Annual Report 2018

ESSEX BIO-TECHNOLOGY LIMITED
億 勝 生 物 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1061)

Pioneering Global Regenerative Science & Technology


ESSEX 亿胜

Tomorrow’s today

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director)*
Zhong Sheng

Independent Non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

COMPANY SECRETARY

Yau Lai Man MBA, ACA, CPA (practising)

AUTHORISED REPRESENTATIVES

Zhong Sheng
Yau Lai Man

AUDITOR

BDO Limited

WEBSITE ADDRESS

www.essexbio.com

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

HEADQUARTER IN CHINA

No. 88
Keji 6th Road
Hi-Tech Zone
Zhuhai
Guangdong, China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

01061

FINANCIAL HIGHLIGHTS

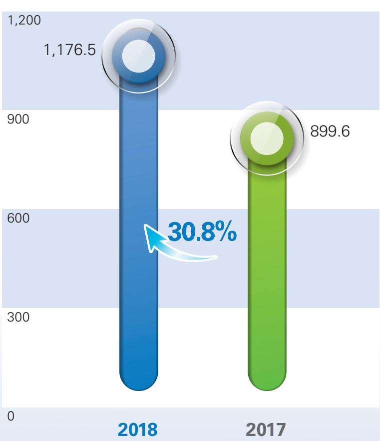
	2018 HK$'000	2017 HK$'000	Increase
Results			
Turnover	**1,176,458**	899,590	30.8%
Profit for the year	**231,092**	167,299	38.1%
Financial position			
Total assets	**1,449,689**	1,159,777	25.0%
Total liabilities	**520,787**	420,288	23.9%
Net assets	**928,902**	739,488	25.6%
Cash and cash equivalents	**311,098**	240,627	29.3%
Financial ratios			
Current ratio (Note 1)	**2.74**	2.58	
Gearing ratio (Note 2)	**0.36**	0.36	
Gross profit margin (Note 3)	**82.8%**	82.0%	
Net profit margin (Note 4)	**19.6%**	18.6%	
Return on equity (Note 5)	**24.9%**	22.6%	
Earnings per share			
– Basic	**HK40.50 cents**	HK29.75 cents	36.1%
– Diluted	**HK39.44 cents**	HK29.35 cents	34.4%
Dividend per ordinary share			
– Interim	**HK3.0 cents**	HK2.5 cents	20.0%
– Final	**HK3.3 cents**	HK2.5 cents	32.0%
	HK6.3 cents	HK5.0 cents	26.0%

Notes:

1 *Current ratio: Total current assets/Total current liabilities*
2 *Gearing ratio: Total liabilities/Total assets*
3 *Gross profit margin: Gross profit/Turnover x 100%*
4 *Net profit margin: Profit for the year/Turnover x 100%*
5 *Return on equity: Profit for the year/Total equity x 100%*

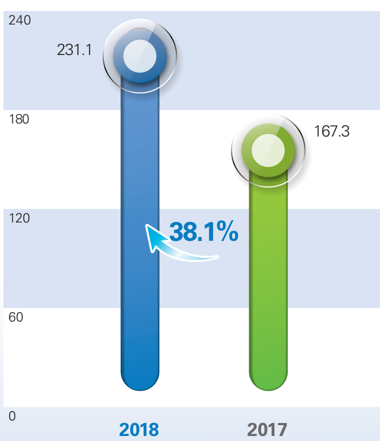
Turnover

For the year ended 31 December
HK$'m



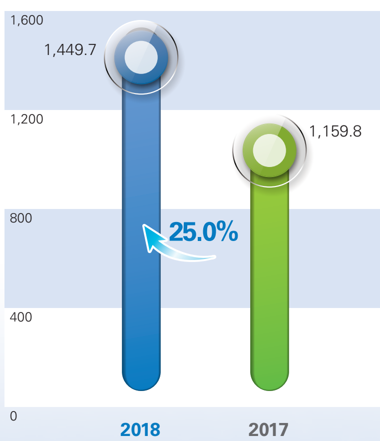
Profit for the year

For the year ended 31 December
HK$'m



Total assets

As at 31 December
HK$'m



CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to announce that the Group has achieved an encouraging performance in the financial year ended 31 December 2018.

Mr. Ngiam Mia Je Patrick

Chairman

CHAIRMAN'S STATEMENT

FINANCIAL PERFORMANCE

For the year ended 31 December 2018, the Group achieved a consolidated turnover of approximately HK$1,176.5 million, representing an increase of 30.8% over previous year. Correspondingly, the Group's consolidated profits for the year rose to approximately HK$231.1 million for the year ended 31 December 2018 from approximately HK$167.3 million last year, representing an increase of 38.1%. We are pleased with the results amid Chinese regulators' initiative to drive overall health costs down in recent years.

