聯康集團
Uni-Bio Science

Uni-Bio Science Group Ltd.
聯康生物科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 0690

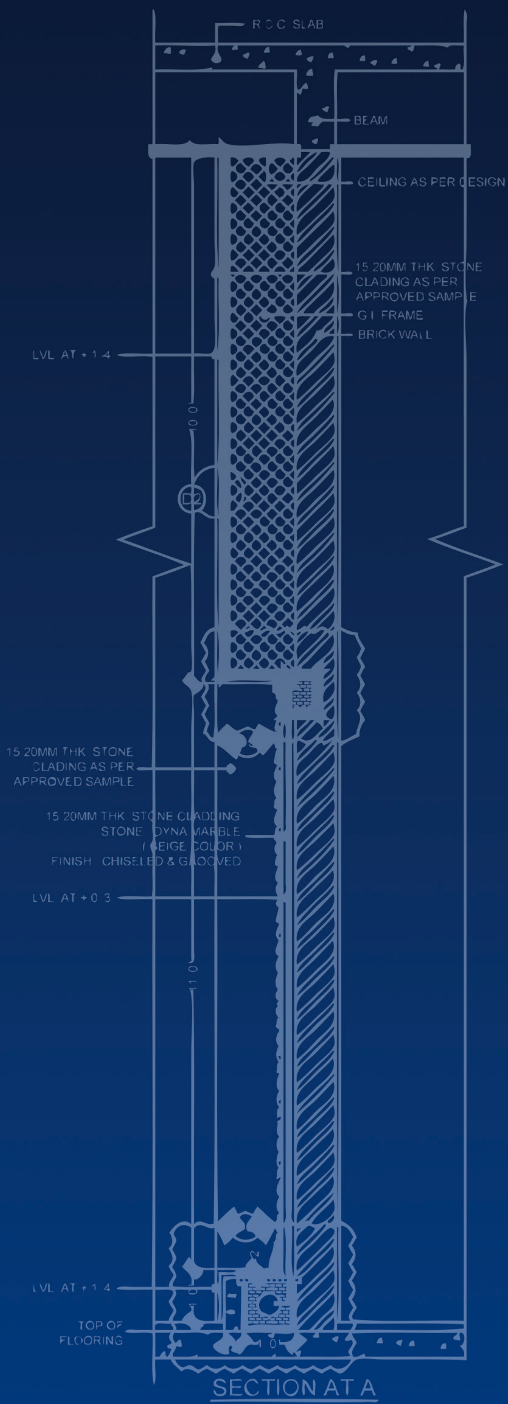
2017
Annual Report

心創造新醫藥
LEADING GENUINE INNOVATION

* For identification purposes only

AGILE

We put in place a 5 year plan called Operation AGILE.
AGILE stands for Accelerated Growth, International Execution. In Chinese, it would be 「促進增長，國際視野」.



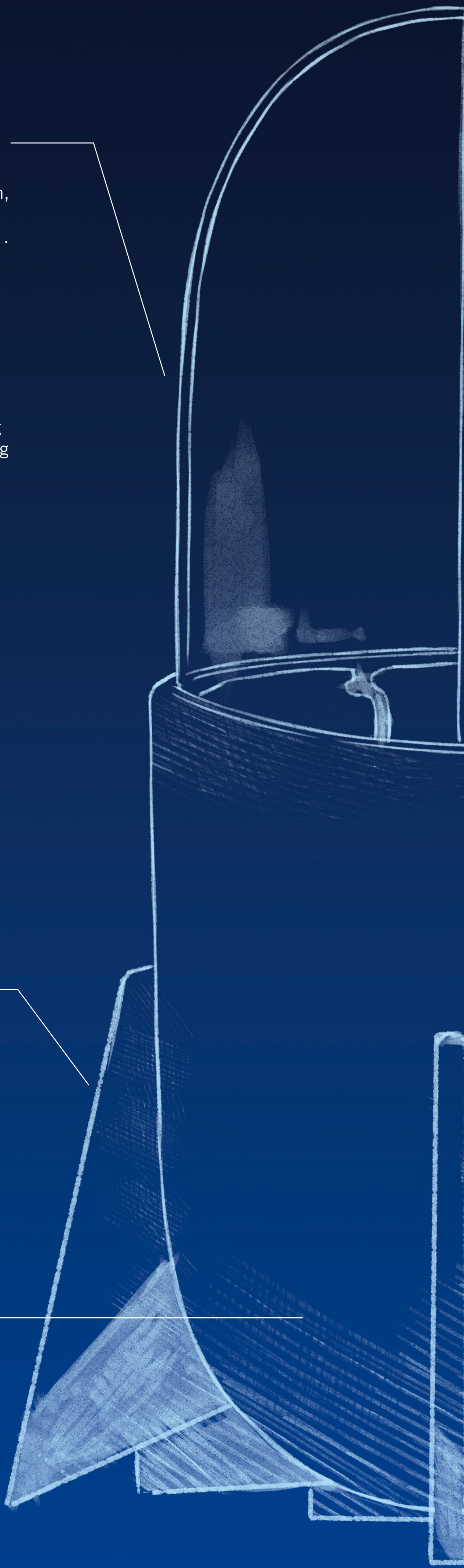
OUR MISSION

Uni-Bio Science Group is dedicated to delivering innovative, high quality healthcare solutions for patients throughout China, operating responsibly and generating increasing value for our shareholders.

OUR VISION

Uni-Bio Science Group aspires to be a world leading biopharmaceutical company, focused on addressing the needs of the Chinese healthcare market through innovation and strategic partnerships.

To be recognised as the leading partner for global pharmaceutical companies to bring novel treatments to patients in China.



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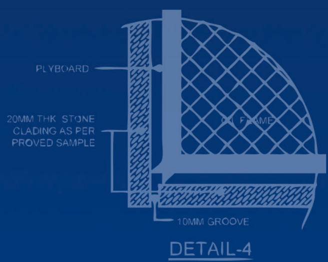
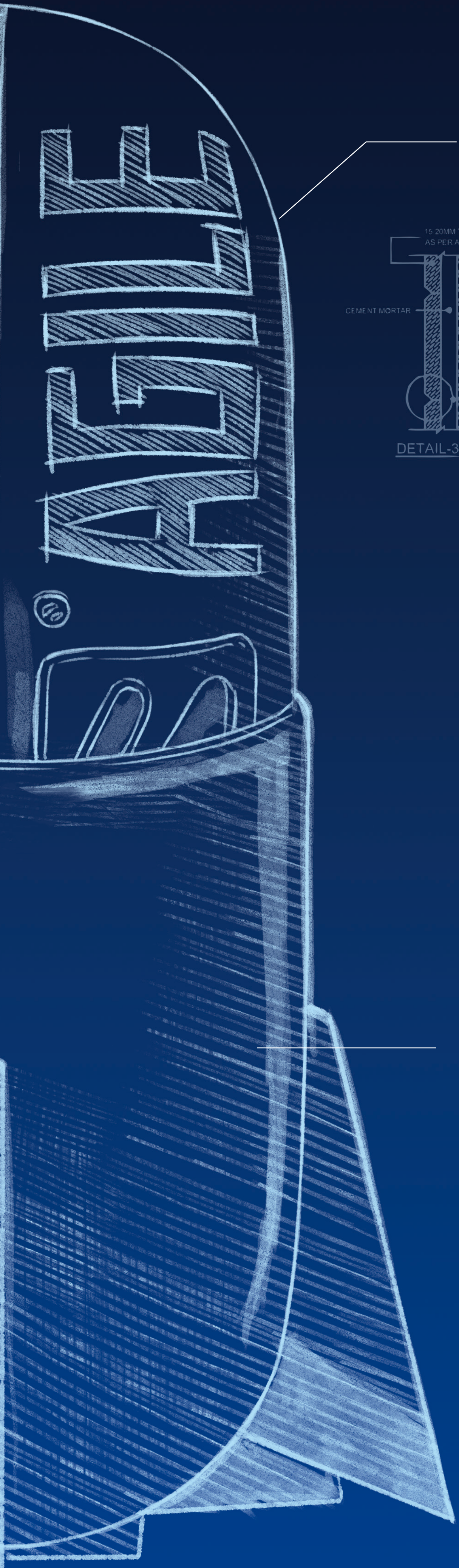
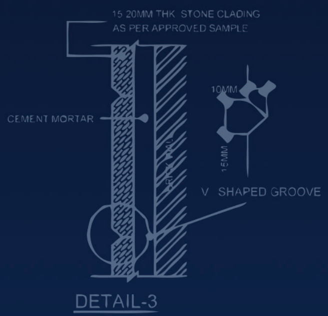
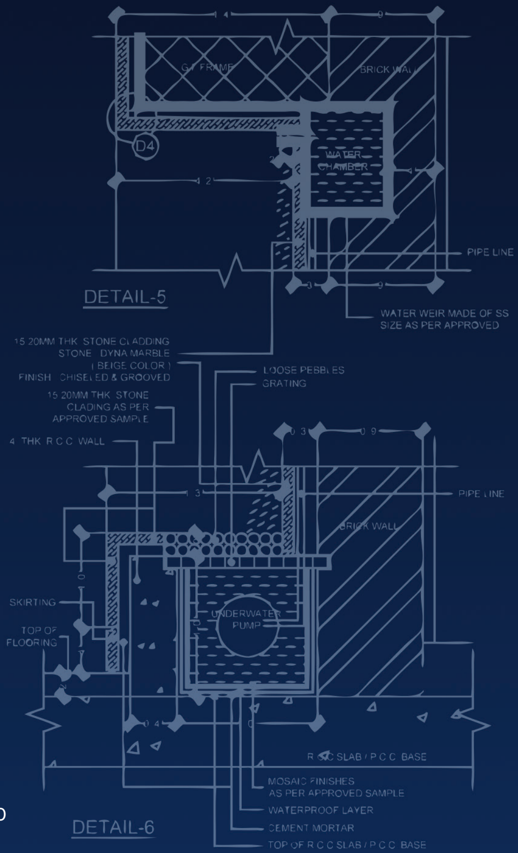


GROWTH







BUILDING ON A STRONG FOUNDATION

Operational excellence is the key theme at Uni-Bio. We will continue to strive to improve and build on top of the Company's existing infrastructure. With a strong foundation, strong growth prospects are sure to follow.

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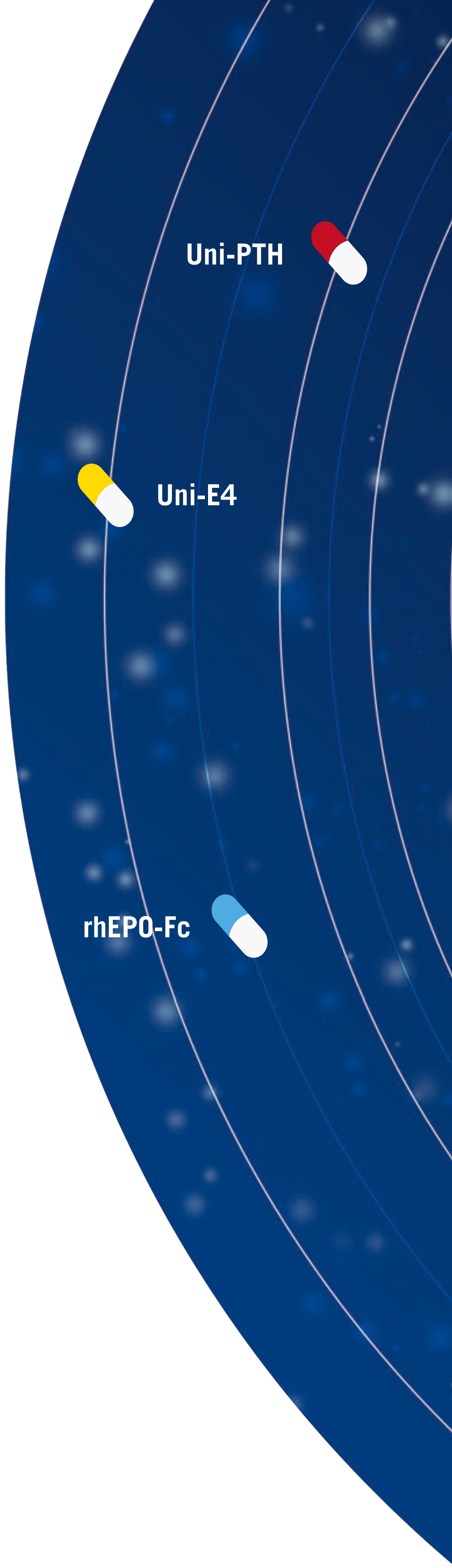
OUR COMMITMENT OF QUALITY



Uni-Bio Science Group Limited (the "**Company**") is a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 0690).

The core business of the Company and its subsidiaries (collectively referred to as "**Uni-Bio**" or the "**Group**") is the research, development, manufacturing and sales of innovative biologic products that treat human diseases.

Uni-Bio is headquartered in Hong Kong and its main operations are in mainland China. The Group is strongly focused on research and development ("**R&D**") and has a highly qualified team in Guangdong Province. The Group also has two GMP ("**Good Manufacturing Practices**") – certified manufacturing plants in Beijing and Shenzhen, manufacturing our marketed products – Voriconazole and EGF respectively.

Currently, the Group has two new prescription drugs that have completed all clinical trials – Recombinant Exendin-4 ("**Uni-E4**") and Recombinant Human Parathyroid Hormone (1–34) ("**Uni-PTH**").

- Uni-E4 is targeted at the Type 2 diabetic patient population, especially those who are overweight.
- Uni-PTH is a treatment for osteoporosis in postmenopausal women.

The Group's corporate philosophy is to achieve better human health by bringing high quality science and treatments to patients. To this end, the Group is deeply dedicated to serve patients better through partnering. We aspire to be the "Partner of Choice" in China, bringing cost-effective and important treatments into China.

we are dedicated to improving the quality of life of patients through innovative treatments

KEY FINANCIAL HIGHLIGHTS

	Note	Year ended 31 December	
		2017	2016
Revenue (HK$'000)		**156,477**	146,489
Gross profit (HK$'000)		**133,628**	123,864
R&D costs (HK$'000)		**(42,519)**	(18,813)
Loss before taxation (excluding the impairment of assets)		**(76,637)**	(53,820)
LBITA (HK$'000)	1	**(45,396)**	(24,659)
Gross profit margin (%)		**85.4%**	84.6%
R&D costs to revenue (%)		**27.2%**	18.2%

	Note	As at 31 December	
		2017	2016
Cash ratio (times)	2	**2.66**	1.56
Current ratio (times)	3	**4.51**	2.65
Trade payables turnover days (days)	4	**111**	58
Trade receivables turnover days (days)	5	**106**	81
Inventory turnover days (days)	6	**212**	179
Debt-to-equity ratio (%)	7	**13.7%**	11.4%
Total assets turnover (%)	8	**40.1%**	29.5%

Notes for key ratios:

1 **LBITA (Loss before interests, taxes, and amortization):**
Loss before taxation minus interest expense, impairment loss, depreciation of property, plant and equipment, amortization of intangible assets and prepaid lease payments

2 **Cash ratio:**
Bank balances and cash/current liabilities

3 **Current ratio:**
Current assets/current liabilities

4 **Trade payables turnover days:**
Average of opening and closing balances on trade payables (exclude VAT)/cost of sales and multiplied by 365 days

5 **Trade receivables turnover days:**
Average of opening and closing balances on trade receivables(exclude VAT)/turnover and multiplied by 365 days.

6 **Inventory turnover days:**
Average of opening and closing balances on inventory/cost of sales and multiplied by 365 days

7 **Debt-to-equity ratio:**
Total liabilities/total equity

8 **Total assets turnover:**
Total revenue/total assets

LEADING GENUINE INNOVATION

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Financial Figures based on reportable segment for the year ended 31 December 2016 and 2017

	Year ended 31 December		
	2017 HK$'000	2016 HK$'000	Change
Revenue from sales of in-house pharmaceutical products	**156,477**	146,489	6.8%
Cost of sales	**(22,849)**	(22,625)	1.0%
Gross profit	**133,628**	123,864	7.9%
Other gains and losses	**(2,330)**	576	–504.5%
Selling and distribution expenses	**(76,446)**	(81,148)	5.8%
General and administrative and other expenses	**(23,540)**	(19,279)	22.1%
Operating income from marketed biological and chemical pharmaceutical products	**31,312**	24,013	30.4%
Other income & other loss	**5,057**	4,068	24.3%
Expenses incurred for pipeline products and future projects	**(68,218)**	(39,052)	74.7%
Other administration expenses	**(40,454)**	(36,317)	11.4%
Finance costs	**(177)**	(497)	–64.4%
Equity-settled share based payment expenses	**(6,864)**	(7,038)	–2.5%
Loss before impairment losses and others	**(79,344)**	(54,823)	44.7%
Change in fair value of investment properties	**2,707**	1,003	169.9%
Impairment losses on intangible assets	**(167,705)**	–	n/a
Impairment losses on property, plant and equipment	**(33,955)**	–	n/a
Loss before taxation	**(278,297)**	(53,820)	417.1%

Overview

As the financial figures in the above table shows, our operating income from marketed biological and chemical pharmaceutical products has continued to grow strongly at 30.4% for the year ended 31 December 2017. This is a result of our team's combined efforts in cost reduction strategy while significantly expanding our salesforce and customer base. Despite pricing pressure on drugs from provincial tenders, our gross profits held stable with slightly increased by 7.9%, reflecting a positive outlook for the coming years.

In line with the lifecycle of a biotech company, the Group still recorded a loss over the period because of the continuous investment in its pipeline and future project. In addition, other administrative expenses grew significantly mainly due to one-off professional and legal expenses arose from conducting listco's legal and compliance action and increasing staff cost with new initiatives performances reward system.

Kingsley Leung (Chairman)

Dear Valued Shareholders,

2017 was a year full of surprises and challenges. In a world full of geopolitical uncertainties, investors were conscious about the future prospect of the global economy. Nevertheless, 2017 was a very strong year for the equity market, mainly led by technology and biotech stocks (2017 returns of NASDAQ: 27.2%, HSI 35.9%, NYSE 14.9%). Of course, the key driver of these benchmark's performance is due to stellar stock performance from big blue chip companies. If you look more closely at the small cap index, these have been underperforming the broad market (e.g. Russell 2000: 13.1% and HSSI: 19.2%). As blue chip companies become more expensive in terms of valuations, investors will start shifting their attention to undervalued and quality small-to-mid cap stocks in 2018 and 2019. Quality is the key word here and it is an attribute in which the management in Uni-Bio Science Group has been trying to strengthen across the Group's business since 2014, and ultimately building our own sustainable competitive advantage. The Board of Directors (the "**Board**") believe that we made substantial progress in building quality within the Group's business across different fronts in 2017. With joint efforts made by both management team and employees, the overall sales of the Group recorded a steady increment of 6.8% year on year ("**YOY**") to HK$156,447,000 in 2017.

CHAIRMAN'S STATEMENT

Forming strategic alliance with new quality investor: Heung Kong Group

In 20 September 2017, HeungKong Great Health Fund I, led by the famed Mainland China-based Corporation HeungKong Group, invested HK$120 million in the Group and become our strategic shareholder. With the investment, HeungKong Group is currently holding approximately 14.2% of the Group's issued share capital. More importantly, over 50% of the Group's investors are long-term investors, representing a very healthy shareholder base for the sustainable development of shareholder value. With the access to the medical network of HeungKong Group to distribute our pharmaceutical products, the Group and HeungKong Group also forged a strategic alliance. In the future, joint efforts will be made to evaluate the opportunities in setting up bio-pharmaceutical incubation centers and explore international M&A projects.

Over the past 6 months since investment, an alliance committee has been formed and the Group's executive directors and management have worked closely with HeungKong Group's representatives in bringing opportunities to reality. Examples include the successful listing of numerous products in hospitals chains in Tianjin and healthcare centres in Guangdong; adding two great directors, Mr. Ren Qimin and Ms. Lau Chau In, in November 2017 to the Board. Both new directors provide new insights to our business on government affairs, cross-border M&A, marketing, and healthcare services and operations.

Enriching the quality of the commercial platform

Over 2017, the second major accomplishment of the Group was the development of the commercial platform. In 2015, the Group launched its 5 year plan "**Operation A.G.I.L.E**", aiming to build a new commercial platform with sustainable competitive advantage. 2017 marks a year with the biggest change in the Group's commercial capabilities. Against the backdrop of the two-invoice system, the Group has consolidated the sales and marketing functions to 3 major divisions, namely 1) sales operation management to oversee distribution of goods across all channels; 2) distributor management to oversee distributor contracts and workflows, and 3) salesforce management to nurture in-house salesforces and develop key opinion leader networks. With the new structure completed in 3Q2017, the Group is now comply with the new regulations and ready to capture the opportunities.

