 61,987 | 52,557 |
| Dividend paid | - | - | - | - | - | - | - | - | (13,796) | (13,796) |
| Equity-settled share-based payments | - | - | - | - | - | 821 | - | - | - | 821 |
| At 30 June 2016 (Unaudited) | 55,954 | 9,908 | 362 | 41,517 | (11,455) | 18,352 | - | - | 337,891 | 452,529 |
| At 1 January 2017 | 56,215 | 17,554 | 362 | 41,517 | (34,438) | 16,895 | 13,440 | 33,323 | 411,996 | 556,864 |
| Profit for the period | - | - | - | - | - | - | - | - | 77,120 | 77,120 |
| Other comprehensive income: | | | | | | | | | | |
| Exchange differences on translation of financial statements of foreign operations | - | - | - | - | 17,435 | - | - | - | - | 17,435 |
| Change in fair value of available-for-sale financial assets, net of tax | - | - | - | - | - | - | (16,847) | - | - | (16,847) |
| Total comprehensive income for the period | - | - | - | - | 17,435 | - | (16,847) | - | 77,120 | 77,708 |
| Dividend paid | - | - | - | - | - | - | - | - | (17,989) | (17,989) |
| Equity-settled share-based payments | - | - | - | - | - | 1,003 | - | - | - | 1,003 |
| At 30 June 2017 (Unaudited) | 56,215 | 17,554 | 362 | 41,517 | (17,003) | 17,898 | (3,407) | 33,323 | 471,127 | 617,586 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | 2017 (Unaudited) <i>HK\$'000</i> | For the six months ended 30 June 2016 (Unaudited) <i>HK\$'000</i> |
|---|--|--|
| NET CASH GENERATED FROM OPERATING ACTIVITIES | 68,598 | 22,416 |
| NET CASH USED IN INVESTING ACTIVITIES | (41,615) | (99,281) |
| NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES | <u>(17,989)</u> | <u>94,762</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,994 | 17,897 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 156,180 | 64,613 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | <u>3,749</u> | <u>(1,304)</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD | <u><u>168,923</u></u> | <u><u>81,206</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS: | | |
| CASH AND BANK BALANCES | 215,992 | 101,206 |
| LESS: PLEDGED BANK DEPOSITS | <u>(47,069)</u> | <u>(20,000)</u> |
| | <u><u>168,923</u></u> | <u><u>81,206</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL

Essex Bio-Technology Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 selling of biopharmaceutical products in the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016 (the “2016 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 used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the 2016 Financial Statements, except for the amendments and interpretations of New HKFRSs issued by HKICPA which have become effective in this period as detailed in note 2 of the 2016 Financial Statements. The adoption of such New HKFRSs has no material impact on the accounting policies in the Group’s interim financial statements.

4. SEGMENT REPORTING

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

- Pharmaceutical products: manufacturing and sales of pharmaceutical products
- Provision of marketing services

(a) Reportable segments

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

For the six months ended 30 June 2017

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

For the six months ended 30 June 2016

| | Pharmaceutical products (Unaudited) <i>HK\$'000</i> | Provision of marketing services (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
|-----------------------------------|--|---|---|
| Reportable segment revenue | | | |
| – Revenue from external customers | <u>345,696</u> | <u>18,252</u> | <u>363,948</u> |
| Reportable segment profit | <u>70,599</u> | <u>11,060</u> | <u>81,659</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:

| | 2017 (Unaudited) <i>HK\$'000</i> | For the six months ended 30 June 2016 (Unaudited) <i>HK\$'000</i> |
|--|--|--|
| Reportable segment profit | 98,196 | 81,659 |
| Unallocated corporate income and expenses, net | (791) | (6,268) |
| Equity-settled share-based payments | (1,003) | (821) |
| Finance costs | <u>(4,955)</u> | <u>(2,010)</u> |
| Profit before income tax | <u>91,447</u> | <u>72,560</u> |

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

(b) Geographical information

For the six months ended 30 June 2017 and 2016, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile). As at 30 June 2017, except for available-for-sale financial assets, all of the Group's non-current assets were located in the PRC (As at 31 December 2016, except for available-for-sale financial assets and pledged bank deposit, all of the Group's non-current assets were located in the PRC).

The geographical location of external customers is based on the location at which the goods are delivered and services rendered. Geographical location of non-current assets is based on the physical locations of the respective assets. For goodwill and other intangible assets, geographical location is based on the area of the group entities' operations.

(c) Information about a major customer

Revenue from the largest customer of the Group amounted to approximately HK\$110.7 million (For the six months ended 30 June 2016: HK\$80.2 million), which represented 25.3% (For the six months ended 30 June 2016: 22.0%) of the Group's revenue.