Turnover from the Group's two flagship product series – Beifushu series for ocular surface treatment and Beifuji series for surface wounds healing and treatment, accounted for 30.2% and 53.5% of the Group's total turnover, respectively. The combined turnover of the two product series represented 83.7% of the Group's total turnover for the year ended 31 December 2018. Turnover from the Group's third party products, inclusive of Xalatan® Eye Drops, Xalacom® Eye Drops, 適麗順 (Iodized Lecithin Capsules*) and 伊血安顆粒 (Yi Xue An Granules*), collectively accounted for 16.3% of the Group's total turnover.

MAJOR ACHIEVEMENTS IN 2018

New Products Obtained Approval for Commercialisation

During the year under review, the Group was granted with the approval for registration and commercialisation of preservative-free single-dose Sodium Hyaluronate Eye Drops and Levofloxacin Eye Drops in the People's Republic of China (the "PRC").

The Group has also obtained a 藥品GMP證書 (Certificate of Good Manufacturing Practices for Pharmaceutical Products) in respect of the preservative-free single-dose Tobramycin Eye Drops in 2018.

Major Honours and Awards Obtained in 2018

The Company was chosen as one of the 100 exchange-traded companies in Forbes China's "Up and Comers List" in 2018 for the second consecutive year.

The Company was honourably awarded the Second Prize of the National Scientific and Technology Progress Award for its accomplishment in commercialising the cellular growth factor (bFGF) project, a testament to the Group's achievements.

SIGNIFICANT BUSINESS DEVELOPMENT ACTIVITIES

Extended Further 3 Years Import and Service Agreement with Pfizer

The Group has secured extension of the import and service agreement with Pfizer International Trading (Shanghai) Limited for Xalatan® Eye Drops and Xalacom® Eye Drops in the PRC for a further 3 years, expiring in 2021.

CHAIRMAN'S STATEMENT

Pursuing the Enrichment Programme

The Group initiated an enrichment programme (the "Enrichment Programme") in 2015 for enhancing its research and development ("R&D") pipeline and expanding its products portfolio. During the year under review, the Group successfully made several strategic investments and secured distribution rights for certain products. These include:

The Group has entered into a co-development agreement with Mitotech S.A. ("Mitotech") and Mitotech LLC on 16 July 2018. Under the agreement, the Group will invest not more than US$16.5 million for a clinical development in the United States ("US") Food and Drug Administration first phase 3 clinical trial (the "Clinical Trial") of an ophthalmic solution containing SkQ_1 as its sole active pharmaceutical ingredient (the "SkQ_1 Product") which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech in respect of the SkQ_1 Product. The Clinical Trial has been started in November 2018 and is expected to have the first data read out in the second or third quarter of 2019.

The investment in DB Therapeutics, Inc. ("DBT"), a US company, was in the form of a series of convertible notes in an aggregate principal amount not to exceed US$4.5 million, bearing an interest rate of 5% per annum and maturing on 31 July 2022. DBT is an early stage medical device company focusing on the development of radio-therapeutic bandages for the treatment of non-melanoma skin cancer (the "DBT Product"). If successfully developed, the DBT Product will provide a convenient and cost-effective way to treat localised skin cancer in patients, as compared to surgical interventions, external beam radiation therapy and electronic brachytherapy. Assuming the convertible notes of US$4.5 million are fully converted into equity interest of DBT, the DBT stocks to be issued shall represent 45% of the DBT stocks on a fully-diluted basis. As at the date of this report, the Group has paid US$0.6 million for the subscription of the first convertible note issued by DBT.

MeiraGTx Limited ("MeiraGTx"), a company incorporated and registered in England and Wales, is a clinical-stage biotech company developing novel gene therapy treatments for a wide range of inherited and acquired disorders for which there are no effective treatments available. MeiraGTx focuses on developing therapies for ocular diseases, including inherited blindness as well as Xerostomia following radiation treatment for head and neck cancers and neurodegenerative diseases such as amyotrophic lateral sclerosis. The Group invested around US$5.0 million in MeiraGTx to subscribe for approximately 7.7% of the issued preferred C shares of MeiraGTx as enlarged by the Group's subscription. MeiraGTx was successfully listed on the NASDAQ Stock Market of the US on 8 June 2018 (Stock code: MGTX) and the preferred C shares were converted into 1.76% of the fully enlarged share capital of MeiraGTx upon listing.

The Group also invested in 成都上工醫信科技有限公司 (Chengdu Shanggong Medical Technology Co., Ltd.*) ("Shanggong") which was the first step to develop the big data business.

The Group invested an amount of RMB20.0 million as capital contribution in Shanggong to hold around 8% of equity interests in Shanggong. Shanggong is a medical data analytics (AI Algorithm) company in the medical service industry in China, having fully curated, quality controlled approximately 700,000 retinal images of diabetic patents in China, which forms a retinopathy big data that enables AI Algorithm to perform its diagnosis. The AI Algorithm can screen retinal images of patients and detect diabetic retinopathy, which affects almost a third of diabetes patients that would otherwise be examined by highly trained ophthalmologists. The investment in Shanggong is a strategic consideration for enhancing the Group's market positioning in the ophthalmology business and Shanggong can leverage on the Group's sales resources for penetrating into more hospitals of its AI Algorithm.