Moreover, the Group has recruited numerous talents with MNC and local experience as well as strong track record in commercial sectors to form the management level of the new commercial platform. To name a few, we have, Mr. Winston Xue, who joined us in May 2017 as the General Manager of Uni-Bio Science Healthcare (Beijing) and Senior VP of the Group. Mr. Xue has over 20 years' experience holding executive positions such as General Manager, head of marketing, sales divisions and business units at Bayer, Fresenius Kabi, and StarE Health, a wholly-owned subsidiary of Fosun International Limited. During his tenure, Mr. Xue successfully launched several key products and recorded annual revenue of over billion Hong Kong dollars. He creates one of the best performing business units in the whole industry.

Last but not the least, the Group continues to expand the size of the commercial unit. By the end of 2014, the Group only had approximate 25 dedicated headcounts to support commercial activities. By the end of 2017, the commercial office workforce increased to 171 employees, representing a seven times increase in three years. The Group now has a well-established commercial team that covers the whole pharmaceutical commercial value-chain, which is an important competitive advantage. The Board strongly believe the above three key changes will accelerate the Group's revenue growth and provide a strong launching platform for new products such as the best-in-class oral anti-diabetic drug Bokangtai (Mitiglinide tablet).

On 25 January 2018, Uni-Bio won the prize of the "Best Corporate Social responsibility HK ListCo of Golden HK Stock Award 2017" jointly issued by Zhitong Finance and Tonghuashun Finance in recognition of the Group's philosophy of "persisting in innovations and continuously giving back to the community".

CHAIRMAN'S STATEMENT

Shifting landscape in R&D

In terms of R&D, the Group had faced certain setbacks and headwind in 2017. A number of new players entered into the market that changed the competition landscape of the Group's pipeline products, as a result, the Board made a decision to recognize a one-off impairment charge over intangible asset and respective property, plant and equipment related to the development of pipeline projects of HK$201.7 million, based on the latest discounted cash flow forecast and valuation result.

In addition, the Group continued to propel R&D at a steady pace over 2017 with R&D expenses increased by 126% versus the previous fiscal year, and accounting for 27.2% of revenue. This increase represents our continuous commitment on innovation. The Board strongly believe that R&D is the single most important element for long-term sustainable development of a biotech company. Over the year, we completed most of the formulation development and Chemical Manufacturing Control ("**CMC**") work for 2nd generation Uni-E4 and Uni-PTH, Acarbose, as well as we kick-off quality equivalence work for marketed products, such as Pinup® and Bokangtai. These important development lays a solid foundation for 2018, as the Group's R&D team continues to prepare for meetings with the Centre for Drug Evaluation ("**CDE**") in anticipation to accelerate the subsequent clinical trials and future development activity of these products.

Financial results in 2017

In 2017, the Group has maintained a positive growth momentum reflected by the strong performance of our marketed products and growing sales force. Overall net sales increased 7.9% to HK$156.5 million (excluding forex), which was in line with the industry growth of 7.6%, Nanfang Suo, 2018. The sales growth in 2017 was less than the historical sales growth trends of the Group in the previous 3 years for a number of one-off reasons, such as changes of sales model of GeneSoft® with China Resource Zizhu Pharmaceutical Co., Ltd. ("**China Resources Zizhu**"), sales interruption due to new commercial model, and manageable but negative price impact due to new rounds of provincial tendering. In fact, such headwinds have limited impact on profitability. The Group also observed very positive double digit volume growth of key strategic products, such as GeneTime® 15ml (11.6% versus previous year) and Pinup® (26% versus previous year).

During the twelve months ended 31 December 2017 (the "**Year**" or the "**Year Under Review**"), the Group continued to maintain the gross profit margin at a high level at 85.4%, while contribution margins (gross profit minus selling and distribution expenses) was at 36.5%. Operating income from marketed biological and chemical pharmaceutical products grew by 30.4% to HK$31.3 million. The net loss expanded to HK$278.3 million versus that of the corresponding period. The reasons for the expansion of loss was mainly due to the impairment loss of intangible assets and increase in R&D investment.

From the balance sheet perspective, we have observed positive changes in many key ratios, including liquidity ratios and insolvency ratios, indicating a healthy position to support the Group's growth in the near term.

The outstanding sales performance has not fully translated to our bottom line as the Group continues to invest more into new products, in order to realize strong growth in the mid-to-long term and solidify the Group's position as a biotech industry leader. The Group continues to demonstrate short-to mid-term stability as its operations are self-sustaining, with a strong financial position of HK$121,281,000 in cash to support any near term Capex.

Exciting prospects in 2018

Looking into the future, two good news will have positive impact on the sales of the Group in 2018 and beyond. First, Bokangtai was incorporated into the National Reimbursement Drug List ("**NRDL**") and second, the removal of claim restriction on GeneTime® to enable a wider application of GeneTime®. In addition, the trend of a more frequently updated NRDL will provide more opportunities for newly launch innovative drugs to reach large scale of market at the early stage of commercialization. We believe the Group's pipeline products, namely the 1st generation Uni-PTH (expected to be launched as early as the first half of 2019) will be benefitted. Meanwhile, the latest policies are showing strong support on the development of high-quality domestic generics and innovative drugs. Under such favorable macro environment, the Group has taken concrete steps in capturing the blue ocean market. The Group will actively communicate with CDE and continue to invest in R&D to accelerate product development. We believe that the foundation we laid in 2017 will bear fruitful results in 2018.

With the implementation of the "Operation A.G.I.L.E" 5 year plan, the Group will accelerate the development of our commercial platform, aiming to enhance our capability on pharmaceutical marketing and distribution. On top of that, we will continue to follow our corporate culture of "Leading Genuine Innovation" and "心創造，新醫藥" by pursuing ground-breaking innovations that provides better curing options to patients. In turns, we believe that our innovation is helping patients in achieving a better life.

Finally, I would like to extend my thanks to our employees for their contribution during the Year. I would also like to extend my deepest appreciation to the Group's stakeholders, partners, customers and suppliers for their long-term support to the Group. The Group will continue its hard work in becoming a leading Chinese pharmaceutical company.

Kingsley Leung
Chairman

29 March 2018

ACCELERATE GROWTH INTERNATIONAL EXECUTION

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Uni-Bio Science – A Fully Integrated Biopharmaceutical Company

Uni-Bio is a fully integrated biopharmaceutical company focusing on diabetes and related metabolic disorders, dermatological regeneration and ophthalmological healing. From R&D, production and manufacturing to sales and distribution of biopharmaceutical and chemical medicines, the Group has established a fully integrated business platform in the value chain. As at 31 December 2017, the Group has commercially launched 4 products, namely GeneTime®, GeneSoft®, Pinup® and Bokangtai. Currently, Pinup® has obtained the Trademark License in with its name officially changed from "Pinapu" to "Pinup®".

MARKET OVERVIEW

With the increasing disposable income and a population over 1.3 billion, China is the second largest pharmaceutical market in the world, just behind the United State of America. According to the statistics published on the International Journal of Health Policy and Manager, China's pharmaceutical industry achieved a total sales of US$116 billion, representing approximately US$89.3 per capita expenditure in 2016. China is already the second largest pharmaceutical market in the world, however, with a population over 1.3 billion, the per capita spending on pharmaceuticals is comparatively at a very low level. With the increasing disposable income and continuous urbanization, it is expected that the pharmaceutical industry will continue to grow. Adding on top is the fast expanding aging population. With over 140 million people at and over the age of 65 in 2017 in the People's Republic of China ("**PRC**"), the pharmaceutical industry was in favor of a promising future.

In the meantime, medical reform policies launched from 2015 to 2017 have been focusing on the optimization of both the pharmaceutical system and distribution system, which addresses the issues of pharmaceutical and medical service availability and affordability. Rooted in such an industry that is highly regulated by the government policies, Uni-Bio paid closed attention to the latest regulations in order to adapt to the new circumstances for sustainable development. On 24 January 2017, the State Council issued "Several Opinions on Further Reform and Improvement of Drug Production, Circulation and Use Policies" ("**Opinions on the Two-invoice system**"). The Two-invoice system aims to improve transparency in drug prices and optimized multi-tier distribution models as well as to fully implement the two-invoice system across China by the end of 2018. It emphasized that distributors and downstream hospitals must retain detailed medicine sales and purchase records to ensure consistency across invoices and payments. Pharmaceutical companies are taking measures such as consolidating marketing and distribution team, establishing relationships to hospitals and end users and forming partnerships with top-tier distributors in order to comply with this changing market environment. In addition, the zero mark-up policy, which aims to completely remove drug sales as a source of revenue for hospitals, continued to affect the order book and profit of pharmaceutical companies. These tightened regulations partially influenced the profitability of pharmaceutical industry as the regulations have removed the incentive of hospitals to sell more drugs and reduced hospitals demand from pharmaceutical companies.

KEY ACCOMPLISHMENTS IN 2017

Against such backdrop, Uni-Bio has taken strategic actions in 2017. By refining sales and marketing team as well as expanding salesforce to in compliance with the latest regulations, focusing on the development of innovative and proprietary products and forming strategic partnership with well-known enterprises, the Group has strengthened its competitive edges in the market, expanded its sales channel and laid solid foundation for future development.

New Drug Launched

Under the brand name Bokangtai, the Group launched a new oral antidiabetic drug mitiglinide in Fujian province in April 2017, subsequent to the drug being included in the 2017 NRDL published in February 2017. Mitiglinide belongs to the glinide class of blood glucose-lowering drugs for the treatment of type 2 diabetes. In addition to its antidiabetic efficacy, Mitiglinide also plays a potentially beneficial role in raising blood glucose level after meal, rendering itself promising to become a best-in-class drug. Bokangtai has secured New Drug Approval for first and/or second-line therapy from China Food and Drug Administration ("**CFDA**"). During the Year Under Review, Bokangtai was shipped to over 100 hospitals in Fujian and the sales team is reaching out to a large number of new hospitals. As at 31 December 2017, the Group has won tenders in 9 provinces besides Fujian. With the paid efforts in promotion and market entry, even in a year of sales force transition and hospital listing of Bokangtai, it contributed nearly HK$1 million gross profit for the Year.

Strategic cooperation and integration during the Year

In July 2017, Uni-Bio formed a strategic alliance with the HeungKong Group, a mainland conglomerate among the Top 50 private enterprises in the PRC. The Group has already setup a joint committee with HeungKong Group for connecting Uni-Bio's sales team with HeungKong's procurement team for sales channel initiation. This partnership enables the Group to expand distribution channels through HeungKong's medical network in China, in-license and acquire complementary drugs and technologies as well as having a Big Data Domain which collaborates on the healthcare services and chronic disease management with advanced technological initiatives. The alliance will also evaluate developing bio-pharmaceutical incubation centers and explore international M&A projects in order to maximize Uni-Bio's innovation capabilities.

Meanwhile, the Group's integrations with China Resources Zizhu and Sun-Novo Pharmaceuticals ("**Sun-Novo**") have borne fruit in 2017. The successful transition of the distribution of GeneSoft® to China Resources Zizhu resulted in the broadening of hospital coverage while achieving significant savings in sales and distribution expenses during the Year. Leverage on China Resources Zizhu's strong track records and market presence, the Group's ophthalmology hospitals coverage has been doubled the numbers of hospital compare to that at the beginning of 2017; In order to have a better preparation of entering diabetic market , the Group forged a partnership with Sun-Novo to co-develop promising oral anti-diabetic drugs ("**OAD**"). Acarbose is the first product developed together under the partnership and both companies will explore development of additional two to three OADs. The Group believes that cooperation between Uni-Bio and other experienced pharmaceutical companies could strengthen our capability in external innovation and further enriching our product portfolio.

Refined Sales and Marketing Team Structure

During the Year, the Group continues to expand and restructure sales and marketing team to seize the market opportunity. Following the appointment of Mr. Winston Xue as the General Manager of the commercial platform, the Group has appointed additional senior positions across China. The Sales and Marketing function was further refined into 3 major divisions, namely Sales Operation Management, Distributor Management and Salesforce Management, to consolidate responsibilities and function across the organization. Sales Operation Management oversees the distribution of goods across all channels such that the Group can ensure good control of each sales channels. Distributor Management focuses on managing distributor contracts and standardizing workflows to shorten information and order feedback loop. Last, but not least, the Salesforce Management leads the in-house salesforce to nurture long-term key opinion leader (KOL) resources.

By the end of 2017, the number of employees located at commercial office of the Group increased by 24.8% YOY to 171. The refinement of the Sales and Marketing function will provide a clearer scope of responsibilities and enable the strategies to be executed in an efficient and effective way. This will certainly unlock more opportunities and profitability from the existing partnerships.

As a result, key marketed drugs of the Group, for example, Pinup®, GeneSoft®, GeneTime® and Bokangtai, have made steady progress on provincial tendering amid of the heightened pressure on pricing. Moreover, with the strong taskforce that has been put in place and the optimized marketing structure, the Group gained strong market access with new Pinup® tender awarded in Ningxia, Hunan and Hubei, new GeneTime® tender awarded in Shanxi, Ningxia, Sichuan and new Bokangtai tender awarded in 9 provinces. The Group believes that the optimized sales and marketing team can achieve more flexibility and in-depth management of the functions after refinement, which assists the Group to achieve full compliance to the Two-invoice system and improving profitability to achieve high business growth.

R&D and Pipeline Progress

The Group continues to concentrate on the development of innovative and proprietary products with the potential to deliver significant commercial value to its business and has identified three therapeutic areas to focus on for enriching product portfolio, endocrinology, ophthalmology and dermatology. As a result, the Group is continuing the development of below new patent drugs:

Products/ Compound	Indication	Description	Pre-clinical	Phase 1	Phase 2	Phase 3	Pre-registration	Marketed
IN-HOUSE								
Endocrinology								
Bokangtai	Type 2 diabetes	Bokangtai (oral antidiabetic drug - Mitiglinide) belongs to the meglitinide (glinide) class of blood glucose-lowering drugs. Mitiglinide modulates blood glucose level by binding to and blocking certain potassium channels in pancreatic cells. Closure of potassium channels causes a series of electrochemical reactions which effectively triggers the secretion of insulin from pancreas.	▶	▶	▶	▶	▶	▶
Uni-E4 – Innovative liquid formulation	Type 2 diabetes	A class of anti-diabetic treatments called GLP-1 agonists, is a non-insulin treatment candidate that stimulates the incretin pathway. It is intended as twice-daily injection. This class of drug has been shown to be effective and well accepted in treatment of Type 2 diabetes and is one of the only classes causing weight loss, lower risk of hypoglycemia and increase in β-cell regeneration.	▶					
Uni-PTH – Powder formulation	Osteoporosis	Uni-PTH (Parathyroid hormone analogue) is an effective anabolic (bone growing) agent treating osteoporosis. Uni-PTH improves bone density and reduces bone fracture through stimulating new bone formation. It is also effective in managing ostealgia (pain in the bone) when compared with standard treatments. Uni-PTH requires injection once daily.	▶	▶	▶	▶	▶	
Uni-PTH – Innovative liquid formulation	Osteoporosis	Uni-PTH (Parathyroid hormone analogue) is an effective anabolic (bone growing) agent treating osteoporosis. Uni-PTH improves bone density and reduces bone fracture through stimulating new bone formation. It is also effective in managing ostealgia (pain in the bone) when compared with standard treatments. Uni-PTH requires injection once daily.	▶					
Uni-E4-Fc	Type 2 diabetes	Uni-E4-Fc (rExendin-4 Fc) is the long-acting version of Uni-E4 as a next generation rExendin-4 treatment. Uni-E4 half-life in the body is significantly extended by attaching a FC fragment. As a result, Uni-E4-Fc will only require injection once every 2 or 3 weeks, greatly improving the treatment convenience to patients.	▶					
Ophthalmology								
GeneSoft®	Ophthalmic wound healing	GeneSoft® (recombinant human epidermal growth factor derivative, also known as rEGF derivative) is a prescription biologic drug for ophthalmic wound healing (e.g. corneal ulcer). rEGF derivative directly acts on epidermal cell to treat skin injury and accelerate healing through cellular proliferation, differentiation, and survival. rEGF derivative has three extra amino acids in the N-terminus that increases the stability of molecule. As a result, GeneSoft can be stored in room temperature.	▶	▶	▶	▶	▶	▶
Dermatology								
GeneTime®	Dermalogical wound healing	GeneTime® (recombinant human epidermal growth factor, also known as rEGF) is a prescription biologic drug for wound healing. rEGF directly acts on epidermal cell to treat skin injury and accelerate healing through cellular proliferation, differentiation, and survival. GeneTime is the only rEGF in spray formulation in China. It is administered once daily after debridement.	▶	▶	▶	▶	▶	▶
Infectious Disease								
Pinup®	Fungal infection	Pinup® (Voriconazole) is a prescription oral drug treating fungal infection. Voriconazole works acts by blocking fungal cell wall growth, which results in death of the fungus. Pinup® is administered twice daily and is mainly used in immune compromised patients after chemotherapy or organ transplant.	▶	▶	▶	▶	▶	▶
Hematology								
rhEPO-Fc	Anemia	rhEPO-Fc (Recombinant Human Erythropoietin-Fc) can be used for treatment of anemia associated with renal diseases, cancer related therapies and surgical blood loss. rhEPO-Fc is a next generation EPO treatment. rhEPO half-life in the body is significantly extended by attaching a FC fragment. As a result, rhEPO-Fc will only require injection once biweekly, greatly improving the treatment convenience to patients.	▶	▶				
PARTNERING			**STATUS**			**PARTNER**		
Endocrinology								
Acarbose	Type 2 diabetes	Acarbose is a small molecule drug used to treat diabetes mellitus type 2 and, in some countries, prediabetes. Acarbose inhibits a class of enzymes, known as glycoside hydrolases, required for digesting carbohydrates into glucoses. With the inhibition of enzyme, the patient would effectively absorb less glucose because the carbohydrates are not broken down into glucose molecules. For patients with Type II Diabetes, the therapeutic effect of Acarbose decreases blood glucose levels, achieving a reduction in HbA1c levels.	Undergoing CMC study			SUNSHINE		

Uni-PTH

Uni-PTH is oriented to osteoporosis with huge market potential of USD1.3 billion. It is more effective in managing pain in bones when compared with peers and is the only class of anabolic agent to actively increases bone mass density at present. At current stage, it proceeded to CFDA for further verification and on-site inspections. The product is expected to be launched as early as the first half of 2019, aiming at becoming the 2nd venture to launch Uni-PTH.

During the Year, lyophilized powder formulation of Uni-PTH, one of the Group's key product in pipeline, its New Drug Application ("**NDA**") has been re-submitted and supplementary data was given to the Beijing Food and Drug Administration on December 1, 2017 and is currently under CDE's technical reviewing. Meanwhile, liquid formulation of Uni-PTH has successfully completed preparation process validation in 2017. It is expected that the CDE communication meeting will be held in second half of 2018.

Uni-E4

Uni-E4 is a GLP-1 receptor agonists, a proprietary innovative drug for the treatment of Type 2 diabetes developed by the Group. With the peculiar efficacy, Uni-E4 was expected to hit a new high in sales once marketed.

In 2017, the development status of liquid formulation of Uni-E4 is on progress. The CDE communication meeting will be held in first half of 2018. The Group plans to commence clinical Phase III study in second half of 2019. The Group wishes to market Uni-E4 by 2023.

Uni-EPO-Fc

EPO is a glycoprotein that can increase the maturation of red blood cell. As a long acting version of EPO treatment, EPO-Fc greatly improves delivery convenience to patients who live with Anemia associated with Chronic kidney disease (CKD). The market size of EPO-Fc is estimated to reach USD539 million and demonstrates rapid growth globally.

The Group had completed Pre-clinical trials of Uni-EPO-Fc and will continue the clinical Phase I Study as soon as CDE conducts drug review in second half 2018. Due to the change of R&D plan, the Group would set priority and first allocate technical and financial resources over the development of Uni-PTH and Uni-E4, but the Group still wishes to be one of the earliest domestic long acting Uni-EPO-Fc products provider in China.

Acarbose tablets

Acarbose is a supplement OAD co-developed by the Group and Sun-Novo. Suitable for Asians' carbohydrate-rich diet, Acarbose is targeted to incredibly large market of USD3.2 billion. As a small molecule drug used to treat Type 2 diabetes, Acarbose has few competitors in China market. The Group's Acarbose project has completed processing verification in 2017 and is expected to submit Abbreviated New Drug Application ("**ANDA**") in first half of 2019.

RESULTS OVERVIEW

For the Year under Review, the Group recorded a turnover of HK$156.5 million, representing a YOY increase of approximately 6.8% (2016: HK$146.5 million). The increment was mainly attributable to the significant revenue contribution from GeneTime® 15ml and Pinup®. Cost of sales slightly increased by 1.0% from HK$22.6 million for the year ended 31 December 2016 to HK$22.8 million for the year ended 31 December 2017. Driven by the momentum of revenue growth, gross profit for the Year amounted to HK$133.6 million, increasing by 7.9% on a YOY basis, and gross profit margin remaining at a relatively high level, rising by 0.8% to 85.4% compared with 84.6% of 2016.