5. TURNOVER

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

6. OTHER REVENUE, AND OTHER GAINS AND LOSSES

| | 2017 | For the |
|--|--------------------|--------------------|
| | (Unaudited) | six months |
| | HK\$'000 | ended 30 June |
| | | 2016 |
| | | (Unaudited) |
| | | HK\$'000 |
| Change in fair value of derivative component of convertible loan receivables | (4,061) | 54 |
| Interest income from bank deposits | 578 | 84 |
| Interest income from convertible loan receivables | 1,740 | 1,702 |
| Government grants | 5,737 | 832 |
| Sundry income | 40 | 13 |
| | 4,034 | 2,685 |

7. FINANCE COSTS

| | 2017 (Unaudited) HK\$'000 | For the six months ended 30 June 2016 (Unaudited) HK\$'000 |
|--|---------------------------------|---|
| Interest expense on bank borrowings | 378 | 2,010 |
| Interest expense on convertible loan payable | 6,254 | – |
| Less: amount capitalised | <u>(1,677)</u> | <u>–</u> |
| | <u>4,955</u> | <u>2,010</u> |

8. PROFIT BEFORE INCOME TAX

This is arrived at after charging:

| | 2017 (Unaudited) HK\$'000 | For the six months ended 30 June 2016 (Unaudited) HK\$'000 |
|--|---------------------------------|---|
| Amortisation of land use rights | 76 | 80 |
| Amortisation of other intangible assets | 565 | 119 |
| Auditor's remuneration | 448 | 340 |
| Cost of inventories | 80,077 | 61,492 |
| Depreciation of property, plant and equipment | 5,840 | 5,294 |
| Employees costs excluding directors' emoluments:– | | |
| Salaries and other benefits | 46,681 | 33,282 |
| Pension fund contributions | 3,289 | 1,894 |
| Equity-settled share-based payments to the employees | 1,003 | 321 |
| Equity-settled share-based payments to the consultant of the Group | – | 300 |
| Research and development costs recognised as expenses | <u>3,355</u> | <u>2,934</u> |

9. INCOME TAX

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

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

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

10. DIVIDENDS

The board of directors of the Company (the “Directors”) (the “Board”) has resolved on 11 August 2017 to declare an interim dividend of HK\$0.025 per share for the six months ended 30 June 2017 (the “Interim Dividend”), which is payable in cash on Friday, 20 October 2017 (For the six months ended 30 June 2016: Nil). 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, 6 October 2017.

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

| | 2017 (Unaudited) HK\$’000 | For the six months ended 30 June 2016 (Unaudited) HK\$’000 |
|---|---------------------------------|---|
| Profit attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share | <u>77,120</u> | <u>61,987</u> |

Number of shares

| | | |
|---|--------------------|--------------------|
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | 562,149,000 | 559,541,000 |
| Effect of dilutive potential ordinary shares: – share options issued by the Company | <u>6,726,971</u> | <u>8,251,485</u> |
| Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share | <u>568,875,971</u> | <u>567,792,485</u> |

The computation of diluted earnings per share for the six months ended 30 June 2017 does not assume that the conversion of potential ordinary shares in relation to certain share options granted and the convertible loan payable as they have anti-dilutive effect.

12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Total |
|----------------------------------|---|--------------------------------|--|---------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost: | | | | | |
| At 1 January 2016 | 120,348 | 68,995 | 5,223 | 3,640 | 198,206 |
| Additions | 1,046 | 8,208 | 2,081 | 434 | 11,769 |
| Disposal | – | (85) | – | – | (85) |
| Exchange adjustment | (7,780) | (4,792) | (382) | (253) | (13,207) |
| At 31 December 2016 | 113,614 | 72,326 | 6,922 | 3,821 | 196,683 |
| Additions | – | 2,176 | 590 | – | 2,766 |
| Exchange adjustment | 3,544 | 2,297 | 204 | 119 | 6,164 |
| At 30 June 2017 (Unaudited) | <u>117,158</u> | <u>76,799</u> | <u>7,716</u> | <u>3,940</u> | <u>205,613</u> |
| Accumulated depreciation: | | | | | |
| At 1 January 2016 | 4,755 | 13,782 | 2,507 | 2,826 | 23,870 |
| Charge for the year | 2,362 | 7,337 | 829 | 407 | 10,935 |
| Disposal | – | (48) | – | – | (48) |
| Exchange adjustment | (411) | (1,207) | (159) | (199) | (1,976) |
| At 31 December 2016 | 6,706 | 19,864 | 3,177 | 3,034 | 32,781 |
| Charge for the period | 1,146 | 4,061 | 497 | 136 | 5,840 |
| Exchange adjustment | 231 | 697 | 89 | 97 | 1,114 |
| At 30 June 2017 (Unaudited) | <u>8,083</u> | <u>24,622</u> | <u>3,763</u> | <u>3,267</u> | <u>39,735</u> |
| Carrying amount: | | | | | |
| At 30 June 2017 (Unaudited) | <u>109,075</u> | <u>52,177</u> | <u>3,953</u> | <u>673</u> | <u>165,878</u> |
| At 31 December 2016 (Audited) | <u>106,908</u> | <u>52,462</u> | <u>3,745</u> | <u>787</u> | <u>163,902</u> |