For total sales revenue of the year (all marketed products), the Group has strong performance with 15% growth in its core market which are the top 5 provinces in sales (Beijing, Guangdong, Fujian, Jiangsu, Jilin). Top 5 provinces cover 36% of the Uni-Bio's total sales in China. It aligned with the purpose of refining sales & marketing team structure that expand own sales team in core market to better seize market opportunities as well as compliance with government policy. In addition, some provinces with high growth achieved 290% for example Liaoning. It's also due to the advantage of new structure of sales team that each function can be more concentrated on its own expertise.

The substantial investment in R&D capability and talents resulted in a surge in R&D expenses, with it notably growing by 126.0% to HK$42.5 million (2016: HK$18.8 million). General and administrative expenses rose 18.3% to HK$89.7 million, led by the extraordinary professional expenses, and IT infrastructure to enhance office operation efficiency and data organization and security. During the Year, the Group continued to consolidate and restructure its sales channels for more effective promotion, thus leading to the decrease in selling and distribution expenses to HK$76.4 million, or 48.9% of the overall revenue (2016: HK$81.1 million, 55.4%).

Marketed drugs sales

GeneTime®

GeneTime®, one of the Group's core products, is a prescription biological drug for wound healing. Its indication was progressively expanded from mere burns and dermatology to obstetrics and plastic surgery. During the Year, revenue generated from GeneTime® totalled HK$66.4 million, representing a YOY growth of 7.0%, in which revenue of GeneTime® 15ml recorded a growth of approximately 16.2%. Wider applications, optimized marketing structure and expanded tendering coverage have boosted the sales volume of GeneTime® 15ml, allowing it to enjoy a double-digit growth of approximately 11.6%. With its sales channel shifting from distributor to self-owned sales team, the average unit price of GeneTime® 15ml has increased by 5.2% . Nevertheless, the increment was mildly encroached by the sales decline of GeneTime® 5 ml, as the Group strategically focused on the sales of GeneTime® 15ml which enjoy a higher margin when compare to GeneTime® 5 ml. Furthermore, claim restriction of GeneTime® has been lifted in NRDL in 2017, which enables wider usage scope of GeneTime® including all surgeries, of which the Group took advantages through progressively recruiting experienced salespersons and reaching out for more potential hospitals. In addition, benefited from the reform of provincial essential medicine system, GeneTime® has been allowed to be sold in primary healthcare centres and community hospitals, further spurring its revenue growth.

GeneSoft®

GeneSoft®, mainly used for the treatment of corneal ulcer in the field of ophthalmology, has recorded a modest decrease in revenue during the Year due to the drop of unit price under government price cut pressure. It generated a turnover of HK$20.9 million, representing a drop of approximately 12.9% YoY. But this does not translate to a drop in profitability. According to the agreed model, as a share of revenue, sales and distribution expenses has also dropped accordingly, demonstrating potential for increase profitability of this partnership. Moreover, the Group's relentless efforts in expanding tendering provinces partially tamed the unfavorable trend, with the drug covering over 77% of all provinces in China with 7 provinces' inclusion to Provincial Reimbursement Drug List ("**PRDL**"). As a result, the Group has achieved its sales target with the support of China Resource Zizhu's expansive network. The Group is always seeking opportunities to gain more tenders and to capture untapped markets through increasing competitiveness.

Pinup®

Tailored to treat severe fungal infection, the Group's self-developed proprietary chemical pharmaceutical product Pinup® (Voriconazole tablets) contributed HK$68.2 million to the Group's turnover, indicating an increase of approximately 12.8% when compared with the HK$60.5 million of 2016. The outstanding performance of Pinup® was led by the 3 newly tendered provinces, including Ningxia, Hunan and Hubei, with its national sales volume increased by approximately 26% as compared with 2016. Average unit selling price has seen a modest decrease by 9.3%, under the impact of a general price fall in chemical pharmaceutical industry, yet profitability of this product remain unchanged compare to that of 2016 by the lower unit manufacturing cost owing to capacity ramp-up and efficient internal control. Its competition landscape in China remains promising given the limited number of competitors and restrictive market access.

Bokangtai

The Group's newly launched drug Bokangtai (mitiglinide tablets) concentrated on the treatment of Type 2 diabetes. This is the first year of launch and the Group paid great efforts on building ongoing momentum of Bokangtai to establish market share in chronic diabetes managements. During the Year, Bokangtai generated almost HK$1 million in overall margin. It was encouraging that Bokangtai was listed in the latest NRDL (2017), and since then, the marketing team was continuously looking for potential tendering opportunities nationwide.

FINANCIAL PERFORMANCE REVIEW

Revenue

Sales Developments

During the Year, Uni-Bio recorded a consolidated turnover of approximately HK$156,477,000 representing an increase of 6.8% when compared with approximately HK$146,489,000 recorded in the Year ended 31 December 2016. During the Year, with RMB appreciating against the HKD, total turnover has enjoyed a 7.9% upward adjustment due to foreign exchange fluctuations.

Proprietary biological pharmaceutical products

The Group's proprietary biological pharmaceutical products include GeneTime® (EGF spray indicated for wound healing) and GeneSoft® (EGF-derivative eye drop indicated for corneal damage and post-operative healing). During the Year, sales of proprietary biological pharmaceutical products increased by 1.5% to HK$87,286,000. Proprietary biological pharmaceutical products represented approximately 55.8% of total consolidated sales in the Year under review.

Proprietary Chemical Pharmaceutical Products

The Group's proprietary chemical pharmaceutical product sales includes the sales of Pinup® (voriconazole tablet to treat severe fungal infections) and Bokangtai (mitiglinide tablets for the treatment of Type 2 diabetes). The segment achieved a turnover of HK$69,191,000 in the Year, reflecting a significant increase of 14.4% versus the corresponding sales of HK$60,488,000 as per that of 2016. Chemical pharmaceutical products represented approximately 44.2% of total consolidated sales, comparing to 41.3% during last year.

Gross Profit and Gross Profit Margin

Gross profit for the Year was approximately HK$133,628,000, representing an increase of 7.9% as compared with approximately HK$123,864,000 in 2016. Gross profit margin slightly increased by 0.8% to 85.4%. Such increase in gross profit margin arose from increased unit sales price of GeneTime® 15ml, with it slightly net off by the negative effect from GeneSoft® together with the major change in GeneSoft®'s sales model under the new partnership with China Resource Zizhu. However, this does not translate to a drop in profitability since the sales and distribution expenses of the product has also significant dropped (see ***GeneSoft®*** section).

Despite pricing pressure on drugs from provincial tenders and rapidly growing wages in Beijing and Shenzhen, the Group held gross margins stable during the Year. The Group remains proactive in its approach to improve profitability by reducing costs across its businesses while increasing its operational efficiency. For example, the Group has broadened the number of active pharmaceutical ingredient ("**API**") suppliers used in order to strengthen its competitiveness in raw materials procurement, as well as remaining focused on growing sales volumes to achieve economies of scale.

Sales and Distribution Expenses

Sales and distribution expenses decreased from HK$81,148,000 in the previous year, to HK$76,446,000 in 2017. As a percentage to revenue, it has decreased from 55.4% in the last year to 48.9% this year. The decrease was primarily attributable to the change in GeneSoft®'s sales model optimization under the new partnership with China Resource Zizhu together with more efficient internal cost control. It is also the merit of restructuring sales team that, the new structure force each function to be more concentrated on its own expertise.

R&D Expenses

Total R&D expenses increased by 126.0% to HK$42,519,000, comparing with HK$18,813,000 of last year. The significant increase in R&D expenses was mainly due to the establishment of new research initiatives in developing the liquid formulation of the Group's pipeline products. The first co-development project with Sun-Novo on Acarbose tablets began in the Year under review, which incurred extra development and industrialization cost. In biologics, the Group's Uni-E4 and Uni-PTH programs continued to progress towards preparations for market approval, and the Group has started to deploy resources to develop liquid formulations in order to increase the competitive advantage of the products. These developments have increased the R&D expenses to revenue ratio significantly to 27.2% during the Year, compared with 18.2% in 2016. As the Group develops its pipeline, R&D expenses may fluctuate on a YOY basis due to the different stages of the respective development projects. The Group will continue to build on its strategy of focusing on endocrinology, including diabetes and osteoporosis.

General and Administrative Expenses

The General and Administrative expenses (which excludes Research and Development costs) has increased by 18.3%, mainly led by the increased staff cost and additional one-off charge for legal and professional fee including recruitment fee, IT infrastructure to enhance office operation efficiency, data organisation and security and expenses arose from conducting listco's legal and compliance action (i.e. Share Subscription).

The impact was lessened by the continuous emphasis on stringent cost control, including the introduction of new travel policies, along with the effective operational streamlining, such as the new IT communication tools, which would reduce the frequency to travel. The Group's salesforce expansion plan has continued and the total number of employees of the Group was around 350 as of 31 December 2017. To complement the expansion plan, the Group's Department of Human Resources continued to implement new initiatives to raise employee standards and elevate their performances using a reward system, with a new variable bonus scheme including cash and stock rewards available to key employees.

Other Income

Other income increased by 24.3%, from HK$4,068,000 last year to HK$5,057,000 during the Year under Review. Other income represents income from non-core businesses, such as leasing and interest received from bank deposit, income from the business of contract manufacturing organization (CMO) in the Group's subsidiary Beijing GeneTech Pharm, as well as the receipt of the Beijing Science and Technology Commission High-End Generic Drugs Subsidies, a one-off government grant for Pinup®. This grant represents an important validation and government support for Pinup®, for recognizing it as a high quality product which would address a significant need.

Impairment of Assets

The Group has recognised a one-off impairment of its intangible assets and property, plant and equipment related to the development of pipeline projects of HK$201,660,000 in total during the Year. Due to the recent changes in the regulations of the pharmaceutical industry in the PRC and changes in the competitive landscape of the Group's pipeline projects, including a number of new players successfully entered into the market, the Group has therefore made relevant adjustments to the sales forecast of the current pipeline projects. Detail is set out in Note 20 to the consolidated financial statements.

Total Loss

Total loss widened by 401.2% from HK$55,727,000 last year to HK$279,309,000 during the Year. Loss for the Year excluding the one-off impairment of assets was HK$77,649,000, increased by 39.3% or HK$21,922,000, as compared to last year. This significant increase in loss was partly due to the increase in R&D spending, together with the enhanced salary and benefits packages to attract talents into the Company, one-off expenses for example legal and professional fee incurred for the financing activities carried during the Year and IT infrastructure to enhance office operation efficiency and data organization and security. The Group recognized such costs as essential investment into the future growth of the Company. Among the total loss incurred, it included a HK$177,000 interest payment for a RMB10,000,000 loan which was settled March 2017.

Adding back depreciation and amortization, and other non-cash items ("**Adjusted LBITDA**"), the Group's Adjusted LBITDA widened from HK$17,621,000 to HK$38,532,000 during the Year under review. Considering a total of HK$121,281,000 comprised with time and structured deposits, bank balances and cash was recorded at the end of the Year, the Group can continue to support its near-term operations and investment.

PROSPECT

Outlook

Previously, the lack of periodic reviews assessing newer therapies for reimbursement has been a serious concern for pharmaceutical companies with newly-launched drugs. However, from the observation that an update on the NRDL was only released in February 2017, with it soon replaced by another update in July with 36 additional drugs on list, this indicates that there will be frequent updates in future NRDL, which will allow newly-covered drugs to contribute meaningful sales volume growth starting in 2018, while providing significant growth momentum to the Group as well as to the sector.

Meanwhile, the latest policies are also showing strong backing to domestic high-quality generics and innovative drugs. On 30th November 2017, CFDA issued guidance for the review and approval of drug registration concerning various drugs such as chemical drugs, biological products, Chinese medicine and imported drugs. On the same day, CFDA issued a notice on modifying the review and approval of APIs, excipients and packaging materials, which will eliminate the separate approval procedure for pharmaceutical excipients, as well as packaging materials and containers in direct contact with drugs. The APIs, excipients and packaging materials will be reviewed and approved at one go along with the drug formulation registration process, and the latest drug registration updates will speed up the entire drug registration procedure in China, offering an optimal business environment to the Group and other drug makers with strong R&D capability.

Under such favorable demographic changes and government policies, the Group have taken concrete steps in capturing the blue ocean market. Looking forward to 2018, Uni-Bio will continue to solidify its distribution platform through channel expansion, in which the Group will keep a keen eye on M&A opportunities to expand into new regions such as Northeast and Central China. In addition, the Group will enhance the corporate governance and deepen partnership with professional partners.

Fundraisings through issue of equity and subscription rights

On 20 September 2017, the Company completed the issue and allotment of subscription shares and issue of unlisted warrants under specific mandate, in accordance with the terms and conditions of the subscription agreements entered with Vital Vigour Limited and Wynhaus Assets Management Pte. Ltd ("**Subscribers**") on 18 July 2017 ("**Subscription Agreements**"). Pursuant to the Subscription Agreements, the Company allotted and issued a total of 1,027,480,000 subscription shares to the Subscribers at the subscription price of HK$0.138 per share ("**Subscription Share**"), with 873,360,000 shares subscribed by Vital Vigour Limited and 154,120,000 shares subscribed by Wynhaus Assets Management Pte. Ltd. respectively ("**Subscriptions**"). As at the date of the completion of the Subscription, the closing market price of the Company's shares as quoted on the Stock Exchange was HK$0.18 per share (approximately 24.18% discount of subscription price to market price).

The net proceeds of the Subscriptions, after deducting all relevant costs and expenses, were approximately HK$141.5 million and are intended to be used: (i) as to approximately HK$38.3 million for in-licensing new products for the PRC market, as the Group targets to expand its business development capability and bring in high-quality products that can be commercialized within a short period of time. Such products include but not limit to Acarbose tablets for treatment of Type 2 diabetes, details are set out in the Company's announcement dated 1 December 2016. The manufacturing process and development of such tablets have begun in 2017; (ii) as to approximately HK$97.6 million for the research and development of the Group's pipeline products and the development of their respective future generations. Such pipeline products include Uni-E4, Uni-PTH and Uni-EPO-Fc; and (iii) as to approximately HK$5.6 million as general working capital of the Group.

As at 31 December 2017, the net proceeds from the Subscriptions of approximately HK$19.0 million and HK$5.6 million had been used in R&D expenses over the Group's pipeline products and applied as general working capital of the Group respectively. The mentioned uses are consistent with the intended use of proceeds as disclosed circular of the Company published on 24 August 2017 ("**Circular**"). The remaining of the net proceeds will be applied according to its intended uses as well. For details, please refer to the Circular.

Pursuant to the terms of each of the Subscription Agreements, the Company, subject to the satisfaction of the conditions precedent referred to the Circular and pursuant to the specific mandate sought at the extraordinary general meeting held on 11 September 2017, will issue warrants to both Subscribers ("**Warrants**"), representing an aggregate exercise moneys of up to HK$52,992,281 for new shares ("**Warrants Shares**") to be issued by Company upon exercise of the warrant subscription rights at warrant exercise price of HK$0.2063 per Warrant Shares. The warrant subscription rights may be exercised at any time from the date of issue of the Warrants (i.e. 20 September 2017) until 21 September 2020 4:00 p.m. (Hong Kong time), subject to earlier termination as provided in the warrant instrument.

The issue of the Warrants offers the Company an opportunity to issue new Shares at a premium to the then prevailing market price of the Shares (as compared to the market price of the Shares around the date of the Subscription Agreements) to raise further fund when the Warrant are exercised. The proceeds from the issue of the Warrant Shares upon the exercise of the Warrant Subscription Rights would enable the Group to raise additional capital; could strengthen the financial position of the Group for future development; and could allow the Company to be in a position to take advantage of any identified investment opportunities in the future.

Liquidity and Financial Resources

As at 31 December 2017, the Group's bank deposits, bank balances and cash amounted to approximately HK$121,281,000. The Group had total assets of approximately HK$390,189,000 (as at 31 December 2016: HK$497,321,000), and current assets of approximately HK$205,822,000 (as at 31 December 2016: HK$132,198,000), while current liabilities were at HK$45,628,000 as at 31 December 2017 (as at 31 December 2016: HK$49,968,000). The total liabilities to total assets ratio is 12.1% (as at 31 December 2016: 10.2%).

The Group's major interest and operations are in the PRC. The Group also contracts with suppliers for goods and services that are denominated in Renminbi ("**RMB**"). The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and RMB is managed within a narrow range.

Pledge of Assets and Contingent Liabilities

As of 31 December 2017, the Group did not have any assets pledged for any loan facilities granted to the Group and any material contingent liabilities.

Employment and Remuneration Policy

As of 31 December 2017, the Group employed 349 staff, including 87 staff in the PRC R&D department, 81 staff in the PRC production department, 171 staff in the PRC commercial office and 10 staff in the Hong Kong headquarters. In addition to the full-time employees in the PRC sales offices, the Group has 177 regional distributors. The Group has adopted a competitive remuneration package for its employees to attract and retain top talent. Promotion and salary increments are assessed based on performance. Share options may also be granted to staff with reference to the individual's performance.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Kingsley LEUNG, aged 31, has been appointed as an executive director since 28 February 2014 and appointed as the chairman ("**Chairman**") of the Board with effect from 13 January 2017. Mr. Leung joined the Company on 8 July 2013 as Business Development Manager. Mr. Leung graduated with honours with a bachelor's degree in Biochemistry from Imperial College London in July 2008 and obtained a master's degree in Pharmacology from the University of Oxford in September 2009. Mr. Leung is currently a Chartered Financial Analyst and a member of The Hong Kong Society of Financial Analysts. He also holds a Professional Diploma in Corporate Governance and Directorship and is an associate member of the Hong Kong Institute of Directors. He is currently admitted to Tsinghua-INSEAD Executive MBA Programme. Mr. Leung has extensive experience in investment banking and business development in the biotechnology industry.

In 2016 and 2017, Mr. Leung has been awarded and affirmed by the industry and media in diversified ways. He was appointed as the vice-president of the Young Innovation and Development Alliance（YIDA, non-profit organization） in Hong Kong, and accepted the Entrepreneur of the Year 2017 issued by Capital Magazine. Moreover, Mr. Leung was presented an award for world outstanding leaders by Yazhou Zhoukan in 2016.

Mr. CHEN Dawei, aged 48, obtained an Executive Master's Degree in Business Administration (major in China-America Finance) from Peking University and a Master's Degree in Business Administration from the National University of Singapore. Mr. Chen has over 20 years of experience in enterprise management, capital market and merger and acquisition. He had been the chairman, chief executive officer, executive director and vice-chairman of China Everbright Water Limited (formerly known as HanKore Environment Tech Group Limited) from May 2011 to February 2016, the shares of which are listed on the Main Board of the Singapore Exchange Limited and the sole water business platform of China Everbright Group Ltd. He is currently the executive partner of a Chinese equity investment fund and the chairman of a Singapore capital management company.

Mr. TONG Kit Shing, aged 57, was the former Chairman and has been appointed as an executive director with effect from 22 September 2005. He has been engaged in metal trading business in the PRC since 1997. Mr. TONG also has extensive investment experience in water treatment business in the PRC using biotechnology.

He was retired and resigned as an executive director, the chairman of the Board, the chairman of the Nomination Committee, a member of the Remuneration Committee and one of the Authorised Representatives with effect from 13 January 2017 due to his decision to pursue other interests.

NON-EXECUTIVE DIRECTOR

Ms. Lau Chau In, aged 25, was appointed as non-executive director of the Company with effect from 15 November 2017. Ms. Lau has approximately 3 years of management experience and has served as a director in several private companies in the PRC. Ms. Lau is currently serving as a director of a number of companies within HeungKong Group, a PRC based conglomerate with business segments ranging from trade logistics, industrial development, healthcare, financial investments, education, development and construction. She obtained a Bachelor Degree of Business Administration from The George Washington University in 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Carl Aslan Jason Morton FIRTH, aged 45, has been appointed as an independent non-executive director of the Company with effect from 1 April 2014. Dr. Firth is the Chief Executive Officer and Founder of ASLAN Pharmaceuticals Pte Ltd. Dr. Firth was previously the Head of Asia Healthcare at Bank of America Merrill Lynch. He also spent 5 years at AstraZeneca in pharmaceutical research and development and 4 years in business development, strategic projects and the development of new products in Asia. Dr. Firth holds a PhD degree from Cambridge University in Molecular Biology and a Master of Business Administration degree from London Business School.

He has resigned as an independent non-executive director, a member of the Audit Committee, the chairman of the Remuneration Committee and a member of the Nomination Committee on 15 November 2017, in view of his other business commitments that requires his full time attention.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. ZHAO Zhi Gang, aged 58, has been appointed as an independent non-executive director of the Company with effect from 1 April 2014. Mr. Zhao holds a bachelor's degree in Economics from the Peking University and a master's degree in Professional Accounting from the University of Hartford, Connecticut, United States of America ("**U.S.**"). Mr. Zhao is a U.S. certified public accountant and a fellow of the American Institute of Certified Public Accounts. Mr. Zhao has over 20 years of experience in corporate finance and audit practice with various publicly listed companies and Pricewaterhouse Coopers in the U.S. and in China.