13. OTHER INTANGIBLE ASSETS

| | Development expenditure <i>HK\$'000</i> | Distribution rights <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------------|---|---|---------------------------------|
| Cost: | | | |
| At 1 January 2016 | 49,586 | 2,457 | 52,043 |
| Additions | 24,289 | 22,048 | 46,337 |
| Exchange adjustment | (4,258) | (1,195) | (5,453) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2016 | 69,617 | 23,310 | 92,927 |
| Additions | 12,952 | – | 12,952 |
| Exchange adjustment | 2,381 | 727 | 3,108 |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2017 (Unaudited) | <u>84,950</u> | <u>24,037</u> | <u>108,987</u> |
| Accumulated amortisation: | | | |
| At 1 January 2016 | 15,974 | 1,701 | 17,675 |
| Amortisation | – | 1,835 | 1,835 |
| Exchange adjustment | (1,027) | (256) | (1,283) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2016 | 14,947 | 3,280 | 18,227 |
| Amortisation | – | 565 | 565 |
| Exchange adjustment | 466 | 113 | 579 |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2017 (Unaudited) | <u>15,413</u> | <u>3,958</u> | <u>19,371</u> |
| Carrying amount | | | |
| At 30 June 2017 (Unaudited) | <u>69,537</u> | <u>20,079</u> | <u>89,616</u> |
| At 31 December 2016 (Audited) | <u>54,670</u> | <u>20,030</u> | <u>74,700</u> |

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|---|---|---|
| Unlisted equity investments, at cost (<i>Note (a)</i>) | 31,184 | 31,184 |
| Listed equity securities, at fair value (<i>Note (b)</i>) | 37,711 | 52,213 |
| | <u>68,895</u> | <u>83,397</u> |

Notes:

- (a) The balance represents two unlisted equity investments, namely the investment in the series B preferred stock of a private company and series C preferred stock and warrants of another private company, both of which are incorporated in the United States of America. The Directors have assessed the impacts on the recoverable amounts of the available-for-sale financial assets and concluded that no impairment loss needs to be made.
- (b) The balance represents the listed equity securities which are listed on the NASDAQ Stock Market of the United States of America. The fair value was based on quoted market price as at 30 June 2017 and 31 December 2016. The quoted market price represented the current bid price.

15. INVENTORIES

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|------------------|---|---|
| Raw materials | 7,520 | 6,405 |
| Work in progress | 4,698 | 4,900 |
| Finished goods | 81,984 | 94,911 |
| Total | <u>94,202</u> | <u>106,216</u> |

16. TRADE AND OTHER RECEIVABLES

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|-------------------|---|---|
| Trade receivables | 316,874 | 251,914 |
| Other receivables | 2,130 | 4,093 |
| Total | <u>319,004</u> | <u>256,007</u> |

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

The ageing analysis of trade receivables as at the end of the reporting period:

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|--------------|---|---|
| 0-60 days | 183,183 | 141,086 |
| 61-90 days | 56,666 | 38,987 |
| Over 90 days | <u>77,025</u> | <u>71,841</u> |
| Total | <u>316,874</u> | <u>251,914</u> |

17. DEPOSITS AND PREPAYMENTS

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|---|---|---|
| Deposit paid for acquisition of property, plant and equipment | 2,133 | 382 |
| Prepayment for purchase of finished goods | 51,004 | 31,308 |
| Other deposits | 301 | 421 |
| Other prepayments | <u>7,022</u> | <u>3,599</u> |
| Total | 60,460 | 35,710 |
| Less: Current portion | <u>(58,327)</u> | <u>(35,328)</u> |
| Non-current portion | <u>2,133</u> | <u>382</u> |

18. TRADE AND OTHER PAYABLES

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|---|---|---|
| Trade payables | 1,651 | 496 |
| Other payables and accruals (<i>Note</i>) | <u>236,964</u> | <u>194,631</u> |
| Total | <u>238,615</u> | <u>195,127</u> |

Note:

Other payables and accruals included the accruals of sales and marketing costs approximately HK\$220.2 million (31 December 2016: HK\$180.6 million).

The ageing analysis of trade payables as at the end of the reporting period:

| | At 30 June 2017 HK\$'000 (Unaudited) | At 31 December 2016 HK\$'000 (Audited) |
|--------------|---|---|
| 0-60 days | 1,417 | 496 |
| 61-90 days | 234 | – |
| Over 90 days | – | – |
| | <hr/> | <hr/> |
| Total | <u>1,651</u> | <u>496</u> |

19. BANK BORROWINGS

As at 30 June 2017, the bank borrowings were secured by a bank deposit of approximately HK\$27.1 million. As at 30 June 2017, the Group obtained banking facilities of approximately HK\$149.1 million, of which approximately HK\$38.8 million was utilised. All of the banking facilities are secured by the corporate guarantees provided by the Company and a subsidiary within the Group and pledged deposits amounted to approximately HK\$47.1 million. As at 31 December 2016, the bank borrowings and banking facilities were secured by (i) buildings and leasehold improvements of the Group; (ii) land use rights of the Group; (iii) corporate guarantees provided by the Company and a subsidiary within the Group; and (iv) a pledged bank deposit of HK\$20.0 million.

20. 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\$150,000,000 (the “Convertible Loan Payable”). Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at any time after the date of disbursement and prior to the maturity date. The maturity date is the date falling on the fifth anniversary of the date of the disbursement.

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

(i) Interest rate

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

(ii) Conversion price

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

(iii) Repayment

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

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

The fair value of the debt component and the equity conversion component were determined at the issuance of the Convertible Loan Payable. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At the date of issue of the Convertible Loan Payable and at 30 June 2017, the fair value of the make whole premium was determined by the Directors to be minimal.

Movements of the Convertible Loan Payable during the period ended 30 June 2017 are as follows:

| | Debt component | Conversion component | Total |
|-----------------------------------|---------------------------|---------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Nominal value of convertible loan | 116,677 | 33,323 | 150,000 |
| Imputed interest expense | 6,009 | – | 6,009 |
| Interest paid | (1,252) | – | (1,252) |
| As at 31 December 2016 (Audited) | 121,434 | 33,323 | 154,757 |
| Imputed interest expense | 6,254 | – | 6,254 |
| Interest paid | (1,432) | – | (1,432) |
| As at 30 June 2017 (Unaudited) | <u>126,256</u> | <u>33,323</u> | <u>159,579</u> |

There was no conversion of the Convertible Loan Payable during the six months ended 30 June 2017.

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(i) Financial assets measured at fair value

The derivative component of convertible loan receivables and certain available-for-sale investments included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value measurement 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 in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

| | As at 30 June 2017 | | | |
|--|--------------------|-------------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurement | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets: | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Available-for-sale financial assets | 37,711 | – | – | 37,711 |
| Derivative component of convertible loan receivables | – | – | 2,901 | 2,901 |

There was no transfer under the fair value hierarchy classification during the six months ended 30 June 2017.

(ii) Information about Level 3 fair value measurement

The fair value of the derivative component of convertible loan receivables as at end of the current period was determined by the Directors with reference to the valuation performed by an independent firm of professionally qualified valuer. As at 30 June 2017, the fair value of the derivative component of the convertible loan receivables was calculated using Binominal Share Option Model with the following key assumptions:

| | |
|---------------------|---------|
| Stock price | RMB3.78 |
| Dividend yield | Nil |
| Expected volatility | 61% |

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

Movements in fair value of the derivative component of the Group's convertible loan receivables are as follows:

| | 2017 | 2016 |
|---|-----------------------|-----------------|
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| At 1 January | 6,825 | 5,316 |
| Additions | – | 2,851 |
| Change in fair value recognised in profit or loss during the period | (4,061) | 54 |
| Exchange differences | 137 | (180) |
| | <u>2,901</u> | <u>8,041</u> |
| At 30 June | 2,901 | 8,041 |
| Total gains/(losses) for the period included in profit or loss at the end of the reporting period | <u>(4,061)</u> | <u>54</u> |

22. CAPITAL COMMITMENTS

| | At | At |
|---------------------------------|----------------------|-----------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Contract for but not provided | | |
| – property, plant and equipment | 90 | 379 |
| – development expenditure | 13,574 | 13,015 |
| | <u>13,664</u> | <u>13,015</u> |
| Total | <u>13,664</u> | <u>13,394</u> |

23. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2017, the Group entered in to the following transactions with related parties:

(i) Purchase of finished goods

| | 2017 (Unaudited) <i>HK\$'000</i> | For the six months ended 30 June 2016 (Unaudited) <i>HK\$'000</i> |
|-----------------------------------|--|--|
| Related party relationship | | |
| Associate | <u>233</u> | <u>–</u> |

(ii) Prepayment for purchase of finished goods

| | At 30 June 2017 <i>HK\$'000</i> (Unaudited) | At 31 December 2016 <i>HK\$'000</i> (Audited) |
|-----------------------------------|---|---|
| Related party relationship | | |
| Associate | <u>1,190</u> | <u>1,385</u> |

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

| | 2017 (Unaudited) <i>HK\$'000</i> | For the six months ended 30 June 2016 (Unaudited) <i>HK\$'000</i> |
|-------------------------------------|--|--|
| Salaries and other benefits | 2,562 | 1,422 |
| Pension fund contributions | 20 | 12 |
| Equity-settled share-based payments | <u>–</u> | <u>200</u> |
| | <u>2,582</u> | <u>1,634</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The vision of Essex Bio-Technology Limited is to be a great and socially responsible corporation. Strategically, the Group is in pursuit of innovations in biotechnology and pharmaceuticals to enhance the efficacy of healing and wellness of patients.

The Group stays focused on manufacturing and selling of flagship biopharmaceutical products for treatment and healing of surface wounds and eye wounds. In addition, the Group strives to improve capacity utilisation, examine new clinical applications, and distribute third party products that are complementary to its core products to further expand the scope of business and strengthen the Group's competitive advantage.

For the six months ended 30 June 2017, the Group achieved a revenue of approximately HK\$437.6 million (2016: HK\$363.9 million), representing a growth rate of 20.2%. Profit for the period ended 30 June 2017 was increase to approximately HK\$77.1 million, representing an increase of 24.4% over the same period last year. The Group's sustaining growth and performance, year-on-year, has reaffirmed the well acceptance of its products' indications, its robust and versatile distribution network and resources in the PRC.