Mr. Zhao is currently the CFO of JMU Limited, whose shares are listed on the NASDAQ Stock Exchange ("NASDAQ"). Previously, Mr. Zhao was the CFO of Borqs Beijing Limited from 2012 to 2014, the CFO of Kingmed Center for Clinical Laboratories from 2011 to 2012, the CFO of Simcere Pharmaceutical Group (whose shares was listed on the New York Stock Exchange) from 2006 to 2011. Prior to that, Mr. Zhao was the CFO of Sun New Media Group Limited, a NASDAQ-listed company, from 2005 to 2006. Mr. Zhao had also held senior financial positions with several publicly listed companies in the U.S. and was an investment consultant with Beijing International Trust and Investment Company.

Mr. CHOW Kai Ming, aged 52, was appointed as independent non-executive director of the Company with effect from 1 April 2016. Mr. Chow has more than 26 years of experience in financial management, auditing and tax planning in accounting firm. He holds a Master Degree in Business Administration from Heriot-Watt University and he is a fellow member of Hong Kong Institute of Certified Public Accountants – Practising since 1994. He is also a fellow member of the Association of Chartered Certified Accountants since 1997, the Taxation Institute of Hong Kong since 1999 and certified Tax Advisor since 2010.

Mr. Ren Qimin, aged 62, was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 15 November 2017.

Mr. Ren has more than 24 years of management experience. He was the Deputy Secretary General and Executive Director of the board of directors of the China Association for International Friendly Contact for 10 years, primarily responsible for affairs relating to the Chinese Government and arranging meetings for international governmental agencies, political parties, other commercial organization and senior Chinese governmental authorities. He served as a director and a senior management in several companies since 1993 to present. Previously, Mr. Ren was the senior advisor of the Beijing office of CIGNA Corporation, a global health insurance service company from 1997 to 1999 primarily responsible for government relation affairs. Prior to that, Mr. Ren was also the General Manager of 蓋洛普（中國）諮詢有限公司 (unofficial english translation being Gallup (China) Consulting Limited) which mainly provides market research and polling service, and is a joint-venture set up by a Chinese investor and Gallup Inc. a global performance-management consulting company. Mr. Ren was primarily responsible for assisting it to start its operations in China from 1993 to 1996. Currently, he serves as an executive director of Carta Group Limited, a company principally engaged in international public relations and governmental affairs consultancy service. He obtained a Master Degree in Economics from Anhui University in 1990.

SENIOR MANAGEMENT

Mr. XUE Wei, Winston, aged 47, is the General Manager of Uni-Bio Science Healthcare (Beijing) Co., Ltd (Commercial platform of Uni-Bio). He has more than 20 years' experience in executive position in both MNCs and Domestic Pharmaceutical companies, including GM or heading marketing, sales division and business unites (i.e. Bayer Fresenius Kabi). During his tenure, he was responsible for the successful launch of several key products, generating billions of Hong Kong dollars in annual revenue, creating one of the best performing business units in the whole industry. Before joining Uni-Bio, Mr. Xue was the Vice President of the Health Insurance Sector of Fosun International Limited and the General Manager of StarE Health. Mr. Xue has graduated from Peking University majoring in Pharmacy and holds an MBA from Tsinghua University. He has served as a practicing hospital pharmacist before entering the commercial sector.

Mr. CHAN Shun Tai, Edward, aged 57, is the Head of Business Development of Uni-Bio Science Healthcare Limited, a wholly-owned subsidiary of the Company. Mr. Chan is a professional pharmacist and has obtained his Pharmacist licenses in Canada and Hong Kong since 1985 and 1987 respectively. Mr. Chan has over 24 years of extensive sales and marketing experience in the pharmaceutical industry. Before joining the Company on 5 March 2012, he was the Director of New Business Development of Xian-Janssen Pharmaceutical Ltd and a General Manager of Jacobson Medical Limited.

Dr. WEN Ya Lei, Jacky, aged 57, is the General Manager of Beijing Genetech Pharmaceutical Co., Ltd. Dr. Wen has more than 30 years of extensive experience in biotechnology and the development of GMP and GLP facilities, as well as developing new drugs and clinical research projects. Dr. Wen graduated from the South China University of Technologies.

Dr. WANG Yong Gang, aged 44, is the Deputy General Manager of Dongguan Taili Biotech Co., Ltd. Dr. Wang has over 20 years of management experience in the development of genetic engineering drugs in large pharmaceutical companies. Dr. Wang graduated from East China University of Science and Technology.

Ms. LUO Chang Qing, aged 55, is the Deputy General manager of Shenzhen Watsin Genetech Ltd. Ms. Luo has over 30 years of experience in finance, accounting and management. She graduated from the Hunan Radio & TV University.

Ms. LIU Yan, Emily, aged 45, is the Head of Medical of Uni-Bio Science Healthcare Limited. Ms. Liu holds a bachelor's degree (with honours) in Clinical Medicine from Hebei University of Medical Science and obtained a master's degree in Neurology from the Capital University of Medical Science in July 1999. Ms. Liu is a medical practitioner and has been working in Beijing Tongren Hospital for 10 years. She also has more than 7 years of medical experiences in multinational pharmaceutical companies like Pfizer and GE Healthcare.

Ms. YAU Suk Yan, aged 36, is the Financial Controller and Company Secretary of the Company. Ms. Yau graduated with a bachelor's degree in Accountancy from Hong Kong Polytechnic University and she is a fellow member of the Hong Kong Institute of Certified Public Accountants. She has over 12 years financial management, company secretarial practicing, accounting and auditing experience in Hong Kong listed companies and international accounting firm.

CORPORATE GOVERNANCE REPORT

The Group is committed to maintaining and improving the quality of corporate governance so as to ensure better transparency and protection of shareholders' interest in general. The directors ("**Directors**") of the Company believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence and for stable growth of the Group.

The Directors are of the opinion that the Company has complied with all the code provisions set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on Stock Exchange ("**Listing Rules**") for the year ended 31 December 2017.

THE BOARD OF DIRECTORS

The Board currently consists of six members, including two executive Directors, one being the Chairman, one non-executive Direct and three independent non-executive Directors. One of the independent non-executive Directors has the professional and accounting qualifications as required by the Listing Rules. The terms of the non-executive Director and independent non-executive Directors are as follows:

Non-executive Director

Ms. LAU Chau In was appointed for a term of 3 years commencing from 15 November 2017.

Independent non-executive Directors

(1) Dr. Carl Aslan Jason Morton FIRTH was appointed for a term of 3 years commencing from 1 April 2017.
(2) Mr. ZHAO Zhi Gang was appointed for a term of 3 years commencing from 1 April 2017.
(3) Mr. CHOW Kai Ming was appointed for a term of 3 years commencing from 1 April 2016.

The Chairman of the Board is Mr. Kingsley LEUNG (appointed on 13 January 2017 after the retirement of Mr. TONG Kit Shing). The principal function of the Board is to formulate strategy and to monitor and control operating and financial performance in pursuit of the strategic objectives of the Group. The Board, led by the Chairman, is vested with full responsibility for setting objective and business development plans, overseeing the processes that management has in place to identify business opportunities and risks, considering and determining major acquisition and disposal and assuming responsibility for corporate governance.

The management is responsible for implementing the strategies and plans adopted by the Board. Executive Directors and management executives meet monthly to review the performance of the businesses of the business units and of the Group as a whole, co-ordinate overall resources and make financial and operational decisions.

Under the code provision A.2.1 there is a segregation of duties between the Chairman's responsibility for leadership and management of the Board and the Group's strategies, and the responsibility of the Chief Executive Officer is to develop business objectives and budgets and to implement the Group's strategies. Such division of responsibilities helps to reinforce their accountability and independence. Upon the resignation of Mr. LIU Guoyao as an executive Director and the Chief Executive Officer on 28 February 2014, the duties of the Chief Executive Officer have been temporarily shared by another executive Director and key executives, except the Chairman, until a suitable successor is appointed. The Board considers that the vesting of the roles of Chief Executive Officer to the other executive Director and key executives in the aforementioned arrangement will not impair the balance of power and authority within the Board as all major decisions are made in consultation with members of the Board.

Mr. Kingsley LEUNG used to be employed by ASLAN Pharmaceuticals Pte Ltd. from June 2011 to March 2014, of which Dr. Carl Aslan Jason Morton FIRTH, an independent non-executive Director, is the chief executive officer and founder, and is currently holding less than 5% interest in ASLAN Pharmaceuticals Pte Ltd. Save as disclosed, there is no other financial, business, family or other material/relevant relationship amongst the Directors. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The independent non-executive Directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive Director an annual confirmation of their independence and is satisfied about their independence up to the date of this report. The independent non-executive Directors are explicitly identified in all corporate communications.

THE BOARD OF DIRECTORS (Continued)

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. When the Board considers any material proposal or transaction in which a substantial shareholder of the Company or a Director has a conflict of interest, a Board meeting is held and only those executive and independent non-executive Directors who have no interest in the transaction can be counted as quorum and entitled to vote at such board meeting. At the meeting, the Director who has interests shall declare his interest and abstain from voting.

All Directors have participated in appropriate continuous professional development activities by attending training courses and reading materials relevant to the Company's business or to the Directors' duties and responsibilities. According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2017 is as follows:

	Type of continuous professional development activities
Kingsley LEUNG (appointed as Chairman on 13 January 2017)	A,B,C
CHEN Dawei (appointed as Vice-chairman on 13 January 2017)	A,B,C
LAU Chau In (appointed on 15 November 2017)	
ZHAO Zhi Gang	B,C
CHOW Kai Ming	B,C
REN Qimin (appointed on 15 November 2017)	B,C
TONG Kit Shing (retired on 13 January 2017)	A,B,C
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	A,B,C

Notes:
A Reading materials, journals and updates relating to the business and industry development
B Reading materials relevant to the latest development of the Listing Rules and other applicable regulatory requirement
C Attending seminars and/or conferences and/or forums

All Directors are committed to devote sufficient time and attention to the affairs of the Group. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organizations and other significant commitments, with the identity of the public companies or organizations. Directors are reminded to notify the Company in a timely manner of any changes of such information.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Board meets regularly throughout the financial period to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Board is supplied with relevant information by the management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular Board meeting. The Chairman is primarily responsible for drawing up and approving the agenda for each Board meeting in consultation with all Directors. Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying materials in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of the Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to materials and related materials, and are provided with adequate information on a timely manner, which enables the Board to make an informed decision on matters placed before it.

All Board meetings held during the year ended 31 December 2017 involved the active participation, either in person or through other electronic means of communication, of a majority of the Directors.

THE BOARD OF DIRECTORS (Continued)

Under the code provision A.6.7, Dr. Carl Aslan Jason Morton Firth and Mr. Zhao Zhi Gang, the independent non-executive Directors, were unable to attend the extraordinary general meeting (the "**EGM**") of the Company held on 11 September 2017 due to prior or unexpected business engagements.

Set out below is a summary of the attendance of individual Directors at the board meetings and general meetings during the year ended 31 December 2017.

	Number of attendance	
	General meetings	**Board meetings**
Executive Directors		
Kingsley LEUNG (appointed as Chairman on 13 January 2017)	2/3	11/11
CHEN Dawei (appointed on as Vice-chairman 13 January 2017)	3/3	9/11
TONG Kit Shing (retired on 13 January 2017)	0/3	1/11
Non-Executive Director		
LAU Chau In (appointed on 15 November 2017)	0/3	1/11
Independent Non-executive Directors		
ZHAO Zhi Gang	2/3	8/11
CHOW Kai Ming	3/3	9/11
REN Qimin (appointed on 15 November 2017)	0/3	1/11
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	2/3	3/11

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by all Directors. A copy of the Model Code is sent to each Director first on his appointment and a reminder is sent to each Director to remind him about the blackout period during which he cannot deal in the securities of the Company at the appropriate time prior to board meetings to approve the Company's financial results.

Having made specific enquiry to all Directors, all Directors confirmed they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") was established in 2001. From 1 January 2017 to 14 November 2017, the Audit Committee comprised three independent non-executive Directors, namely, Dr. Carl Aslan Jason Morton FIRTH, Mr. ZHAO Zhi Gang and Mr. CHOW Kai Ming. From 15 November 2017 and up to the date of this report, the Audit Committee comprised three independent non-executive Directors, namely Mr. ZHAO Zhi Gang, Mr. CHOW Kai Ming and Mr. REN Qimin. As at the date of this report, Mr. CHOW Kai Ming was the chairman of the Audit Committee. Mr. CHOW Kai Ming has the appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.21 of the Listing Rules for the purpose of such appointment.

The Audit Committee has adopted written terms of reference to conform to the provisions of the CG Code.

The meetings of the Audit Committee are held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meeting may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that it is necessary.

AUDIT COMMITTEE (Continued)

The main duties of the Audit Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal
- To discuss with the external auditors the nature and scope of the audit
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard
- To develop and implement policy on the engagement of an external auditors to supply non-audit services
- To review the Group's interim and annual financial statements before submission to the Board
- To discuss problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss
- To review the external auditors' management letter and the management's response
- To review the Group's statement on risk management and internal control system prior to endorsement by the Board
- To discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems.
- To consider the major findings of any internal investigation and the management's response
- To consider other topics, as defined by the Board

The Audit Committee held two meetings during the year ended 31 December 2017. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Number of attendance
CHOW Kai Ming *(Chairman)*	2/2
ZHAO Zhi Gang	2/2
REN Qimin (appointed on 15 November 2017)	0/2
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	1/2

Throughout the year under review, the Audit Committee discharged its responsibilities by reviewing and discussing the interim financial results, annual financial results and internal control system of the Group.

REMUNERATION COMMITTEE

The Company established a remuneration committee ("**Remuneration Committee**") on 4 November 2005 with written terms of reference in compliance with the CG Code. From 1 January 2017 to 12 January 2017, the Remuneration Committee comprised one executive Director, namely, Mr. TONG Kit Shing, and three independent non-executive Directors, namely Dr. Carl Aslan Jason Morton FIRTH, Mr. ZHAO Zhi Gang and Mr. CHOW Kai Ming. From 13 January 2017 to 14 November 2017, the Remuneration Committee comprised one executive Director, namely, Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Dr. Carl Aslan Jason Morton FIRTH, Mr. ZHAO Zhi Gang and Mr. CHOW Kai Ming. From 15 November 2017 and up to the date of this report, the Remuneration Committee comprised one executive Director, namely Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Mr. ZHAO Zhi Gang, Mr. CHOW Kai Ming and Mr. REN Qimin. Dr. Carl Aslan Jason Morton FIRTH resigned as the chairman of the Remuneration Committee on 15 November 2017. As at the date of this report Mr. CHOW Kai Ming (appointed on 15 November 2017) was the chairman of the Remuneration Committee. No Directors will be involved in any discussion in connection with his own remuneration.

The main duties of the Remuneration Committee are as follows:

- To determine the remuneration policy of the Group
- To make recommendations to the Board on the remuneration package of individual executive Directors and senior management
- To review and approve all equity based plans
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies

REMUNERATION COMMITTEE (Continued)

It is the Company's policy that the remuneration package of each Director shall be determined by reference to their experience, qualification and the time expected to be devoted by them on the affairs of the Company.

The Remuneration Committee meets regularly to determine the policy for the remuneration of the Directors, assess performance of the executive Directors and senior management of the Group and approve the terms of the executive Directors' service contracts. During the year under review, the Remuneration Committee has assessed the performance of the executive Directors, reviewed and discussed the remuneration package of the executive Directors, the remuneration of the non-executive director, independent non-executive Directors and senior management. Four Remuneration Committee meetings were held during the year ended 31 December 2017, The individual attendance of each member is set out below:

Members of the Remuneration Committee	Number of attendance
CHOW Kai Ming (appointed as Chairman on 15 November 2017)	4/4
Kingsley LEUNG (appointed on 13 January 2017)	2/4
ZHAO Zhi Gang	4/4
REN Qimin (appointed on 15 November 2017)	0/4
TONG Kit Shing (retired on 13 January 2017)	1/4
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	2/4

NOMINATION COMMITTEE

The Company established a nomination committee ("**Nomination Committee**") on 4 November 2005. The Nomination Committee has adopted written terms of reference to conform to the CG Code. From 1 January 2017 to 12 January 2017, the Nomination Committee comprised one executive Director, namely Mr. TONG Kit Shing, and three independent non-executive Directors, namely Dr. Carl Aslan Jason Morton FIRTH, Mr. ZHAO Zhi Gang and Mr. CHOW Kai Ming. From 13 January 2017 to 14 November 2017, the Nomination Committee comprised one executive Director, namely Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Dr. Carl Aslan Jason Morton FIRTH, Mr. ZHAO Zhi Gang and Mr. CHOW Kai Ming. From 15 November 2017 and up to date of this report, the Nomination Committee comprised one executive Director, namely Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Mr. ZHAO Zhi Gang, Mr. CHOW Kai Ming and Mr. REN Qimin. Mr. Kingsley LEUNG appointed as the chairman of the Nomination Committee after the retirement of Mr. TONG Kit Shing from 13 January 2017 and up to the date of this report.

The Nomination Committee shall meet before the annual general meeting of the Company, or at other times as required by the chairman of the Nomination Committee.

The main duties of the Nomination Committee are as follows:

— To determine the policy for the nomination of Directors
— To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
— To evaluate the balance of skills, knowledge and experience of the Board
— To identify and nominate any candidate for the Board's approval
— To make recommendations for the appointment and removal of the Chairman or any Director
— To make recommendations to the Board on the re-appointment of any non-executive Director at the conclusion of his specified term of office
— To report to the Board on its proceedings after each meeting

NOMINATION COMMITTEE (Continued)

During the year under review, the Nomination Committee performed the following work without conducting a formal meeting:

(i) reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
(ii) assessed the independence of the independent non-executive Directors; and
(iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

The Company adopted the board diversity policy in June 2014 and is available on the website of the Company on http://www.uni-bioscience.com. In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, skills and professional knowledge of the candidate, board diversity aspects and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(1) to develop and review the Company's policies and practices on corporate governance and make recommendations;
(2) to review and monitor the training and continuous professional development of directors and senior management;
(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
(5) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

AUDITORS' REMUNERATION

The Group was charged HK$1,877,000 for audit services provided by Messrs. Deloitte Touche Tohmatsu in respect of the year ended 31 December 2017.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implement an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. In the opinion of the directors, the size of the Group does not warrant setting up an internal audit department. However, during the year under review, the Board with the assistance of an external professional firm, BDO Limited, has conducted a review on the effectiveness of the internal control system of the Group, namely, management supervision, compliance with the CG Code, and major areas of the internal control systems and procedures to assure the Board that the system of internal control is functioning as intended. The results of the internal control review were submitted to the Board for their consideration.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the consolidated financial statements of the Company for the year ended 31 December 2017.

COMPANY SECRETARY

Ms. YAU Suk Yan was appointed as the company secretary of the Company with effect from 14 August 2015. All Directors have access to the advice and services of the company secretary. During the year ended 31 December 2017, Ms. YAU Suk Yan has taken no less than 15 hours of relevant professional trainings respectively to update her/his skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS OF THE COMPANY ("SHAREHOLDERS")

The Board recognizes the importance of good communications with all Shareholders. The Company's annual general meeting for the year ended 31 December 2016 ("**AGM**") was a valuable forum for the Board to communicate directly with the Shareholders. The Chairman of the Board and the chairman of each of the Audit, Remuneration and Nomination Committees together with the external auditors were also present at the AGM to answer Shareholders' questions. The Company has also published a Shareholders communication policy on the website of the Company. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong at Unit 502, 5/F, No. 20 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

All Shareholders' circulars set out the relevant information of the proposed resolutions to be passed at general meetings. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Pursuant to Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, stating the objects of the meeting and deposited at the principal place of business of the Company in Hong Kong at Unit 502, 5/F, No. 20 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

Save as the procedures for shareholders to convene a general meeting as set out above, there are no other provisions allowing shareholders to put forward proposals at the general meeting under the articles of association of the Company or under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

A key element of effective communication with Shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced all its inside information, announcement, interim and annual results in a timely manner in compliance with the Listing Rules. The Company also maintains a company website as a channel to let Shareholders know the Company's news and raise questions through emails and telephone.

There have been no changes in the Company's constitutional documents during the year ended 31 December 2017 under review.

BUSINESS ETHICS

The Company is committed to high standard of business ethics and integrity. A long established code of conduct is enforced on all employees of the Group. No personal gifts or other forms of advantages from any person or organization doing business with the Group can be accepted by any employee. Business partners and suppliers are reminded from time to time that our company's policy forbids our employees or agents from accepting any gift from them.

The Group has developed a code of business conduct for its vendors and suppliers. All the vendors and suppliers of the Group are required to maintain a safe and healthy workplace, fair and ethical employment practice and ensure that proper environmental protection measures are in place. The Group also closely monitors that all the relevant codes of conduct stipulated by our major licensors and customers are strictly followed by its vendors and suppliers.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group (comprising the Company and its subsidiaries) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES, SEGMENTAL INFORMATION AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of subsidiaries are set out in Note 38 to the consolidated financial statements. Segmental information of the Group is disclosed in Note 6 to the consolidated financial statements.