To stay ahead of the technology curve and to remain competitive in the Group's surgical (such as dermatology, stomatology and obstetrics) and ophthalmology arenas, the Group has initiated an enrichment programme (the "Enrichment Programme") since 2015 and has continued to conduct the Enrichment Programme during the period under review. The key objectives of the Enrichment Programme are to enhance the Group's research and development pipeline and to expand its products portfolio for boosting its competitiveness and sustainable growth over the next 5 to 10 years. During the period under review, the Group continuously explored opportunities to strengthen the research and development capabilities and has entered into a research collaboration agreement (the "Research Project Agreement") with AC Immune SA ("ACI"), one of the strategic investees of the Group. As disclosed in the announcement of the Company dated 19 May 2017, the Group entered into, on 19 May 2017, the Research Project Agreement with ACI in relation to the collaboration in the pursuit of pre-clinical and clinical co-development of a novel biological therapeutic for treatment of neurodegenerative diseases (such as Alzheimer's disease and frontotemporal dementia) and neuroinflammation in accordance with the terms of the Research Project Agreement (the "Project"). The Group and ACI have taken a step further in the collaboration by undertaking the Project, which presents a good opportunity for both parties to leverage on their mutual expertise with an aim to deliver novel solutions in the specialty areas of neurodegeneration and neuroinflammation in order to meet the unmet medical needs.

Commencement of Prior Consultation with the Korean Exchange In Respect The Proposed Korean Depositary Receipt Programme (the “KDR Programme”)

As disclosed in the announcements of the Company dated 8 March 2017 and 16 May 2017, the Company, through Daishin Securities Co., Ltd., has commenced prior consultation with the Korea Exchange on 16 May 2017 in relation to the proposed establishment of a KDR Programme. The Company is constantly reviewing the position and will make further announcement(s) as and when appropriate.

Market Development

As at 30 June 2017, the Group has 39 regional sales offices (the “RSOs”) and a total number of about 1,280 sales and marketing representatives, out of which approximately 780 people were full-time staff and approximately 500 people were hired on contract basis and engaged from the appointed agents.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are divided into two specialised teams, which are responsible for the ophthalmic pharmaceutical products and the surgical products respectively. The ophthalmic sales team and surgical sales team constitute approximately 560 and 720 representatives respectively as at 30 June 2017.

The RSOs are tasked with the function of promoting the Group’s products to pharmaceutical companies and hospitals, and providing training on clinical applications of the Group’s products to medical practitioners. In addition, these RSOs serve another vital role to the Group in gathering market intelligence and feedback for the Group’s research and development planning and clinical studies.

The Group’s flagship products are being prescribed by more than 4,500 hospitals, spreading across in major cities and provinces in the PRC. During the period under review, the Group had conducted or participated in over 210 seminars and 780 market promotion activities in major cities and provinces in the PRC.

Research and Development

During the period under review, the Group obtained an approval from 國家食品藥品監督管理總局 (China Food and Drug Administration) for the commercialisation of the preservative-free single-dose Tobramycin Eye Drops (妥布霉素滴眼液) (the “Approved Product”) in the PRC. The Group is currently in preparation for applying from 廣東省食品藥品監督管理局 (Guangdong Provincial Food and Drug Administration) of a Certificate of Good Manufacturing Practices (GMP) and upon its approval, the Approved Product is expected to be launched in the market at or around the end of 2017.

The Group's technology platform is built upon a recombinant DNA, more particularly, the basic fibroblast growth factor ("bFGF") and its industrialisation technology. To capitalise on the proprietary technique on bFGF, the Company plans to deliver a series of high quality products to establish itself as a market leader in the arena of biopharmaceutical products for wounds healing and treatment. Furthermore, the Group has developed a nano-antibody research and development platform over the past few years. Through the nano-antibody platform, a new Vascular Endothelial Growth Factor nano-antibody has been investigated for formulating into therapeutic products for treatment of cancers and age-related macular degeneration.

On 22 January 2016, the Group entered into a collaboration and license agreement, a share subscription agreement and a warrant subscription agreement with Abpro Corporation ("Abpro"), a USA-based biotech company focusing on the field of industrial biotechnology and is principally engaged in the business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets. After the entering into of the collaboration and license agreement, Abpro offered the Group an opportunity to develop a new range of therapeutic products, using certain antibody candidates of Abpro, for the Group's ophthalmology and surgical businesses as well as new drugs for oncology business.

In addition, a production technology platform – the Blow-Fill-Seal ("BFS") has been established in 2014 and further enhanced in 2015. The establishment of BFS platform has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single dose drugs. The Group currently has 10 categories of single dose drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the research and development pipeline, which are expected to be approved from 2017 and thereon over the next 3 years.