Further discussion and analysis of these principal activities and a review of the business and performance of the Group for the year under review, including a discussion of the principal risks and uncertainties facing the Group and an indication of the likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52.

DIVIDEND

The Directors do not recommend the payment for a dividend for the year ended 31 December 2017.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital of the Company during the year under review are set out in Note 29 to the consolidated financial statements.

Movements in reserves of the Group during the year under review are set out in the consolidated statement of changes in equity on page 54.

In accordance with the Companies Law (revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital accounts.

At 31 December 2017, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$145,291,000 (31 December 2016: HK$579,066,000).

Movements in share capital and reserves for the year ended 31 December 2017 are set out in Note 29 and Note 30 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2017 are set out in Note 38 to the consolidated financial statements respectively.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Kingsley LEUNG (appointed as Chairman on 13 January 2017)
Mr. CHEN Dawei (appointed as Vice-chairman on 13 January 2017)
Mr. TONG Kit Shing (retired on 13 January 2017)

Non-Executive Director

Ms. LAU Chau In (appointed on 15 November 2017)

Independent Non-Executive Directors

Mr. ZHAO Zhi Gang
Mr. CHOW Kai Ming
Mr. REN Qimin (appointed on 15 November 2017)
Dr. Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)

In accordance with Articles 87(1) and 87(2) of the Company's articles of association, each of Mr. ZHAO Zhi Gang will retire by rotation at the forthcoming annual general meeting of the Company ("**Annual General Meeting**") and being eligible, offer themselves for re-election. In accordance with Article 86(3) of the Company's articles of association, Ms. LAU Chau In and Mr. REN Qimin shall hold office only until the Annual General Meeting, and being eligible, will offer themselves for re-election at the Annual General Meeting.

Biographical information of each of the Directors is set out in the section headed "Profile of Directors and Senior Management" in this annual report.

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Kingsley LEUNG, an executive Director, has entered into a service agreement with the Company for a fixed term of 3 years renewal from 28 February 2017.

Mr. CHEN Dawei, an executive Director, has entered in a service agreement with the Company for a term:

(1) in the event that the Company has obtained the necessary approval(s) under the Listing Rules (including Shareholders' approval) on or before 4:00 p.m. on 30 June 2017 (the "**Long Stop Date**"), a term of 5 years commencing on 13 January 2017; or in the event that Company has not obtained the necessary approval(s) under the Listing Rules (including Shareholders' approval) on or before the Long Stop Date, a term of 3 years commencing on 13 January 2017, and is subject to retirement and re-election in accordance with the articles of association of the Company; and

(2) entitled to a monthly salary of HK$50,000 and an annual discretionary bonus to be determined by the Board. In addition, under the terms of the service agreement, for every 12 months in which Mr. CHEN served as an executive Director, the Company will, as additional benefit and free of payment by Mr. CHEN, allot and issue 15,000,000 service shares of the Company ("**Service Shares**") to Mr. CHEN. Mr. CHEN shall not be entitled to any pro rata entitlement of the relevant Service Shares in the event he failed to serve as an executive Director for each such 12 months in full.

DIRECTORS' SERVICE CONTRACTS (Continued)

The above director's term, service agreement and Service Shares issue (as defined and described in the circular of the Company dated 8 June 2017) had been duly approved, confirm and ratify by the way of poll at the extraordinary general meeting dated 23 June 2017.

Each of the non-executive Director and the independent non-executive Directors has been by way of a letter of appointment appointed for a fixed term of 3 years with effect from their respective dates of appointment and subject to renewal upon expiry of the existing term.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in Note 14 to the consolidated financial statements. The Directors' remunerations, bonuses and other compensation are determined or recommended by the remuneration committee of the Board with reference to the Directors' duties, responsibilities and the Group's performance and results.

PERMITTED INDEMNITY PROVISION

During the year under review and as at the date of this report, an indemnity provision was in force. Under the articles of association of the Company, the Directors for the time being acting in relation to any of the affairs of the Company and every one of them shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

The Company has taken out and maintained directors' liability insurance during the year under review for the Directors.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's listed securities.

REMUNERATION POLICY

The remuneration policy of the Group to reward its employees is based on individual performance, qualifications and competence displayed.

The emoluments of the Directors are reviewed by the Remuneration Committee, having regarded to the Company's operating results, individual performance and comparable market statistics.

The Company has a share option scheme in place, of which share options may be granted to eligible persons. Details of the scheme are set out in the section headed "Share Options" of this Directors' report and Note 34 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares ("**Shares**"), underlying Shares and debentures of the Company or any of the its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of issued ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 8)
Kingsley LEUNG	Beneficial owner and interest of a controlled corporation (Note 2)	1,530,877,026 (L)	16,600,000 (L)	1,547,477,026 (L)	25.10%
CHEN Dawei	Beneficial owner (Note 3)	315,955,516 (L)	79,060,000 (L)	395,015,516 (L)	6.41%
LAU Chau In	Beneficial owner (Note 7)	–	1,640,000 (L)	1,640,000 (L)	0.03%
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	Beneficial owner (Note 4)	–	4,500,000 (L)	4,500,000 (L)	0.07%
ZHAO Zhi Gang	Beneficial owner (Note 5)	–	6,140,000 (L)	6,140,000 (L)	0.10%
CHOW Kai Ming	Beneficial owner (Note 6)	–	3,420,000 (L)	3,420,000 (L)	0.06%
REN Qimin	Beneficial owner (Note 7)	–	1,640,000 (L)	1,640,000 (L)	0.03%

Notes:

1. The letter "L" denotes the person's long position in the shares and underlying Shares in the Company or its associated corporation(s).

2. These interests consist of (i) 616,301,016 Shares held by Automatic Result Limited ("**Automatic Result**") which is wholly owned by MJKPC Holdings Limited (a family trust which Mr. Kingsley LEUNG is one of the discretionary objects); (ii) 914,576,010 Shares held by Lord Profit Limited ("**Lord Profit**") which is wholly owned by Mr. Kingsley LEUNG; (iii) 16,600,000 underlying Shares relating to the share options granted by the Company to Mr. Kingsley LEUNG.

3. These interests consist of (i) 315,955,516 Shares held by Mr. CHEN Dawei; (ii) 75,000,000 Service Shares under the terms of his service agreement with the Company (please refer to Directors' Report on P.34 section "Directors' Service Contracts" for details) and (iii) 4,060,000 underlying Shares relating to the share options granted by the Company to Mr. CHEN Dawei.

4. These underlying Shares relate to the share options granted by the Company to Dr. Carl Aslan Jason Morton FIRTH on 12 September 2014, 10 July 2015 and 7 October 2016 respectively.

5. These underlying Shares relate to the share options granted by the Company to Mr. ZHAO Zhi Gang on 12 September 2014, 10 July 2015, 7 October 2016 and 16 November 2017 respectively.

6. These underlying Shares relate to the share options granted by the Company to Mr. CHOW Kai Ming on 7 October 2016 and 16 November 2017.

7. These underlying Shares related to the share options granted by the Company to Ms. LAU Chau In and Mr. REN Qimin on 16 November 2017.

8. The percentage of shareholding is calculated on the basis of 6,164,968,147 Shares in issue as at 31 December 2017.

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company, or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

To the best knowledge of the Directors after making reasonable enquiry, as at 31 December 2017, shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company were as follows:

Name	Capacity	Number of ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 6)
Automatic Result (Note 2)	Beneficial owner	616,301,016 (L)	–	616,301,016 (L)	10.00%
Lord Profit (Note 3)	Beneficial owner	914,576,010 (L)	–	914,576,010 (L)	14.84%
Overseas Capital Assets Limited (Note 4)	Beneficial owner	657,180,000 (L)	–	657,180,000 (L)	10.66%
Vital Vigour Limited (Note 5)	Beneficial owner	873,360,000 (L)	218,340,000 (L)	1,091,700,000 (L)	17.71%
Mr. CHEN Dawei	Beneficial owner	315,955,516 (L)	79,060,000 (L)	395,015,516 (L)	6.41%

Notes:

1. The letter "L" denotes the person's long position in the shares and underlying shares in the Company.
2. Automatic Result is wholly owned by MJKPC Holdings Limited, which is a family trust which Mr. Kingsley LEUNG is one of the discretionary objects.
3. Lord Profit is wholly owned by Mr. Kingsley LEUNG.
4. Based on the individual substantial shareholder notice of Overseas Capital Assets Limited filed on 19 June 2014, Overseas Capital Assets Limited is wholly-owned by He Rufeng.
5. Vital Vigour Limited is a wholly owned subsidiary of HeungKong Great Health GP Limited, which is acting for and on behalf of, and as the general partner of, HeungKong Great Health Fund I. These interests consist of (i) 873,360,000 Shares held by Vital Vigour Limited and (ii) 218,340,000 warrants issued by the Company on 20 September 2017, with warrant exercise price of HK$0.2063 at any time for the period commencing from the date of issue and ending on the third anniversary thereof.
6. The percentage of shareholding is calculated on the basis of 6,164,968,147 Shares in issue as at 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (Continued)

Save as disclosed above, the Directors and chief executive of the Company were not aware of any other persons who had relevant interests or short positions in the shares or underlying shares in the Company as at 31 December 2017 which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in which a director or was materially interested, either directly or indirectly, had subsisted at the end of the year or at any time during the year ended 31 December 2017.

CONTRACTS OF SIGNIFICANCE

No contracts of significance between the Company or one of its subsidiaries, and a controlling shareholder or any of its subsidiaries had subsisted as at the end of the year or at any time during the year ended 31 December 2017.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

DIRECTORS' INTERESTS IN COMPETING INTERESTS

During the year under review, none of the Directors had an interest in any business which competes or may compete with the business in which the Group is engaged.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended under review, the top five customers of the Group together accounted for approximately 26.5% (year ended 31 December 2016: 24.0%) of the Group's total sales for the year while the single largest customer accounted for approximately 11.7% (year ended 31 December 2016: 11.0%) of the Group's total sales during the Year under Review.

The top five suppliers of the Group for the year under review together accounted for approximately 78.7% (year ended 31 December 2016: 69.0%) of the Group's total purchases for the year and the single largest supplier accounted for approximately 51.5% (year ended 31 December 2016: 54.0%) of the Group's total purchases.

None of the Directors, their respective associates or any shareholders of the Company who owns more than 5% of the issued share capital of the Company has any interests in the Group's five largest customers and suppliers.

CONTINGENT LIABILITIES

At 31 December 2017, the Group had no material contingent liabilities.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in Note 15 to the consolidated financial statements.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

As mentioned in the section "MANAGEMENT DISCUSSION AND ANALYSIS – Fundraisings through issue of equity and subscription rights", the Company completed the issue of Subscription Shares and issue of unlisted Warrants under specific mandate, in accordance with the terms and conditions of the Subscription Agreements. Pursuant to the Subscription Agreements, the Company allotted and issued a total of 1,027,480,000 Subscription Shares to the Subscribers at the issue price of HK$0.138 per Subscription Share.

Pursuant to the terms of each of the Subscription Agreements, the Company was issued warrants to both Subscribers, representing an aggregate exercise moneys of up to HK$52,992,281 for Warrant Shares to be issued by Company upon exercise of the warrant subscription rights at warrant exercise price of HK$0.2063 per Warrant Shares (which will entitle the holders thereof to subscribe for up to 256,870,000 Warrant Shares). The warrant subscription rights may be exercised at any time from the date of issue of the Warrants (i.e. 20 September 2017) until 21 September 2020 4:00 p.m. (Hong Kong time), subject to earlier termination as provided in the warrant instrument. Details of which are set out in the circular dated 24 August 2017.

Shareholders	Shareholding structure as at 31 December 2017		Shareholding structure immediately after the exercise of the Warrant Subscription Rights in full	
	Number of Shares	%	Number of Shares	%
Automatic Result Limited	616,301,016	10.00	616,301,016	9.60
Lord Profit Limited	914,576,010	14.84	914,576,010	14.24
Overseas Capital Assets Limited	657,180,000	10.66	657,180,000	10.23
Mr. Chen Dawei (Note 1)	315,955,516	5.13	315,955,516	4.92
Vital Vigour Limited	873,360,000	14.17	1,091,700,000	17.00
Wynhaus Assets Management Pte. Ltd	154,120,000	2.50	192,650,000	3.00
Other Shareholders	2,633,475,605	42.72	2,633,475,605	41.01
Total	6,164,968,147	100.00	6,421,838,147	100.00

Notes:

1. The above does not take into account the Shares which may be issued to Mr. Chen Dawei pursuant to the terms of the executive director service contract dated 13 January 2017 entered into between the Company and Mr. Chen Dawei in relation to the appointment of Mr. Chen Dawei as an executive Director, further particulars of which are set out in the circular of the Company dated 8 June 2017.

2. Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As at year ended 31 December 2017, no Warrant has been exercised.

Save as disclosed above and in the section headed "Share Options" below, the Company had no outstanding convertible securities, options, warrants or instruments carrying other similar rights as at 31 December 2017.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

NEW SHARES ISSUED

As at 31 December 2017, the total number of issued Shares of the Company was 6,164,968,147. A total of 1,027,480,000 new Shares were issued at the price of HK$0.138 per share pursuant to subscription agreement which details of which are set out in the circular of the Company dated 24 August 2017.

SHARE OPTIONS

Under the share option scheme approved by the Shareholders of the Company on 26 September 2016 (the "**2016 Scheme**"), the Directors may, as their discretion, invite directors and employees of the Group to take up options to subscribe for shares in the Company representing up to 30% of the issued share capital of the Company from time to time.

The subscription price for the Shares in relation to options to be granted under the 2016 Scheme shall be determined by the Board and shall be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. The options are exercisable within 10 years from the Offer Date.

SHARE OPTIONS (Continued)

	Number of share options								
	At 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Directors:									
TONG Kit Shing (retired on 13 January 2017)	780,000	–	–	–	–	780,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	600,000	–	–	–	–	600,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	900,000	–	–	–	–	900,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
Kingsley LEUNG	2,940,000	–	–	–	–	2,940,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	3,020,000	–	–	–	–	3,020,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	4,640,000	–	–	–	–	4,640,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	–	6,000,000	–	–	–	6,000,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
Carl Aslan Jason Morton FIRTH (resigned on 15 November 2017)	1,560,000	–	–	–	–	1,560,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	1,160,000	–	–	–	–	1,160,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	1,780,000	–	–	–	–	1,780,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
ZHAO Zhi Gang	1,560,000	–	–	–	–	1,560,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	1,160,000	–	–	–	–	1,160,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	1,780,000	–	–	–	–	1,780,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	–	1,640,000	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574

SHARE OPTIONS (Continued)

	Number of share options								
	At 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
CHOW Kai Ming	1,780,000	–	–	–	–	1,780,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	–	1,640,000	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
CHEN Dawei (appointed on 13 January 2017)	–	4,060,000	–	–	–	4,060,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
LAU Chau In (appointed on 15 November 2017)	–	1,640,000	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
REN Qimin (appointed on 15 November 2017)	–	1,640,000	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
Employees	10,880,000	–	–	–	–	10,880,000	23 January 2015	23 January 2015 to 22 January 2025	0.230
	20,700,000	–	–	–	–	20,700,000	27 January 2016	27 January 2016 to 26 January 2026	0.172
	–	34,950,000	–	–	–	34,950,000	3 April 2017	3 April 2017 to 2 April 2027	0.1500
Other eligible participants	2,080,000	–	–	–	–	2,080,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	33,100,000	–	–	–	–	33,100,000	23 January 2015	23 January 2015 to 22 January 2025	0.230
	1,320,000	–	–	–	–	1,320,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	120,000,000	–	–	–		120,000,000	17 August 2015	17 August 2015 to 16 August 2025	0.237
	1,300,000	–	–	–	–	1,300,000	27 January 2016	27 January 2016 to 26 January 2026	0.172
	–	2,010,000	–	–	–	2,010,000	3 April 2017	3 April 2017 to 2 April 2027	0.1500
	213,040,000	53,580,000	–	–	–	266,620,000			

SHARE OPTIONS (Continued)

Pursuant to ordinary resolutions passed by the shareholders of the Company on 26 September 2016, the Company terminated the 2006 Scheme and adopted the 2016 Scheme. Under the 2016 Scheme, which is valid for a period of ten years, the Board may, at its discretion grant options to subscribe for Shares to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) ("**Eligible Employee**") of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or class of participants who has contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

The subscription price for the Shares shall be a price at least equal to the highest of the nominal value of the Shares, the average of the closing prices of the Shares quoted on the Stock Exchange on the 5 trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Shares quoted on the Stock Exchange on the date of an offer of the grant of the options. The options must be taken up within 21 days from the date of grant upon payment of HK$1 and are exercisable over a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than 10 years from the date of adoption of the 2016 Scheme.

The total number of the Shares which may be issued upon exercise of all options to be granted under the 2016 Option Scheme and any other schemes of the Group (excluding options lapsed in accordance with the terms of the 2016 Option Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the 2016 Option Scheme. The limit on the number of the Shares which may be issued upon exercise of all outstanding option granted any yet to be exercised under the 2016 Scheme and any other schemes of the Group must not exceed 30% of the Shares in issue from time to time. The total number of the Shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the 2016 Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

The Directors consider the 2016 Scheme, with its broadened basis of participation, will enable the Group to reward the employees, directors and other selected participants for their contributions to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth and stability of the Group. Further details of share options were set out in Note 34 to the consolidated financial statements.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. The Company's corporate governance principles and practices are set out in the section headed "Corporate Governance Report" of this annual report.

AUDIT COMMITTEE

The Company sets up the Audit Committee for the purpose of reviewing and providing supervision over the Company's financial reporting procedures and the internal control system, and maintaining an appropriate relationship with the Company's auditors.

Written terms of reference which govern the authority and duties of the Audit Committee were adopted to comply with the requirements of the code provisions of the CG Code set out in the Listing Rules.

The Audit Committee provides an important linkage between the Board and the Company's auditors in relation to audit, financial reporting and internal control matters. The Audit Committee had reviewed with the auditors and the management of the Company the audited results of the Group for the year ended 31 December 2017, the accounting principles and practices adopted by the Company and certain other matters relating to the internal control and financial reporting procedures of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the period under review and up to the date of this report.

DONATIONS

The Group makes regular contributions in terms of financial and other supports to various charitable organizations. Employees are also encouraged to have direct and active involvement in fund raising activities for the needs of the society.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were either not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 37 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises its responsibility to protect the environment while carrying out its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group has adopted green initiatives and measures in its business operations such as recycling of used papers, energy saving measures and water saving practices.

One of the Group's subsidiaries in Shenzhen, Shenzhen Watsin Genetech Limited ("**Shenzhen Watsin**"), utilised safer and more efficient sewage treatments to improve the energy efficiency of its biofilm processes and technologies. Shenzhen Watsin was given an Honorary Clean Production Enterprises award by the Guangdong Provincial government in 2014 and further recognized as the Top Environmentally Friendly Enterprise in 2015.

The Group implemented the "5R" principles which align with our vision of sustainable development and adopting green consumption, and they are:

- Reduce: Reduce unnecessary consumption. Avoid buying unnecessary or excessive goods
- Re-evaluate: Choose products that are natural or made from recycled materials
- Reuse: Consider ways in which to repurpose products
- Recycle: Choose products that can be recycled
- Rescue: Choose reusable designs, reduce usage of disposable products

KEY RELATIONSHIPS

(a) Employees

Human resources are one of the greatest assets of the Group and the Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration, benefits and trainings. The Group is committed to providing its employees with a safe, pleasant and healthy working environment. The Group rewards and recognises employees with competitive remuneration packages and implements a key performance index scheme with appropriate incentives, and promotes career development and progression by providing opportunities for career advancement. During the year under review, recreational activities and team building activities were held to enhance internal communication, reinforce a sense of belonging and promote staff team building.

(b) Suppliers

The Group has developed long-standing relationships with a number of suppliers and taken great care to ensure that they share the Group's commitment to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria, including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(c) Distributors

The Group sells its products through third-party distributors. The Group works closely with its distributors to ensure that they share the Group's view in upholding the Group's brand value and customer services, with a specific focus on attracting and retaining customers in order to drive sales growth. The Group also requires its distributors to comply with the Group's policies and promotional activities standards. The Group monitors the financial condition and repayment history of its distributors.

The Group also provides training to the key sales personnel of its distributors to allow quality and value-added customer services to be provided to the Group's customers.

KEY RELATIONSHIPS (Continued)

(d) Customers

The Group is committed to offer good-quality products to its customers, which are mainly hospitals. The Group has stayed connected and maintained a close relationship with its customers by maintaining a customer information database and having ongoing communications with its customers through various channels, such as telephone calls, direct mails, visits, marketing materials and meetings.