As at the date of this announcement, a total of 11 patents have been granted to the Group in the PRC, 8 of which are innovation patents (發明專利) on the application of bFGF. These innovation patents provide market protection for the products of the existing Beifuji and Beifushu series until 2034. The remaining 3 patents are utility patents (實用專利) on product packaging, which are being applied in the products of the existing Beifuji and Beifushu series. As at the date of this announcement, the Group has filed another 13 patent applications (including the nano-antibody developed by the Group) with the relevant government authorities in the PRC.

Financial Review

During the period under review, the Group achieved a turnover of approximately HK\$437.6 million (2016: HK\$363.9 million), representing a growth rate of 20.2%.

Composition of turnover for the six months ended 30 June 2017 and 2016 is shown in the following table:

| | 2017 | | | 2016 | | |
|---|---|--|-------------------------------|---|--|-------------------------------|
| | Beifushu and Beifuji series <i>HK\$' million</i> | Third party products <i>HK\$' million</i> | Total <i>HK\$' million</i> | Beifushu and Beifuji series <i>HK\$' million</i> | Third party products <i>HK\$' million</i> | Total <i>HK\$' million</i> |
| Sales of pharmaceutical products | | | | | | |
| – Surgical products | 198.8 | 14.7 | 213.5 | 156.9 | 9.3 | 166.2 |
| – Ophthalmic products | 150.4 | 64.0 | 214.4 | 138.8 | 40.7 | 179.5 |
| | <u>349.2</u> | <u>78.7</u> | <u>427.9</u> | <u>295.7</u> | <u>50.0</u> | <u>345.7</u> |
| Provision of marketing services | | | | | | |
| – Surgical products | – | 8.6 | 8.6 | – | 8.2 | 8.2 |
| – Ophthalmic products | – | 1.1 | 1.1 | – | 10.0 | 10.0 |
| | <u>–</u> | <u>9.7</u> | <u>9.7</u> | <u>–</u> | <u>18.2</u> | <u>18.2</u> |
| | <u>349.2</u> | <u>88.4</u> | <u>437.6</u> | <u>295.7</u> | <u>68.2</u> | <u>363.9</u> |

Revenue was increased by 20.2% to HK\$437.6 million for the period ended 30 June 2017, of which approximately HK\$349.2 million was contributed from the Group's biopharmaceutical products and approximately HK\$78.7 million was generated from sale of third party products, representing an increase of 18.1% and 57.4% respectively as compared to the corresponding period of 2016.

Surgical products recorded a revenue of approximately HK\$213.5 million for the period ended 30 June 2017, representing an increase of 28.5% as compared to the corresponding period of 2016. The increase was attributed to the increase in sales of Beifuji and Beifuxin series and third party products at 26.7% and 58.1% respectively.

The overall ophthalmic products contributed approximately HK\$214.4 million to the Group's revenue for the period ended 30 June 2017, representing an increase of 19.4% as compared to the corresponding period of the previous year. The increase was attributed to the increase in sales of Beifushu series and third party products at 8.4% and 57.2% respectively.

The Group's flagship biopharmaceutical products have recorded an overall increase of 18.1% for the period ended 30 June 2017 as compared to the corresponding period last year, whereas selling of third party products increased by 57.4% for the period ended 30 June 2017 as compared to the corresponding period last year. The result from the diversification of our product range is on traction.

The Group's gross profit has grown in tandem with expanded sales. The gross profit for the period ended 30 June 2017 was approximately HK\$357.6 million (2016: HK\$295.3 million), representing an increase of 21.1%.

During the period under review, the Group achieved a profit of approximately HK\$77.1 million as compared to approximately HK\$62.0 million in the corresponding period in 2016, representing an increase of 24.4%.

The distribution and selling expenses for the period under review were approximately HK\$247.8 million as compared to approximately HK\$202.7 million of the corresponding period last year, representing an increase of 22.3%. The increase in the distribution and selling expenses was mainly attributable to higher costs incurred for the expansion of sales and marketing function. The increase is in tandem with the expanded operations to support the pharmaceutical business expansion. Distribution and selling expenses accounted mainly for remuneration and travelling expenses of sales personnel, advertisements, transportation and delivery, and organisation of seminars and conferences for product training and awareness, etc.

The administrative expenses for the period under review were approximately HK\$17.4 million as compared to approximately HK\$20.7 million in the corresponding period last year. The decrease of administrative expenses was mainly due to the exchange gain of approximately HK\$2.1 million arising from translation of the balances denominated in the currency other than functional currency in the period under review. In addition, legal and professional cost of approximately HK\$1.0 million was incurred in 2016 for various investments under the Enrichment Programme and no such cost was incurred in 2017.

The Group had cash and cash equivalents of approximately HK\$168.9 million as at 30 June 2017 (31 December 2016: HK\$156.2 million).

The bank borrowings as at 30 June 2017 were approximately HK\$38.8 million (31 December 2016: HK\$38.8 million), among which 50% repayable within 1 year and 50% repayable in more than 1 year but within 5 years. All of the bank borrowings were denominated in US dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 2.2% as at 30 June 2017. 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 2017 were approximately HK\$5.0 million compared to approximately HK\$2.0 million in the corresponding period last year. The increase was mainly attributable to the interest on the convertible loan from IFC. For the period ended 30 June 2017, the imputed interest expenses and interests paid in relation to the loan amounted to approximately HK\$6.3 million and HK\$1.4 million respectively.