Further discussions on the Group's environmental policy and our relationships with various stakeholders are covered by a separate ESG Report which will be available of the Group's website under the "Corporate Social Responsibility" section and the website of the Stock Exchange on or around mid-July 2018.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out in the PRC while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all PRC and Hong Kong laws and applicable laws in the jurisdictions where it has operations. During the year under review and up to the date of this annual report, the Group has complied with all relevant laws and regulations in the PRC and Hong Kong in all material respects.

AUDITORS

The financial statements for the year ended 31 December 2017 of the Company have been audited by Deloitte Touche Tohmatsu.

On behalf of the Board

Kingsley LEUNG
Chairman

Hong Kong, 29 March 2018

Deloitte. 德勤

TO THE SHAREHOLDERS OF UNI-BIO SCIENCE GROUP LIMITED
聯康生物科技集團有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Uni-Bio Science Group Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 52 to 110, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of intangible assets and property, plant and equipment related to drugs at development stage	
We identified the valuation of intangible assets and property, plant and equipment related to drug at development stage as disclosed in note 20 to the consolidated financial statements as a key audit matter due to significant judgment involved in estimating the recoverable amount of these assets. Determining whether these intangible assets and property, plant and equipment are impaired requires an estimation of the recoverable amount which is the higher of the fair value less costs of disposal, or value in use of the cash-generating units ("CGU") to which the intangible assets and property, plant and equipment have been allocated. The value in use calculation relies on the management's assumptions and estimates of future operating performance of these drugs and the key data and assumptions applied by the management in the impairment review are: • Discount rate; • Expected revenue growth rate; • Estimated gross profit margin; and • Expected launch dates of these new drugs; As at 31 December 2017, the carrying amounts of the intangible assets and property, plant and equipment related to drugs at development stage were HK$63,313,000 and HK$12,458,000, respectively and impairment losses of HK$167,705,000 and HK$33,955,000 on intangible assets and property plant and equipment have been recognised during the year ended 31 December 2017.	Our procedures in relation to valuation of intangible assets and property, plant and equipment related to drugs at development stage included: • Obtaining the valuation reports on the CGUs of these drugs prepared by independent external valuers and evaluating the independent external valuers' competence and objectivity. • Discussing with the independent external valuers to understand and evaluate the appropriateness of their valuation methodology to determine the recoverable amount. • Checking the management's data and challenging the assumptions used in the valuation report by 1) comparing the inputs with the financial budget approved by the management; 2) assessing the discount rates applied with the support from our internal valuations specialists and comparing the rates to benchmark data; 3) comparing expected revenue growth rate and estimated gross profit margin to recent industry and economic data and the Group's specific information; 4) challenging the expected launch dates of new drugs by checking the new drugs approval status and the Group's future business plans and 5) evaluating the sensitivity analysis on the cash flow forecasts preparing by the management and assessing the impact on the recoverable amounts. • Evaluating the management's assessment on the required technical, financial and other resources to complete the development of pipeline drugs.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to significant unobservable inputs and the management judgement associated with the determination of the fair value of investment properties. As disclosed in note 17 to the consolidated financial statements, the carrying amount of the Group's investment properties located in the People's Republic of China was approximately HK$26,605,000 as at 31 December 2017, with a gain arising on change in fair value of investment properties amounting to HK$2,707,000 recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. In determining the fair value of the relevant properties, the board of directors of the Company has set up a valuation team to work with the independent qualified valuers to establish the appropriate valuation techniques and inputs to a model. The fair value of the investment properties were measured using the direct comparison approach and the significant unobservable inputs were unit sale rate.	Our procedures in relation to the valuation of investment properties included: • Evaluating the independent qualified valuers' competence, capabilities and objectivity and reviewing their terms of engagement with the Group; • Discussing with the valuers to understand their approaches to determine the fair values of each investment property to assess if the requirements of HKFRS 13 Fair Value Measurement and the industry norms have been met; and • Evaluating the reasonableness of the key inputs and source data used in the valuations by comparing them to publicly available sales transactions of similar properties in similar locations.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Sunnie Sy.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5 & 6	156,477	146,489
Cost of sales		(22,849)	(22,625)
Gross profit		133,628	123,864
Other income	7	5,057	4,068
Other gains and losses	8	377	1,579
Selling and distribution costs		(76,446)	(81,148)
General and administrative expenses		(89,693)	(75,835)
Research and development costs		(42,519)	(18,813)
Equity-settled share based payment expenses		(6,864)	(7,038)
Impairment losses on intangible assets	20	(167,705)	–
Impairment losses on property, plant and equipment	20	(33,955)	–
Finance costs	9	(177)	(497)
Loss before taxation	10	(278,297)	(53,820)
Income tax expense	11	(1,012)	(1,907)
Loss for the year		(279,309)	(55,727)
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profits or loss:			
Exchange differences arising on translation on foreign operations		27,402	(26,610)
Other comprehensive income (expenses) for the year		27,402	(26,610)
Total comprehensive expenses for the year		(251,907)	(82,337)
Loss per share (HK cents)	12		
Basic		(5.15)	(1.09)
Diluted		(5.15)	(1.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**60,257**	103,328
Investment properties	17	**26,605**	22,245
Prepaid lease payments	18	**11,398**	11,427
Intangible assets	19	**63,313**	220,471
Deposits paid for the acquisition of property, plant and equipment	21	**17,855**	4,216
Deposits paid for the acquisition of intangible assets	22	**4,939**	3,436
		184,367	365,123
Current assets			
Inventories	23	**13,548**	13,052
Trade and other receivables	24	**70,159**	40,250
Prepaid lease payments	18	**834**	779
Time deposit	25	**87,104**	30,773
Structured deposit	25	**11,412**	–
Bank balances and cash	25	**22,765**	47,344
		205,822	132,198
Current liabilities			
Trade and other payables	26	**43,206**	36,697
Income tax payable		**2,422**	2,281
Bank borrowings	27	**–**	10,990
		45,628	49,968
Net current assets		**160,194**	82,230
Total assets less current liabilities		**344,561**	447,353
Non-current liability			
Deferred tax liability	28	**1,408**	949
Net assets		**343,153**	446,404
Capital and reserves			
Share capital	29	**61,650**	51,375
Reserves		**281,503**	395,029
Total equity		**343,153**	446,404

The consolidated financial statements on pages 52 to 110 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

Mr. Chen Da Wei	**Mr. Kingsley Leung**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Distributable reserve HK$'000 (note a)	Exchange reserve HK$'000 (note b)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	50,490	579,654	69,678	1,291,798	48,061	(1,533,021)	506,660
Other comprehensive expense for the year	–	–	–	–	(26,610)	–	(26,610)
Loss for the year	–	–	–	–	–	(55,727)	(55,727)
Total comprehensive expense for the year	–	–	–	–	(26,610)	(55,727)	(82,337)
Recognition of equity-settled share-based payments	–	–	7,038	–	–	–	7,038
Issue of shares upon:							
– exercise of warrants (note 31)	2	33	–	–	–	–	35
– private placement (note 31)	883	14,125	–	–	–	–	15,008
Lapse of vested share options	–	–	(65,126)	–	–	65,126	–
Cancellation of vested share options	–	–	(280)	–	–	280	–
At 31 December 2016	51,375	593,812	11,310	1,291,798	21,451	(1,523,342)	446,404
Other comprehensive income for the year	–	–	–	–	27,402	–	27,402
Loss for the year	–	–	–	–	–	(279,309)	(279,309)
Total comprehensive income/(expense) for the year	–	–	–	–	27,402	(279,309)	(251,907)
Recognition of equity-settled share-based payments	–	–	6,864	–	–	–	6,864
Issue of private placement (note 31)	10,275	131,517	–	–	–	–	141,792
At 31 December 2017	61,650	725,329	18,174	1,291,798	48,853	(1,802,651)	343,153

Note a: The distributable reserve represents credit arising from Capital Reorganisation effected by the Company during the year ended 31 March 2010. Under the Company Law (revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital accounts.

Note b: Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currency to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(278,297)**	(53,820)
Adjustments for:			
Amortisation of intangible assets		**4,837**	4,914
Amortisation of prepaid lease payments		**808**	817
Change in fair value of investment properties		**(2,707)**	(1,003)
Depreciation of property, plant and equipment		**25,419**	22,933
Equity-settled share based payment expenses		**6,864**	7,038
Impairment losses on intangible assets	20	**167,705**	–
Impairment losses on property, plant and equipment	20	**33,955**	–
Interest income		**(744)**	(1,372)
Interest expense		**177**	497
Loss (gain) on disposal of property, plant and equipment		**100**	(27)
Impairment losses recognised (reversed) on trade receivables		**2,545**	(549)
Operating cash flows before movements in working capital		**(39,338)**	(20,572)
Increase in inventories		**(431)**	(4,711)
(Increase) decrease in trade and other receivables		**(32,454)**	2,149
Increase in trade payables and other payables		**7,238**	1,318
Cash used in operations		**(64,985)**	(21,816)
Income tax paid		**(3,620)**	(1,875)
NET CASH USED IN OPERATING ACTIVITIES		**(68,605)**	(23,691)
INVESTING ACTIVITIES			
Funds placed on time deposits		**(56,331)**	(30,773)
Funds placed on structured bank deposit		**(11,412)**	–
Purchase of property, plant and equipment		**(24,575)**	(12,536)
Proceeds from disposal of property, plant and equipment		**44**	120
Additions of intangible assets		**(1,503)**	(8,042)
Interest received		**744**	1,372
NET CASH USED IN INVESTING ACTIVITIES		**(93,033)**	(49,859)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES			
Repayment to independent third parties		–	(9,662)
Proceeds from a bank borrowing		–	10,990
Proceeds from exercise of warrants		–	35
Proceeds from private placement		**141,792**	15,008
Repayment of a bank borrowing		**(11,990)**	–
Interest paid		**(117)**	(497)
NET CASH FROM FINANCING ACTIVITIES		**129,685**	15,874
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(31,953)**	(57,676)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**47,344**	110,014
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**7,374**	(4,994)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**22,765**	47,344

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the Company is Hong Kong dollars ("**HK$**") and the functional currency of the subsidiaries in the People's Republic of China (the "**PRC**") is Renminbi ("**RMB**"). The consolidated financial statements are presented in HK$ for the conveniences of the financial statements users as the Company is listed in Hong Kong.

The Company acts as investment holding company and the principal activities of its subsidiaries are set in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendment to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 39. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 39, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investment that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company are of the view that the expected credit loss model may result in early and additional provision of credit losses which are not yet incurred for the Group's financial assets measured at amortised costs. However, the directors of the Company do not expect the adoption of HKFRS 9 would result in significant impact on the amounts recognised in the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2017, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group as lessee has non-cancellable operating lease commitments of approximately HK$10,587,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

In addition, the Group currently considers refundable rental deposits paid of HK$1,292,000 as at 31 December 2017, as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

The consolidated financial have been prepared on the historical cost basis, except for investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls and investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income/a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for good sold in the normal course of business, net of discounts and sales related taxes. Revenue is reduced for estimated customer returns and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Interest income is accrued on a time appointment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

The Group's policy for recognition of rental income from operating leases is described in the accounting policy for leasing below.

Equity-settled share-based payment transactions

Share options granted to employees/directors

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the share options at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

When the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the services received at the date the counterparty renders the service, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the counterparty renders the service. The fair values of the services received are recognised as expenses (unless the services qualify for recognition as assets).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transaction. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interests becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Internally-generated intangible assets – research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditures (Continued)

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash- generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior reporting periods. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method (Continued)

Impairment of financial assets (Continued)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity interests are equity instruments. The warrants are recognised initially at the net proceeds received.

Other financial liabilities

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Keys sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of intangible assets and property, plant and equipment related to drugs at development stage

Intangible assets under development are tested for impairment at least annually or more frequently where an indication of impairment exists. The Group also reviews the carrying amounts of property, plant and equipment and intangible assets with finite useful lives to determine whether there is any indicator that those assets have suffered an impairment loss.

As there are changes in development plans for drugs at development stage, impairment indicator on intangible assets and property, plant and equipment exists. Determining whether these intangible assets and property, plant and equipment are impaired requires an estimation of the recoverable amount which is higher of the fair value less costs of disposal, or value in use of the cash-generating units ("**CGU**") to which the intangible assets and property, plant and equipment have been allocated.

The value in use calculation relies on the management's assumptions and estimates of future operating performance of these drugs. Significant estimation is involved in determining the key data and assumptions applied by the management in the impairment review, which include discount rates, expected revenue growth rate, estimated gross profit margin; and expected launch dates of these new drugs.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Keys sources of estimation uncertainty (Continued)

Impairment of intangible assets and property, plant and equipment related to drugs at development stage (Continued)

As at 31 December 2017, the carrying amounts of the intangible assets and property, plant and equipment related to drugs at development stage were HK$63,313,000 (2016: HK$220,471,000) and HK$12,458,000 (2016: HK$50,683,000), respectively and impairment losses of HK$167,705,000 (2016: Nil) and HK$33,955,000 on intangible assets and property, plant and equipment have been recognised during the year ended 31 December 2017.

Fair value of investment properties

At the end of each reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. At 31 December 2017, the carrying amount of investment properties measured at fair value was approximately HK$26,605,000 (31 December 2016: HK$22,245,000).

Amortisation of intangible assets

Intangible assets are amortised over their useful lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group's management, taking into account factors such as the ability to legally renew the technical know-how, technological progress and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying value in the period in which the changes take place. As of 31 December 2017, the carrying amount of intangible assets with definite useful life is HK$33,412,000 (31 December 2016: HK$35,874,000), and amortisation of the intangible assets of HK$4,837,000 (31 December 2016: HK$4,914,000) has been recognised for the year ended 31 December 2017.

Estimated impairment loss on trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The assessment involves reviewing aging of trade receivables and assessing the payment history of the debtor. The identification of impairment requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed. At 31 December 2017, the carrying amounts of trade receivables was HK$62,306,000 (31 December 2016: HK$34,070,000), net of allowance for doubtful debts of HK$3,813,000 (31 December 2016: HK$1,109,000).

5. REVENUE

Revenue represents the gross invoiced value of goods sold, net of value added tax, sales returns and discounts, to outside customers. Sales of pharmaceutical products is the sole revenue of the Group.

6. SEGMENT INFORMATION

Information reported to the Company's executive directors, being the chief operating decision makers ("**CODM**"), for the purpose of allocating resources to segments and assessing their performance are organised on the basis of the revenue streams. The Group's operating and reporting segments are (a) manufacture and sale of chemical pharmaceutical products, (b) manufacture and sale of biological pharmaceutical products and (c) industrialisation of pipeline products. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating reportable segment.

For the year ended 31 December 2017

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	69,191	87,286	–	156,477
Result				
Segment gain (loss)	18,568	13,377	(261,569)	(229,624)
Other income				5,057
Change in fair value of investment properties				2,707
Equity-settled share-based payment expenses				(6,864)
Unallocated administration expenses				(49,396)
Finance costs				(177)
Loss before taxation				(278,297)

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2016

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	60,488	86,001	–	146,489
Result				
Segment gain (loss)	11,199	12,814	(39,052)	(15,039)
Other income				4,068
Change in fair value of investment properties				1,003
Equity-settled share-based payment expenses				(7,038)
Unallocated administration expenses				(36,317)
Finance costs				(497)
Loss before taxation				(53,820)

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the results of each segment without allocation of other income, change in fair value of investment properties, equity-settled share-based payment expenses, unallocated administration expenses and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than investment properties, certain bank balances and cash and some unallocated corporate assets. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments; and

- all liabilities are allocated to operating and reportable segments other than income tax payable, deferred tax liabilities, bank borrowing and some unallocated corporate liabilities. Liabilities for which operating and reportable segments are jointly liable are allocated in proportion to segment assets.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

As at 31 December 2017

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment assets	**109,811**	**65,332**	**59,958**	**235,101**
Unallocated assets				**155,088**
Total assets				**390,189**
Segment liabilities	**16,911**	**24,464**	**3,187**	**44,562**
Unallocated liabilities				**2,474**
Total liabilities				**47,036**

As at 31 December 2016

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment assets	73,446	60,557	256,746	390,749
Unallocated assets				106,572
Total assets				497,321
Segment liabilities	11,584	19,621	2,607	33,812
Unallocated liabilities				17,105
Total liabilities				50,917

6. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2017

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets					
Additions to property, plant and equipment	1,850	1,212	3,725	3,420	10,207
Amortisation of intangible assets	–	–	4,837	–	4,837
Amortisation of prepaid lease payments	291	517	–	–	808
Depreciation of property, plant and equipment	3,604	8,170	12,192	1,453	25,419
Loss on disposal of property, plant and equipment	100	–	–	–	100
Research and development cost	–	6,683	35,836	–	42,519
Impairment losses on intangible assets	–	–	167,705	–	167,705
Impairment losses on property, plant and equipment	–	–	33,955	–	33,955
Impairment losses on trade receivables	2,545	–	–	–	2,545
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets					
Interest on bank deposits	–	(262)	(366)	(116)	(744)

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2016

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets					
Additions to property, plant and equipment	1,006	1,368	2,792	2,420	7,586
Additions to intangible assets	–	–	7,897	–	7,897
Amortisation of intangible assets	–	–	4,914	–	4,914
Amortisation of prepaid lease payments	294	523	–	–	817
Depreciation of property, plant and equipment	3,497	5,293	8,773	1,118	18,681
Gain on disposal of property, plant and equipment	(1)	(26)	–	–	(27)
Research and development cost	–	1,707	17,106	–	18,813
Reversal of impairment losses on trade receivables	–	(549)	–	–	(549)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets					
Interest on bank deposits	–	(623)	(707)	(42)	(1,372)

Geographical information

Information about the Group's sales to external customers presented based on the locations of customers, and information about the Group's non-current assets presented based on the geographical location of the non-current assets are summarised below.

	Sales to external customers		Non-current assets	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Hong Kong	**–**	–	**5,933**	4,377
The PRC	**156,477**	146,489	**178,434**	360,746
	156,477	146,489	**184,367**	365,123

6. SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

	2017 **HK$'000**	2016 HK$'000
Customer A (Note)	**18,240**	15,378

Note: Revenue generated from chemical pharmaceutical products.

7. OTHER INCOME

	2017 **HK$'000**	2016 HK$'000
Interest on bank deposits	**744**	1,372
Rental income	**2,625**	2,281
Government grants (note)	**1,304**	313
Sundry income	**384**	102
	5,057	4,068

Note: During the year ended 31 December 2017, the Group received two government grants amounted to RMB1,130,000 (approximately HK$1,304,000) as a subsidy of research and development expenditures incurred in 2017 and the conditions have been fulfilled upon the grant.

8. OTHER GAINS AND LOSSES

	2017 **HK$'000**	2016 HK$'000
Gain from changes in fair value of investment properties (note 17)	**2,707**	1,003
Impairment losses (recognised) reversed on trade receivables	**(2,545)**	549
(Loss) gain on disposal of property, plant and equipment	**(100)**	27
Others	**315**	–
	377	1,579

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	177	481
Interest on advance from independent third parties	–	16
	177	497

10. LOSS BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Loss before taxation is arrived at after charging:		
Staff costs (including directors' emoluments)		
Salaries, wages and other benefit	35,690	34,343
Retirement benefit scheme contribution	7,147	3,324
Equity-settled share based payments to staff	6,714	1,878
	49,551	39,545
Equity-settled share based payments to consultants	150	5,160
Amortisation of intangible assets	4,837	4,914
Amortisation of prepaid lease payments	808	817
Auditor's remuneration	1,877	1,870
Cost of inventories recognised as an expense	22,849	22,625
Operating lease rentals in respect of offices	3,587	2,965
Depreciation	25,419	22,933
Less: Depreciation included in research and development costs	(6,390)	(4,252)
	19,029	18,681
Research and development costs	42,519	26,710
Less: Capitalisation on intangible assets (note 19)	–	(7,897)
	42,519	18,813
After crediting:		
Equipment rental income	–	236
Property rental income less outgoing	2,625	2,045

11. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
The PRC Enterprise Income Tax ("**EIT**")		
– Current year	555	1,599
– Under-provision in prior years	51	157
	606	1,756
Deferred taxation (note 28)		
– Current year	406	151
	1,012	1,907

No provision for Hong Kong profits tax has been made since the entities operating in Hong Kong had no assessable profit for the both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Beijing Genetech Pharmaceutical Co., Limited and Shenzhen Watsin Genetech Pharmaceutical Co., Limited, wholly owned subsidiaries of the Company, were approved as "high-new technology enterprise" and were eligible to enjoy a preferential enterprise income tax rate of 15% (2016: 15%) for the years ended 31 December 2016 and 2017.

The income tax expense for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Loss before taxation	(278,297)	(53,820)
Tax at the preferential enterprise income tax rate of 15% (2017: enterprise income tax rate of 15%)	(41,745)	(8,073)
Tax effect of non-taxable income	(647)	(6)
Tax effect of non-deductible expenses	35,566	4,619
Tax effect of deductible temporary difference not recognised	406	151
Tax effect of tax losses not recognised	7,891	8,730
Under-provision in prior years	51	157
Effect of different tax rates of group entities	(510)	(3,671)
Income tax expense for the year	1,012	1,907

12. LOSS PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(279,309)**	(55,727)

	2017 **'000**	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**5,426,650**	5,091,770

No adjustment has been made to basic loss per share amounts presented for the years ended 31 December 2017 and 31 December 2016 in respect of a dilution as the impact of the share options and warrants outstanding would decrease basic loss per share.

13. DIVIDEND

No dividend was paid, declared or proposed during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

14. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, as follows:

For the year ended 31 December 2017

	Tong Kit Shing HK$'000 (Note a)	Kingsley Leung HK$'000 (Note a)	Chen Dawei HK$'000 (Note b)	Total HK$'000
Executive Directors				
Fee	–	–	–	–
Other emoluments				
Salaries, allowance and benefits in kind	5	838	575	1,418
Performance related bonuses	23	52	–	75
Equity-settled share-based payments	19	338	59	416
Retirement benefit scheme contribution	7	18	18	43
	54	1,246	652	1,952

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Chow Kai Ming HK$'000 (Note c)	Ren Qimin HK$'000 (Note c)	Dr. Carl Aslan Jason Morton HK$'000 (Note c)	Zhao Zhi Gang HK$'000	Total HK$'000
Independent Non-executive Directors					
Fee	240	30	210	240	720
Equity-settled share-based payments	61	24	96	120	301
	301	54	306	360	1,021

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

14. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Lau Chau In HK$'000 (Note d)
Non-executive Directors	
Fee	**30**
Equity-settled share-based payment	**24**
	54

The non-executive directors' emoluments shown above were mainly for their services as directors of the affairs of the Company.

For the year ended 31 December 2016

	Tong Kit Shing HK$'000 (Note a)	**Kingsley Leung** HK$'000 (Note a)	**Chen Dawei** HK$'000 (Note b)	**Total** HK$'000
Executive Directors				
Fee	–	–	–	–
Other emoluments				
Salaries, allowance and benefits in kind	144	618	–	762
Performance related bonuses	12	56	–	68
Equity-settled share-based payments	16	444	–	460
Retirement benefit scheme contribution	8	18	–	26
	180	1,136	–	1,316

14. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

For the year ended 31 December 2016 (Continued)

	Chow Kai Ming HK$'000 (Note c)	Tsao Hoi Ho, Terry HK$'000 (Note c)	Dr. Carl Aslan Jason Morton HK$'000 (Note c)	Zhao Zhi Gang HK$'000	Total HK$'000
Independent Non-executive Directors					
Fee	180	31	240	240	691
Equity-settled share-based payments	30	–	204	204	438
	210	31	444	444	1,129

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Note a: Mr. Tong Kit Shing resigned as chairman and executive director on 13 January 2017. On the same date, Mr. Kingsley Leung was appointed as the chairman.

Note b: Mr. Chen Da Wei was appointed as executive director on 13 January 2017.

Note c: Mr. Chow Kai Ming was appointed as independent non-executive director on 1 April 2016. Mr. Tsao Hoi Ho, Terry resigned as independent non-executive director on 18 March 2016. Mr. Ren Qimin was appointed as independent non-executive director on 15 November 2017. Dr. Carl Aslan Jason Morton resigned as independent non-executive director on 15 November 2017.

Note d: Mr. Lau Chau In was appointed as non-executive director on 15 November 2017.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 34 to the Group's consolidated financial statements.

Upon the resignation of Mr. Liu Guoyao as an executive director and the chief executive officer on 28 February 2014, the duties of the chief executive officer have been temporarily shared by another executive director and key executives, except the chairman, until a suitable successor is appointed.

14. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

(b) Five highest paid employees

Of the five individuals with highest emoluments in the Group, one (2016: none) were directors of the Company. The emoluments of the remaining four (2016: five) highest paid individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	4,932	6,225
Retirement benefit scheme contribution	259	275
Equity-settled share-based payments	367	630
	5,558	7,130

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2017 No. of employees	2016 No. of employees
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	3	4
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	–	1
	4	5

During the year, certain non-director highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 34 to the Group's consolidated financial statements.

(c) No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Company, or as compensation for loss of office for the both years.

15. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of a state-managed retirement benefit scheme operated by the China government. The subsidiaries are required to contribute based on a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in profit or loss of HK$7,147,000 (2016: HK$3,324,000) represents contributions payable to these plans by the Group for staff (including directors and senior management) at rates specified in the rules of the plans.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in process HK$'000	Total HK$'000
COST							
At 31 January 2016	43,232	226,070	42,265	67,099	4,662	18,682	402,010
Exchange realignment	(2,577)	(15,042)	(1,025)	(2,951)	(257)	(1,045)	(22,897)
Additions	–	2,362	4,200	668	356	–	7,586
Disposals	–	(39)	(243)	–	(413)	–	(695)
At 31 December 2016	40,655	213,351	45,197	64,816	4,348	17,637	386,004
Exchange realignment	3,064	17,845	1,245	3,517	306	1,243	27,220
Additions	–	2,690	4,808	2,352	356	1	10,207
Transfer	–	–	–	18,355	–	(18,355)	–
Disposals	–	(2,343)	(915)	–	(303)	–	(3,561)
At 31 December 2017	43,719	231,543	50,335	89,040	4,707	526	419,870
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	28,735	181,789	29,913	33,117	3,679	–	277,233
Exchange realignment	(1,589)	(12,387)	(476)	(2,302)	(134)	–	(16,888)
Provided for the year	2,159	13,644	3,223	3,760	147	–	22,933
Eliminated on disposals	–	(35)	(207)	–	(360)	–	(602)
At 31 December 2016	29,305	183,011	32,453	34,575	3,332	–	282,676
Exchange realignment	1,984	15,463	760	2,529	244	–	20,980
Provided for the year	2,137	15,120	3,704	4,167	291	–	25,419
Eliminated on disposals	–	(2,260)	(870)	–	(287)	–	(3,417)
Impairment losses recognised in the year (note c)	–	13,930	2,463	17,562	–	–	33,955
At 31 December 2017	33,426	225,264	38,510	58,833	3,580	–	359,613
CARRYING VALUES							
At 31 December 2017	10,293	6,279	11,825	30,207	1,127	526	60,257
At 31 December 2016	11,350	30,340	12,744	30,241	1,016	17,637	103,328

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The leasehold buildings are held in the PRC under short and medium-term leases.

(b) The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, less their estimated residual value, if any, at the following rates per annum:

Leasehold buildings	Over 5% or the term of lease, if shorter
Plant and machinery	6.6% – 20%
Fixtures and equipment	10% – 20%
Leasehold improvements	5% – 18%
Motor vehicles	15% – 20%

(c) The directors of the Company conducted impairment review of the Group's property, plant and equipment related to drugs at development stage. During the year ended 31 December 2017, impairment losses of HK$33,955,000 were recognised in profit or loss. Details of such impairment testing are set out in note 20.

17. INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
FAIR VALUE		
At the beginning of the year	**22,245**	22,549
Exchange realignment	**1,653**	(1,307)
Net increase in fair value recognised in profit or loss (note 8)	**2,707**	1,003
At the end of the year	**26,605**	22,245

The investment properties shown above are situated in the PRC (i.e. Shenzhen and Beijing) and held under short and medium-term leases.

The Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2017 and 31 December 2016 has been arrived at on the basis of a valuation carried out on the respective dates by Roma Appraisal Limited, independent qualified professional valuers not connected to the Group.

In determining the fair value of the relevant properties, the board of directors of the Company has set up a valuation team, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

As at 31 December 2017, the fair values of investment properties were based on direct comparison approach, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. The valuation team considers direct comparison approach is more appropriate compared with income approach adopted in prior years as less estimation is involved. There is no significant difference in the fair value arising from direct comparison approach and income approach in both years. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

17. INVESTMENT PROPERTIES (Continued)

As at 31 December 2017, the key inputs used in valuing the investment properties were market unit sale rate of RMB8,200 (2016: RMB7,500) and RMB5,500 (2016: RMB4,600) per square meter for investment properties in Shenzhen and Beijing respectively. A slight increase in market unit sale rate used would result in a significant increase in fair value measurement of the investment properties, and vice versa.

The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 3). There were no transfers into or out of Level 3 during both years.

18. PREPAID LEASE PAYMENTS

	2017	2016
	HK$'000	HK$'000
The Group's prepaid lease payments are held under in the PRC as follows:		
Medium-term lease	**9,072**	8,755
Short-term lease	**3,160**	3,451
	12,232	12,206

	2017	2016
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current assets	**834**	779
Non-current assets	**11,398**	11,427
	12,232	12,206

19. INTANGIBLE ASSETS

	Trademarks and certificates HK$'000 (Note a)	Technical know-how HK$'000 (Note b)	Capitalised development costs HK$'000 (Note c)	Total HK$'000
COST				
At 1 January 2016	248,808	124,710	188,375	561,893
Exchange realignment	(13,918)	(6,976)	(10,900)	(31,794)
Additions	–	–	7,897	7,897
At 31 December 2016	234,890	117,734	185,372	537,996
Exchange realignment	16,552	8,296	13,064	37,912
At 31 December 2017	251,442	126,030	198,436	575,908
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2016	248,808	81,744	821	331,373
Exchange realignment	(13,918)	(4,798)	(46)	(18,762)
Provided for the year	–	4,914	–	4,914
At 31 December 2016	234,890	81,860	775	317,525
Exchange realignment	16,552	5,921	55	22,528
Provided for the year	–	4,837	–	4,837
Impairment losses recognised in the year (note e)	–	–	167,705	167,705
At 31 December 2017	251,442	92,618	168,535	512,595
CARRYING VALUES				
At 31 December 2017	–	33,412	29,901	63,313
At 31 December 2016	–	35,874	184,597	220,471

19. INTANGIBLE ASSETS (Continued)

All intangible assets are amortised on a straight-line basis over the following periods:

Trademarks and certificates	10 to 15 years
Technology know-how	10 years

Notes:

(a) Trademarks and certificates represent costs in obtaining trademarks and registration certificates for medicines.

(b) Technical know-how mainly represents techniques and formulas acquired separately for the development of products and production technology.

(c) Capitalised development costs mainly represent costs generated internally for the development of products and product technology.

(d) Except for the capitalised development costs, the respective intangible assets have finite lives and are subsequently amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Capitalised development costs are not amortised as the development of products and the technology is in the registration or clinical trial process stage and are assessed for impairment annually.

(e) The directors of the Company conducted impairment review of the Group's intangible assets annually. During the year ended 31 December 2017, impairment losses of HK$167,705,000 were recognised in profit or loss. Details of such impairment testing are set out in note 20.

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO DRUGS AT DEVELOPMENT STAGE

For the purpose of impairment testing, intangible assets and property, plant and equipment related to drugs at development stage set out in notes 19 and 16 have been allocated to three individual cash-generating units (CGUs). The carrying amounts of intangible assets (net of accumulated amortisation and impairment losses) and property, plant and equipment (net of accumulated depreciation and impairment losses) as at 31 December 2017 allocated to these units are as follows:

	Property, plant and equipment		**Intangible assets**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
CGUs				
Drug 1	**7,212**	42,259	**23,376**	122,412
Drug 2	**3,890**	6,667	**39,937**	58,946
Drug 3	**1,356**	1,757	**–**	39,113
	12,458	50,683	**63,313**	220,471

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO DRUGS AT DEVELOPMENT STAGE (Continued)

Drug 1:

Due to changes in the competitive landscape of this drug, including the successful introduction of a number of new players into the market, the Group has therefore made adjustments to the development plan of this drug. Instead of submitting new drug application for this drug at original formulation, the directors of the Company has decided to direct all the existing resources to develop an advanced formulation of this drug for new drug application. The directors of the Company consider that the drug can be launched in 2023 and sales forecast has been updated accordingly. The changes result in a significant decline in the recoverable amount of the CGU. Impairment losses of HK$102,764,000 and HK$31,707,000 on intangible assets and property, plant and equipment are recognised.

Drug 2:

The Group filed formal new drug application of this drug to the China Food and Drug Administration in 2015. Due to the recent changes in the regulations of the pharmaceutical industry in the PRC, the Group has to conduct an evaluation to all clinical studies and submit supplementary filing in 2017. The directors of the Company consider that the application will be approved and the drug can be launched in 2019. The postponement of expected launch date results in a decline in the recoverable amount of the CGU. Impairment losses of HK$23,091,000 and HK$2,248,000 on intangible assets and property, plant and equipment are recognised.

Drug 3:

Taken into accounts 1) the current year's adjustment of strategy on Drug 1, which requires significantly resources and times for its development in coming few years; 2) the prolonged delay on the new drug application of Drug 2 due to the tightened regulatory environment of the pharmaceutical industry in the PRC, which had an impact on the Group's cash inflow, 3) the current progress on developing Drug 3, it is in the opinion of the management that the Group might not have the required technical, financial and other resources to complete the development of Drug 3. As a result, an impairment loss of HK$41,850,000 on intangible assets of Drug 3 is made.

The basis of the recoverable amounts of the CGUs of Drug 1 and Drug 2 and their major underlying assumptions are summarised below:

The recoverable amounts of these two units have been determined based on a value in use calculation. That calculation was based on the cash flow forecasts derived from the most recent financial budgets for the next 9 years starting from the expected year of commercial launch of respective drug approved by the management using the discount rate of 19.4% for Drug 1 and 19.6% for Drug 2 (31 December 2016: 17.6% for Drug 1 and 2) which reflects current market assessments of the time value of money and the risk specific to these two CGUs. The cash flows beyond the 9-year-period are extrapolated for 15 years assuming 3% (31 December 2016: 3%) growth based on market data and historical records of existing drugs.

The following table illustrates the effect on VIU of reasonably possible changes to key assumptions for Drug 1 CGU, and Drug 2 CGU respectively. This reflects the sensitivity of VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change will occur at the same time. The directors of the Company consider that a possible unfavourable change in key assumptions will lead to further impairment losses on property, plant and equipment and intangible assets for both drugs.

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO DRUGS AT DEVELOPMENT STAGE (Continued)

Drug 1

	Favourable change	Unfavourable change
At 31 December 2017		
Perpetual growth rate (current model: 3%)	+1% to 4%	–1% to 2%
Increase/(decrease) in VIU (HK$'000)	6,160	(5,863)
Discount rate (current model: 19.4%)	–2% to 17.4%	+2% to 21.4%
Increase/(decrease) in VIU (HK$'000)	15,070	(11,676)

Drug 2

	Favourable change	Unfavourable change
At 31 December 2017		
Perpetual growth rate (current model: 3%)	+1% to 4%	–1% to 2%
Increase/(decrease) in VIU (HK$'000)	3,354	(3,191)
Discount rate (current model: 19.6%)	–2% to 17.6%	–2% to 21.6%
Increase/(decrease) in VIU (HK$'000)	13,806	(10,912)

21. DEPOSITS PAID FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At 31 December 2017, the carrying amount of deposits paid for the acquisition of property, plant and equipment relates to the purchase of plant and equipment for the expansion of production facilities was approximately HK$17,855,000 (2016: HK$4,216,000).

22. DEPOSITS PAID FOR THE ACQUISITION OF INTANGIBLE ASSETS

As at 31 December 2017, the deposits paid for the acquisition of intangible assets represent deposits paid for (1) an acquisition of manufacturing technology and exclusive rights to distribute an antidiabetic drug and the corresponding consulting fee, and (2) a co-development project to develop high quality tablets for treatment of diabetes with independent third parties. The remaining unpaid consideration is disclosed as capital commitment in note 35.

Acquisition of intangible assets	Deposits paid for the acquisition	Contract sum
As at 31 December 2017		
Antidiabetic drug from an independent third party	RMB3,298,498 (equivalent to approximately HK$3,881,000) including consultancy fee of RMB827,000 (equivalent to approximately HK$973,000)	RMB16,826,800 (equivalent to approximately HK$19,796,000)
Co-development project with an independent third party	RMB900,000 (equivalent to approximately HK$1,058,000)	RMB6,500,000 (equivalent to approximately HK$7,647,000)
As at 31 December 2016		
Antidiabetic drug from an independent third party	RMB2,826,800 (equivalent to approximately HK$3,291,000) including consultancy fee of RMB826,800 (equivalent to approximately HK$1,058,600)	RMB16,826,800 (equivalent to approximately HK$21,545,000)
Co-development project with an independent third party	RMB300,000 (equivalent to approximately HK$330,000)	RMB6,500,000 (equivalent to approximately HK$7,144,000)

23. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**6,491**	6,601
Work in progress	**1,149**	1,223
Finished goods	**5,908**	5,228
	13,548	13,052

24. TRADE AND OTHER RECEIVABLES

	NOTES	2017 HK$'000	2016 HK$'000
Trade receivables	(i) & (ii)	**66,119**	35,179
Less: Allowance for doubtful debts	(iii)	**(3,813)**	(1,109)
		62,306	34,070
Bill receivables	(iv)	**1,600**	–
Rental deposits		**1,291**	653
Rental receivables		**–**	802
Advance to staff		**906**	773
Prepayments		**1,539**	1,016
Other		**3,326**	3,627
Less: Impairment loss recognised		**(809)**	(691)
		70,159	40,250

Notes:

(i) The Group allows an average credit period of 120 days (31 December 2016: 120 days) to its customers. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted.

(ii) An aged analysis of trade receivables, net of impairment loss recognised, presented based on invoice date which approximated the respective revenue recognition dates, is as follows:

	2017 HK$'000	2016 HK$'000
0 – 60 days	**42,466**	17,358
61 – 120 days	**13,094**	7,395
121 – 180 days	**3,896**	7,172
Over 180 days	**2,850**	2,145
	62,306	34,070

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for the customer. Limits attributed to customers are reviewed once a year. As at 31 December 2017, approximately 84% (31 December 2016: 73%) of the trade receivables is neither past due nor impaired. The trade receivables that are neither past due nor impaired mainly comprise the receivables from the large PRC distributors with no recent history of default.

As at 31 December 2017, included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK$6,746,000 (31 December 2016: HK$9,317,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

24. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(ii) (Continued)

Aging analysis of trade receivables which are past due but not impaired:

	2017 HK$'000	2016 HK$'000
121 to 180 days	**3,896**	7,172
Over 180 days	**2,850**	2,145
Total	**6,746**	9,317

(iii) Movements in the impairment losses recognised in respect of trade receivables are as follows:

	2017 HK$'000	2016 HK$'000
At the beginning of the year	**1,109**	1,729
Exchange realignment	**159**	(71)
Recognised (reversed) during the year	**2,545**	(549)
At the end of the year	**3,813**	1,109

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$3,813,000 (2016: HK$1,109,000). The Group makes full provision on trade receivables aged over 1 year and overdue balances from distributors with unsatisfactory repayment history. The Group does not hold any collateral over these balances.

(iv) An aged analysis of bill receivables presented based on invoice date, which approximated the respective revenue recognition dates, is as follows:

	2017 HK$'000	2016 HK$'000
0 – 60 days	**780**	–
61 – 120 days	**820**	–
	1,600	–

25. TIME DEPOSIT/STRUCTURED BANK DEPOSIT/BANK BALANCES AND CASH

	2017 HK$'000	2016 HK$'000
Bank balances and cash (note a)	**22,765**	47,344
Time deposit (note b)	**87,104**	30,773
Structured bank deposit (note c)	**11,412**	–
	121,281	78,117

Notes:

(a) The bank balances carry interest rates ranging from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum.

(b) At 31 December 2017, the time deposit represented short-term deposits with a maturity of three months to one year (2016: with a maturity of three months to one year). At 31 December 2017 the interest rates from 0.92% at 2.10% per annum (2016: 1.65% to 2.22%)

(c) The Group entered into a structured contract with a bank in the PRC with a principal sum of RMB9,700,000 (equivalent to approximately HK$11,412,000). The investment is an enhancement bank deposit and contains an embedded derivative, which represents the returns varying with the underlying investment portfolio of the structured bank deposit and comprises primarily of debt instrument products including bank bonds. The principal amount together with the investment return would be repaid to the Group anytime upon request, and therefore, the amount is classified as current assets. The structured bank deposit carried a minimum interest rate at zero per annum plus an additional interest rate up to 4.2% per annum which was determined by reference to the duration of deposit and the returns of the underlying investments. The management considered the fair value of the embedded derivative in the structured bank deposit as of the same date was insignificant. The balance has been fully withdrawn subsequent to the year end.

26. TRADE AND OTHER PAYABLES

	NOTES	2017 HK$'000	2016 HK$'000
Trade payables	(i) & (ii)	**9,002**	7,188
Accrued expenses and other payables:			
Advance and deposits from customers		**14,082**	15,382
Payables for acquisition of equipment		**918**	1,264
Payables for research and development expense		**3,319**	89
Other tax payables		**1,628**	631
Accrued audit fee		**1,787**	1,758
Accrued payroll		**4,462**	2,780
Accrued selling expenses		**7,107**	3,145
Others		**901**	4,460
		43,206	36,697

26. TRADE AND OTHER PAYABLES (Continued)

Notes:

(i) The average credit period on purchases of goods is 120 days (2016: 120 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit time frame.