Future Plans for material investments or capital assets

Save as disclosed in this announcement, as at 30 June 2017, 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 2017, the Group obtained banking facilities of approximately HK\$149.1 million, of which approximately HK\$38.8 million was utilised. All of the banking facilities are secured by the corporate guarantees provided by the Company and a subsidiary within the Group and pledged deposits amounted to approximately HK\$47.1 million.

As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$168.9 million as compared to approximately HK\$156.2 million as at 31 December 2016.

On 6 July 2016, the Company entered into a Convertible Loan Agreement with IFC, 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. The net proceeds from the convertible loan are approximately HK\$145.0 million, which were intended for the Company's strategic investment in and development of the Group's biopharmaceutical business and general working capital requirements. As at the date of this announcement, the net proceeds had been used as to (i) approximately HK\$80.0 million for the settlement of bank borrowings which were mainly obtained to finance the Group's strategic investments; (ii) approximately HK\$26.1 million for working capital purpose; and (iii) approximately HK\$38.9 million remained for the research and development expenditure.

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 and pledged bank deposits. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio as at 30 June 2017 was approximately 30.4% (31 December 2016: 32.2%).

Charges on Group Assets

As at 30 June 2017, the bank deposits of approximately HK\$47.1 million were pledged to secure the Group's banking facilities.

Capital Commitments

As at 30 June 2017, the Group had capital commitments amounted to approximately HK\$13.7 million (31 December 2016: HK\$13.4 million).

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities (2016: Nil).

Foreign Exchange Exposure

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

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

Treasury Policy

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with 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 2017, the Group had a total of 1,056 full-time employees (31 December 2016: 966 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\$53.6 million and approximately HK\$37.1 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group.

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 unless it is terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive 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 determine in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all 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 (the "Net Profit"); (b) the Net Profit for such financial year exceeds HK\$50,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.4 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three months after the issue of the consolidated audited accounts of the Group for such financial year.

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

Share Capital and Share Options

There was no movement in the Company's authorised share capital during the period under review. Details of 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") are set out below.

Summary of the Scheme

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

2. Participants of the Scheme:

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

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

3. (a) Total number of ordinary shares of HK\$0.10 each in the capital of the Company available for issue under the Scheme as at the date of this announcement:

31,375,000 Shares.

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

5.58%.

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 Stock Exchange of Hong Kong Limited's daily quotations sheet 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 Stock Exchange of Hong Kong Limited's daily quotations sheets 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 5.8 years (expiring on 2 May 2023).

Pursuant to the 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 share options granted under the Scheme:

(a) All options granted were at an exercise price of HK\$2.30 per share;

- (b) 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 remaining 20% from two and half years after the date of grant;

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

Pursuant to the board resolution on 11 November 2016, the Company granted 2,300,000 share options to three employees of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

- (a) All options granted were at an exercise price of HK\$5.90 per share;

- (b) 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 remaining 20% from two and half years after the date of grant;

- (c) All outstanding or unexercised share options granted to the grantees shall lapse on 10 November 2021.

The following table discloses the movements in the Company's share options held by each of the Directors, the substantial shareholders of the Company, the employees of the Company in aggregate and other participants granted under the Scheme during the period ended 30 June 2017:

| Participants | Date of grant | Exercise price HK\$ | Exercisable period | Outstanding as at 1 January 2017 | Exercised during the period | Outstanding as at 30 June 2017 |
|--|---------------|------------------------|-------------------------|--|--------------------------------|--------------------------------------|
| Ngiam Mia Je Patrick | 30.10.2013 | 2.3 | 30.04.2014 – 29.10.2018 | 100,000 | 0 | 100,000 |
| <i>Director and substantial shareholder of the Company</i> | 30.10.2013 | 2.3 | 30.10.2014 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.04.2015 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.10.2015 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.04.2016 – 29.10.2018 | 100,000 | 0 | 100,000 |
| Fang Haizhou | 30.10.2013 | 2.3 | 30.04.2014 – 29.10.2018 | 700,000 | 0 | 700,000 |
| <i>Director</i> | 30.10.2013 | 2.3 | 30.10.2014 – 29.10.2018 | 700,000 | 0 | 700,000 |
| | 30.10.2013 | 2.3 | 30.04.2015 – 29.10.2018 | 700,000 | 0 | 700,000 |
| | 30.10.2013 | 2.3 | 30.10.2015 – 29.10.2018 | 700,000 | 0 | 700,000 |
| | 30.10.2013 | 2.3 | 30.04.2016 – 29.10.2018 | 700,000 | 0 | 700,000 |
| Zhong Sheng | 30.10.2013 | 2.3 | 30.10.2015 – 29.10.2018 | 360,000 | 0 | 360,000 |
| <i>Director</i> | 30.10.2013 | 2.3 | 30.04.2016 – 29.10.2018 | 700,000 | 0 | 700,000 |
| Ngiam Mia Kiat Benjamin | 30.10.2013 | 2.3 | 30.04.2014 – 29.10.2018 | 100,000 | 0 | 100,000 |
| <i>Non-executive director of a wholly-owned subsidiary of the Company and substantial shareholder of the Company</i> | 30.10.2013 | 2.3 | 30.10.2014 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.04.2015 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.10.2015 – 29.10.2018 | 100,000 | 0 | 100,000 |
| | 30.10.2013 | 2.3 | 30.04.2016 – 29.10.2018 | 100,000 | 0 | 100,000 |
| Total for directors of the Group | | | | 5,560,000 | 0 | 5,560,000 |