(ii) An aged analysis of the trade payables at the end of the reporting period based on transaction date is as follows:

	2017 **HK$'000**	2016 HK$'000
0 – 30 days	**7,648**	6,698
31 – 60 days	**1,043**	88
61 – 90 days	**61**	66
Over 90 days	**250**	336
	9,002	7,188

27. BANK BORROWINGS

	2017 **HK$'000**	2016 HK$'000
Secured bank loan repayable within one year	**–**	10,990

During the year ended 31 December 2016, the Group raised a secured bank borrowing of RMB10,000,000 (equivalent to approximately HK$10,990,000) which carries interest at China Interbank Offered Rate ("**CHIBOR**")+1.355% and is repayable on 30 March 2017. The loan was secured by a leasehold building, with a net book value of approximately HK$2,100,000, owned by a PRC subsidiary of the Company. The loan was repaid in current year.

The effective interest rate (which is also equal to the contracted interest rate) on the Group's borrowing is as follow:

	2017	2016
Effective interest rate:		
Variable-rate borrowing	**5.955%**	5.955%

28. DEFERRED TAX LIABILITY

The following are movements of the deferred tax liability recognised from the revaluation of investment properties during the years:

	2017 HK$'000	2016 HK$'000
At beginning of the year	**949**	853
Exchange realignment	**53**	(55)
Charged to profit or loss	**406**	151
At the end of the year	**1,408**	949

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred taxation in relation to the Group's investment properties have been measured based on the tax consequences of recovering the carrying amounts entirely through use.

At 31 December 2017, the Group has unused tax losses of HK$135,764,000 (2016: HK$93,342,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profits streams. The losses will expire within five years from the year in which they arose.

The unused tax losses will expire in the following years:

	2017 HK$'000	2016 HK$'000
2017	**–**	9,353
2018	**4,523**	4,568
2019	**10,361**	10,465
2020	**30,097**	30,398
2021	**38,176**	38,558
2022	**52,607**	–
Total unused tax losses	**135,764**	93,342

Under the EIT Law of the PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to the accumulated profits at a PRC subsidiary as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each			
Authorised:			
At 1 January 2016, 31 December 2016 and 31 December 2017		500,000,000,000	5,000,000
Issued and fully paid:			
At 1 January 2016		5,049,030,129	50,490
Exercise of warrants	(i)	178,018	2
Private placement	(ii)	88,280,000	883
At 31 December 2016		5,137,488,147	51,375
Private placement	(iii)	1,027,480,000	10,275
At 31 December 2017		6,164,968,147	61,650

Notes:

(i) During the year ended 31 December 2016, 178,018 warrants were exercised at a price of HK$0.138 into 178,018 ordinary shares of HK$0.01 each in the Company. The proceeds from the exercise of warrants was approximately HK$35,000.

(ii) On 27 June 2016, arrangements were made for a private placement to an independent private investor of 88,280,000 ordinary shares of HK$0.01 each, at a price of HK$0.170 per ordinary share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 8 May 2015.

(iii) On 20 September 2017, arrangements were made for a private placement to two independent private investors of 1,027,480,000 ordinary shares of HK$0.01 each, at a price of HK$0.138 per ordinary share. The proceeds were used to provide additional working capital for the Company. Pursuant to the terms of each of the subscription agreements, the Company also issued 256,870,000 warrants to subscribers. Details are set out in note 31.

All shares issued during the year rank pari passu with the existing shares in all respects.

30. STATEMENT OF FINANCIAL POSITIONS AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSET		
Investment in a subsidiary	**186,871**	644,305
CURRENT ASSETS		
Deposits and prepayments	**1,128**	449
Bank balances and cash	**40,622**	413
	41,750	862
CURRENT LIABILITIES		
Amounts due to subsidiaries	**1,200**	1,100
Other payables and accruals	**2,306**	2,316
	3,506	3,416
NET CURRENT ASSETS (LIABILITIES)	**38,244**	(2,554)
NET ASSETS	**225,115**	641,751
CAPITAL AND RESERVES		
Share capital	**61,650**	51,375
Reserves	**163,465**	590,376
TOTAL EQUITY	**225,115**	641,751

Mr. Chen Da Wei
DIRECTOR

Mr. Kingsley Leung
DIRECTOR

30. STATEMENT OF FINANCIAL POSITIONS AND RESERVES OF THE COMPANY (Continued)

Movement in reserves

	Share premium HK$'000	Share-based payment reserve HK$'000	Distributable reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	579,654	69,678	1,291,798	(1,355,357)	585,773
Total comprehensive expense for the year	–	–	–	(16,593)	(16,593)
Equity-settled share based payments	–	7,038	–	–	7,038
Lapse of share options	–	(65,126)	–	65,126	–
Cancellation of share options	–	(280)	–	280	–
Issue of ordinary shares upon:					
– exercise of warrants	33	–	–	–	33
– subscription of shares	14,125	–	–	–	14,125
At 31 December 2016	593,812	11,310	1,291,798	(1,306,544)	590,376
Total comprehensive expense for the year	–	–	–	(565,292)	(565,292)
Equity-settled share based payments	–	6,864	–	–	6,864
Issue of ordinary shares upon subscription of shares	131,517	–	–	–	131,517
At 31 December 2017	725,329	18,174	1,291,798	(1,871,836)	163,465

31. WARRANT

On 4 October 2013, the Company completed an open offer ("**Open Offer**") on the basis of 1 offer share for every 1 existing share held on the record date with 1 bonus share for every 1 offer share taken up, for every two offer shares taken up in the Open Offer one bonus warrant ("**2013 Warrant**") would be issued. A total of 782,423,147 units of the 2013 Warrants with an aggregate subscription amount of HK$156,484,629 were issued on 4 October 2013. Each of the 2013 Warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK$0.20 per share, subject to anti-dilutive adjustment, at any time from the date of issue up to and including 21 September 2016.

During the year ended 31 December 2016, 178,018 new shares of the Company of HK$0.01 each were issued upon the exercise of the 2013 Warrants and the outstanding 554,133,878 units of 2013 Warrants were lapsed.

On 20 September 2017, arrangements were made for a private placement to two independent private investors of 1,027,480,000 ordinary shares of HK$0.01 each, at a price of HK$0.138 per ordinary share. The proceeds were used to provide additional working capital for the Company. Pursuant to the terms of each of the subscription agreement, the Company also issued 256,870,000 warrants ("**2017 Warrant**") at warrant exercise price of HK$0.2063 per share for the period commencing from the date of issue of 2017 Warrant and ending on the third anniversary. No 2017 Warrant was exercised for the year ended 31 December 2017.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes equity attributable to owners of the Company, comprising share capital and reserves.

The directors review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues.

33. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**189,901**	117,351
Financial liabilities		
Liabilities at amortised cost	**34,929**	39,567

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

None of the Group entities had any significant sales or purchases denominated in currencies other than the functional currency of the relevant group entities. Thus, the Group does not have any currency risk exposure.

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate bank deposits (note 25) and cash flow interest rate risk relates primarily to a variable rate bank borrowing (note 27). The Group currently does not have interest rate hedging policy. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The management of the Group are of the opinion that the Group's exposure to interest rate risk is minimal. Accordingly, no interest rate risk sensitivity analysis is presented.

33. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2017 and 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that the follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that Group's credit risk is significantly reduced.

The credit risk on liquid funds and concentration of credit risk are limited because the counterparties are banks with high credit ratings.

As at 31 December 2017, the Group has concentration of credit risk of approximately 20% (2016: 9%) and 37% (2016: 27%) of the total trade receivables due from the Group's largest customer and the five largest customers respectively. As at 31 December 2017 and 31 December 2016, all trade receivables were from customers located in the PRC.

Liquidity risk

The Group has net current assets amounting to approximately HK$160,194,000 at 31 December 2017 (2016: HK$82,230,000).

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The contractual maturity dates for all non-derivative financial liabilities as at 31 December 2017 and 31 December 2016 are less than 1 year or on demand. The carrying amount of non-derivative financial liabilities is approximately to their total undiscounted cash flows.

c. Fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

34. SHARE OPTIONS

On 26 September 2016, a New Share Option Scheme was adopted by the Company ("**2016 Scheme**") and replaced the share option scheme approved on 22 September 2006.

Under the 2016 Scheme, which is valid for a period of ten years, the board of directors of the Company may, at its discretion grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**") who contribute to the development and growth of the Group. Eligible Participants include (i) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest; (ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the New Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 266,620,000 (2016: 213,040,000), representing 4.32% (2016: 4.15%) of the ordinary shares in issue at that date.

Details of the share option movements during the year ended 31 December 2017 and 31 December 2016 under the 2016 Scheme are as follows:

Share options grant date	Outstanding at 1.1.2017 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Cancelled during the year '000	Outstanding at 31.12.2017 '000
12 September 2014 Directors	8,560	–	–	–	–	8,560
12 September 2014 Others	360	–	–	–	–	360
23 January 2015 Employees	10,880	–	–	–	–	10,880
23 January 2015 Others	33,100	–	–	–	–	33,100
10 July 2015 Directors	7,260	–	–	–	–	7,260
17 August 2015 Others	120,000	–	–	–	–	120,000
27 January 2016 Employees	20,700	–	–	–	–	20,700
27 January 2016 Others	1,300	–	–	–	–	1,300
7 October 2016 Directors	10,880	–	–	–	–	10,880
3 April 2017 Employees	–	34,950	–	–	–	34,950
3 April 2017 Others	–	2,010	–	–	–	2,010
16 November 2017 Directors	–	16,620	–	–	–	16,620
	213,040	53,580	–	–	–	266,620
Exercisable at the end of the year						224,356
Weighted average exercise price	HK$0.22	HK$0.15	–	–	–	HK$0.21

34. SHARE OPTIONS (Continued)

Share options grant date	Outstanding at 1.1.2016 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year (Note 1) '000	Cancelled during the year (Note 2) '000	Outstanding at 31.12.2016 '000
26 May 2009 Others	72,986	–	–	(72,986)	–	–
27 November 2013 Directors	600	–	–	(600)	–	–
27 November 2013 Employees	26,980	–	–	(26,980)	–	–
27 November 2013 Others	313,940	–	–	(310,940)	(3,000)	–
12 September 2014 Directors	8,560	–	–	–	–	8,560
12 September 2014 Others	360	–	–	–	–	360
23 January 2015 Employees	10,880	–	–	–	–	10,880
23 January 2015 Others	33,100	–	–	–	–	33,100
10 July 2015 Directors	7,260	–	–	–	–	7,260
17 August 2015 Others	120,000	–	–	–	–	120,000
27 January 2016 Employees	–	20,700	–	–	–	20,700
27 January 2016 Others	–	1,300	–	–	–	1,300
7 October 2016 Directors	–	10,880	–	–	–	10,880
	594,666	32,880	–	(411,506)	(3,000)	213,040
Exercisable at the end of the year						64,559
Weighted average exercise price	HK$0.31	HK$0.17	–	HK$0.34	HK$0.22	HK$0.22

Note 1: The number of vested share options was lapsed due to expiration of the share options.

Note 2: The number of share options vested in prior years and cancelled during the year ended 31 December 2016 as agreed between the Group and the grantees as the exercise price is out-of-money.

34. SHARE OPTIONS (Continued)

(i) Share options granted on 16 November 2017

On 16 November 2017, 16,620,000 were granted to the Directors and the estimated fair value of the options granted was approximately HK$864,230. The share option will be exercisable from 16 November 2017 to 15 November 2027. Among the aggregate of 16,620,000 share options granted, 5,538,000 share options were vested during the year ended 31 December 2017. The remaining shares options will be vested in 2 tranches with 5,538,000 and 5,544,000 share options to be vested on 16 November 2018 and 16 November 2019 respectively. The share options will vest automatically provided that the directors still remain in office on the vesting date.

The fair values of the share options granted on 16 November 2017 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.157 per share
Exercise price	HK$0.157 per share
Expected volatility	43.919%
Expected Life	10 years
Risk-free rate	1.712%
Expected dividend rate	0%
Exit rate	28.825%

(ii) Share options granted on 3 April 2017

On 3 April 2017, 36,960,000 were granted to the employees and certain other parties providing similar services and the estimated fair value of the options granted was approximately HK$2,611,478. The share option will be exercisable from 3 April 2017 to 2 April 2027. Among the aggregate of 36,960,000 share options granted, 16,600,000 share options were vested during the year ended 31 December 2017. The remaining shares options will be vested in 2 tranches with 10,690,000 and 9,670,000 share options to be vested on 3 April 2018 and 3 April 2019 respectively. The share options will vest automatically provided that the employees still remain in office on the vesting date.

The fair values of the share options granted on 3 April 2017 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.148 per share
Exercise price	HK$0.150per share
Expected volatility	48.698%
Expected Life	10 years
Risk-free rate	1.595%
Expected dividend rate	0%
Exit rate	2.533%

34. SHARE OPTIONS (Continued)

(iii) Share options granted on 7 October 2016

On 7 October 2016, 10,880,000 were granted to the Directors and the estimated fair value of the options granted was approximately HK$677,065. The share option will be exercisable from 7 October 2016 to 6 October 2026. Among the aggregate of 10,880,000 share options granted, 3,629,000 share options were vested during the year ended 31 December 2016. The remaining shares options will be vested in 2 tranches with 3,629,000 and 3,622,000 share options to be vested on 7 October 2017 and 7 October 2018 respectively. The share options will vest automatically provided that the directors still remain in office on the vesting date.

The fair values of the share options granted on 7 October 2016 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.170 per share
Exercise price	HK$0.171 per share
Expected volatility	54.687%
Expected Life	9.995 years
Risk-free rate	0.985%
Expected dividend rate	0%
Exit rate	33.260%

(iv) Share options granted on 27 January 2016

On 27 January 2016, 22,000,000 were granted to the employees and one consultant providing similar services and the estimated fair value of the options granted was approximately HK$1,832,942. The share option will be exercisable from 27 January 2016 to 26 January 2026. Among the aggregate of 22,000,000 share options granted, 7,400,000 share options were vested during the year ended 31 December 2016. The remaining shares options will be vested in 2 tranches with 7,400,000 and 7,200,000 share options to be vested on 27 January 2017 and 27 January 2018 respectively. The share options will vest automatically provided that the employees and consultant still remain in office on the vesting date.

The fair values of the share options granted on 27 January 2016 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.172 per share
Exercise price	HK$0.172 per share
Expected volatility	55.670%
Expected Life	9.998 years
Risk-free rate	1.567%
Expected dividend rate	0%
Exit rate	5.733%

The Group recognised expenses of HK$6,864,000 for the year ended 31 December 2017 (2016: HK$7,038,000) in relation to share options granted by the Company.

35. CAPITAL COMMITMENT

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– purchase of property, plant and equipment	**5,109**	9,319
– purchase of intangible asset (note 22)	**22,504**	22,200
	27,613	31,519

36. OPERATING LEASE

The Group as lessor

Property rental income earned during the year ended 31 December 2017 was approximately HK$2,625,000 (2016: HK$2,281,000). The investment properties held have committed tenants for the next one year (2016: two years). At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

	2017 HK$'000	2016 HK$'000
Within one year	**2,411**	2,353
In the second to fifth years inclusive	**–**	691
	2,411	3,044

The Group as lessee

The Group leases certain of its office premises under operating lease arrangements. Leases are negotiated for a term ranging from one to four years (2016: one to three years). The Group does not have an option to purchase the leased asset at the expiry of the lease period. At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due are as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**4,112**	2,748
In the second to fifth years inclusive	**6,475**	1,025
	10,587	3,773

37. RELATED PARTY TRANSACTIONS

Key management compensation

The key management personnel of the Group comprises all the directors of the Company and the five highest paid individuals. Details of compensation of directors and the five highest paid individuals are included in note 14.

There are no other related party transactions during the year (2016: Nil).

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of major subsidiaries at 31 December 2017 and 31 December 2016 are disclosed as follows:

Name	Place of incorporation/ establishment and operation	Principal activities	Proportion of ownership interest and voting power held by the Company		Particulars of issued and paid up share capital
			31 December 2017	31 December 2016	
Directly held					
Lelion Holding Limited	British Virgin Islands/ Hong Kong	Investment holding	**100%**	100%	2 Ordinary shares of US$1 each
Indirectly held					
Uni-Bio Management Limited	Hong Kong	Provision of management services	**100%**	100%	1 Ordinary share of HK$1
Uni-Bioscience Pharm Co. Limited	Hong Kong	Distribution of pharmaceutical products	**100%**	100%	1 Ordinary share of HK$1
Dongguan Taili Biotech Co., Limited 東莞太力生物工程有限公司	The PRC	Research and development	**100%**	100%	Contributed capital of HK$120,000,000
Beijing Genetech Pharmaceutical Co., Limited 北京博康健基因科技有限公司	The PRC	Manufacture and sales of chemical and biological products	**100%**	100%	Contributed capital of RMB91,000,000
Shenzhen Watsin Genetech Limited 深圳市華生元基因工程發展有限公司	The PRC	Manufacture and sales of biological products	**100%**	100%	Contributed capital of RMB100,000,000
Uni-Bio Science Healthcare (Beijing) Co. Limited 聯康永泰生物科技(北京)有限公司	The PRC	Sales and marketing	**100%**	100%	Contributed capital of RMB500,000

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries are either investment holding or inactive would, in the opinion of the directors, result in particulars of excessive length.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowing (note 27) HK$'000	**Total** HK$'000
As at 1 January 2017	10,990	10,990
Cash outflow:		
Financing cash flows	(11,990)	(11,990)
Interest paid	(177)	(177)
Non-cash transactions:		
Exchange realignment	1,000	1,000
Interest expenses	177	177
As at 31 December 2017	–	–

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial periods is set out below:

	For the year ended 31 December			For the nine months period ended 31 December	For the year ended 31 March
	2017	2016	2015	2014	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**156,477**	146,489	123,364	91,793	102,624
LOSS BEFORE TAXATION	**(278,297)**	(53,820)	(57,230)	(41,043)	(364,197)
INCOME TAX EXPENSE	**(1,012)**	(1,907)	(2,569)	(1,391)	(1,933)
LOSS FOR THE YEAR/PERIOD	**(279,309)**	(55,727)	(59,799)	(42,434)	(366,130)
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(279,309)**	(55,727)	(59,799)	(42,434)	(366,130)
LOSS FOR THE YEAR/PERIOD	**(279,309)**	(55,727)	(59,799)	(42,434)	(366,130)

ASSETS AND LIABILITIES

	As at 31 December				As at 31 March
	2017	2016	2015	2014	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**390,189**	497,321	556,956	596,668	692,915
TOTAL LIABILITIES	**(47,036)**	(50,917)	(50,296)	(33,543)	(94,693)
EQUITY	**343,153**	446,404	506,660	563,125	598,222

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kingsley LEUNG
(appointed as *Chairman* on 13 January 2017)
Mr. CHEN Dawei
(appointed as *Vice-chairman* on 13 January 2017)
Mr. TONG Kit Shing (retired on 13 January 2017)

Non-executive Directors

Ms. LAU Chau In (appointed on 15 November 2017)

Independent Non-Executive Directors

Mr. ZHAO Zhi Gang
Mr. CHOW Kai Ming
Mr. REN Qimin (appointed on 15 November 2017)
Dr. Carl Aslan Jason Morton FIRTH
(resigned on 15 November 2017)

AUDIT COMMITTEE

Mr. CHOW Kai Ming
(*Chairman of the Audit Committee*)
Mr. ZHAO Zhi Gang
Mr. REN Qimin (appointed on 15 November 2017)
Dr. Carl Aslan Jason Morton FIRTH
(resigned on 15 November 2017)

REMUNERATION COMMITTEE

Mr. CHOW Kai Ming (appointed as *Chairman of the Remuneration Committee* on 15 November 2017)
Mr. ZHAO Zhi Gang
Mr. Kingsley LEUNG
Mr. REN Qimin (appointed on 15 November 2017)
Mr. TONG Kit Shing (retired on 13 January 2017)
Dr. Carl Aslan Jason Morton FIRTH
(resigned on 15 November 2017)

NOMINATION COMMITTEE

Mr. Kingsley LEUNG (appointed as *Chairman of the Nomination Committee* on 13 January 2017)
Mr. ZHAO Zhi Gang
Mr. CHOW Kai Ming
Mr. TONG Kit Shing (retired on 13 January 2017)
Dr. Carl Aslan Jason Morton FIRTH
(resigned on 15 November 2017)

COMPANY SECRETARY

Ms. YAU Suk Yan

AUTHORIZED REPRESENTATIVES

Mr. Kingsley LEUNG
Mr. CHEN Dawei

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 502, 5/F,
No. 20 Science Park East Avenue,
Hong Kong Science Park,
Shatin, New Territories,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Leung & Lau

STOCK CODE

0690

WEBSITE

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