| Participants | Date of grant | Exercise price HK\$ | Exercisable period | Outstanding as at 1 January 2017 | Exercised during the period | Outstanding as at 30 June 2017 |
|-----------------------------|---------------|------------------------|-------------------------|--|--------------------------------|--------------------------------------|
| Employees | 30.10.2013 | 2.3 | 30.04.2014 – 29.10.2018 | 1,940,000 | 0 | 1,940,000 |
| | 30.10.2013 | 2.3 | 30.10.2014 – 29.10.2018 | 2,201,000 | 0 | 2,201,000 |
| | 30.10.2013 | 2.3 | 30.04.2015 – 29.10.2018 | 2,300,000 | 0 | 2,300,000 |
| | 30.10.2013 | 2.3 | 30.10.2015 – 29.10.2018 | 2,300,000 | 0 | 2,300,000 |
| | 30.10.2013 | 2.3 | 30.04.2016 – 29.10.2018 | 2,300,000 | 0 | 2,300,000 |
| | 11.11.2016 | 5.9 | 11.05.2017 – 10.11.2021 | 460,000 | 0 | 460,000 |
| | 11.11.2016 | 5.9 | 11.11.2017 – 10.11.2021 | 460,000 | 0 | 460,000 |
| | 11.11.2016 | 5.9 | 11.05.2018 – 10.11.2021 | 460,000 | 0 | 460,000 |
| | 11.11.2016 | 5.9 | 11.11.2018 – 10.11.2021 | 460,000 | 0 | 460,000 |
| | 11.11.2016 | 5.9 | 11.05.2019 – 10.11.2021 | 460,000 | 0 | 460,000 |
| Total for employees | | | | 13,341,000 | 0 | 13,341,000 |
| Total for the Scheme | | | | 18,901,000 | 0 | 18,901,000 |

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

ADDITIONAL INFORMATION

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

As at 30 June 2017, 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 (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the shares of the Company:

| Name | Capacity | Number of ordinary shares/ underlying shares of the Company | Approximate percentage of interest in the Company's issued share capital as at 30 June 2017 |
|----------------------|---|--|--|
| Ngiam Mia Je Patrick | Beneficial owner and interests of controlled corporations | 153,645,667 <i>(Note 1)</i> | 27.33% |
| Fang Haizhou | Beneficial owner | 8,238,300 <i>(Note 2)</i> | 1.47% |
| Zhong Sheng | Beneficial owner | 2,036,150 <i>(Note 3)</i> | 0.36% |

Notes:

1. (a) 146,479,000 ordinary shares were registered in the name of Ngiam Mia Je Patrick.
- (b) 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”). 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 as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.
- (c) 500,000 underlying shares are his share option entitlement granted on 30 October 2013 under the Scheme.
2. Comprised of (i) 4,738,300 ordinary shares held by him; and (ii) 3,500,000 underlying shares, which are his share option entitlement granted on 30 October 2013 under the Scheme.
3. Comprised of (i) 976,150 ordinary shares held by him; and (ii) 1,060,000 underlying shares, which are his share option entitlement granted on 30 October 2013 under the Scheme.

Save as disclosed above, as at 30 June 2017, 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 2017, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the shares of the Company

| Name | Capacity | Number of ordinary shares/ underlying shares of the Company | Approximate percentage of interest in the Company's issued share capital as at 30 June 2017 |
|-------------------------|---|---|---|
| Ngiam Mia Kiat Benjamin | Beneficial owner and interests of controlled corporations | 152,020,667 (Note 1) | 27.04% |
| Lauw Hui Kian | Family interest | 153,645,667 (Note 2) | 27.33% |

Notes:

- 144,854,000 ordinary 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.
 - 500,000 underlying shares are his share option entitlement granted on 30 October 2013 under the Scheme.
- Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested, 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 2017, 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 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 condensed consolidated interim financial statements for the six months ended 30 June 2017.

Interim Dividend

The Board has resolved on 11 August 2017 to declare an interim dividend of HK\$0.025 per Share for the six months ended 30 June 2017 (the "Interim Dividend"), which is payable in cash on or about Friday, 20 October 2017 (For the six months ended 30 June 2016: Nil). 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, 6 October 2017.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 3 October 2017 to Friday, 6 October 2017 (both days inclusive) during which period no share transfer will be effected. To qualify for the Interim Dividend, all transfers of Shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 September 2017.

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 2017.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong
11 August 2017

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.