Total investments committed under the Enrichment Programme amounted to approximately US$53.9 million in 12 entities/projects, out of which approximately US$43.4 million has been invested by the Group as at the date of this report.

Acquisition of a Piece of Land in the PRC

To cope with the rapid expansion of the Group, a piece of land of about 15,000 square metres located at 珠海高新區科技創新海岸 (Zhuhai Hi-Tech Industrial Park*) was acquired in 2018. The land is within walking distance from our existing factory. The plan is to construct the Group's second factory with a gross floor area (GFA) of about 45,000 square metres to house the Group's R&D centre, additional manufacturing facility, administrative office and staff hostel. Construction work is expected to start in the fourth quarter of 2019.

Strengthening and Renewal of Management Team

During the year under review, several key management members of the Group have been recruited, promoted and/or reshuffled. The renewal exercise was carried out to strengthen the core management's capability and capacity for new challenges ahead and leading the Group to scale further heights.

Background profiles of the key management members are shown in the Profiles of Directors and Senior Management in this report.

Upgrading of Business Process Management Systems

The Group's current enterprise resources planning (ERP) and customer relationship management (CRM) systems are no longer adequate to support the requirements of the Group's business processes and information management in the near future. With the aim to implement a highly robust, seamless integration of company-wide operations digitally with ready data analysis, the Group has extensively evaluated and decided to migrate its business process management systems to a solution of Systems of Applications and Products in Data Processing (SAP). The migration and implementation of a solution of SAP started in the fourth quarter of 2018 and will be implemented in phases within the next two years.

MARKET DEVELOPMENT

To meet with new challenges in sales amid recent significant regulatory changes on how drugs are priced and prescribed, during the year under review, the Group made significant changes to its sales and marketing organisation and strategies to enable its products to remain relevant with wider market reach for sustainable growth traction. We are investing significantly in:

- Clinical observation programmes on the drugs' clinical indications;
- Reaching out to lower-tier cities;
- Cultivating pharmaceutical stores, where possible, as complementary sales channel;
- Upgrading our sales staff on products knowledge proficiency and professionalism; and
- Using e-channel for training and imparting knowledge purposes.

As at 31 December 2018, the Group maintains 42 regional sales offices and a total number of about 1,320 sales and marketing representatives, out of which approximately 730 people are full-time staff and approximately 590 people are on contract basis or from appointed agents.

CHAIRMAN'S STATEMENT

During the year under review, the Group's pharmaceutical products are being prescribed in around 6,300 hospitals and medical organisations and approximately 1,000 pharmaceutical stores, which are mainly located in the major cities, provinces and county cities in the PRC.

RESEARCH AND DEVELOPMENT

The Group's key R&D platforms comprise growth factor, novel antibody, drug formulation and Blow-Fill-Seal ("BFS") platform. Growth factor, novel antibody, and drug formulation are technology platforms for the development of therapeutic drugs, whereas BFS platform is state-of-the-art manufacturing plant for producing preservative-free single-dose drugs, in particular for the ophthalmic drugs.

During the year under review, the Group was granted with the approval for registration and commercialisation of preservative-free single-dose Sodium Hyaluronate Eye Drops and Levofloxacin Eye Drops in the PRC.

The Group has also obtained a 藥品GMP證書 (Certificate of Good Manufacturing Practices for Pharmaceutical Products) in respect of the preservative-free single-dose Tobramycin Eye Drops in 2018.

As at the date of this report, the Group has obtained a total of fifteen patent certificates or authorisation letters: twelve 發明專利 (invention patents) and three 實用新型專利 (utility model patents).

OUTLOOK AND PROSPECTS

Barring unforeseen circumstances, the Group is optimistic that its traction for growth in both the ophthalmology and surgical segments of business remains intact in 2019.

The Group will continue to implement its Enrichment Programme to seek further investment opportunities in the PRC and overseas, while fostering closer development and business relationship with existing investees.

DIVIDEND

The Directors have declared during the year an interim dividend of HK$0.03 (2017: HK$0.025) per ordinary share, totalling HK$17,155,200 (2017: HK$14,055,525), which was paid on 21 September 2018. To reward our valued shareholders, the Board is proposing a final dividend of HK$0.033 (2017: HK$0.025) per ordinary share to be approved at the upcoming annual general meeting of the Company.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all stakeholders, business associates, valued customers and each and every member of the Group for the trust, support and cooperation accorded to us in developing the Company as a leading pharmaceutical company.

Ngiam Mia Je Patrick
Chairman

Hong Kong
11 March 2019

* For identification purpose only

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

NGIAM MIA JE PATRICK*

Aged 64, Mr. Ngiam is the founder of the Group, which was established in February 1999, an executive Director and Chairman of the Company. He is a member of the remuneration committee and nomination committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Bio-Tech Investment Limited, Essex Technology Development (HK) Limited, Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Technology Development Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. He is responsible for corporate planning, business development strategy and overall direction of the Group.

Mr. Ngiam graduated in electronics engineering and has received many accolades and awards for his achievements. Notably, in 1990, he was awarded the first KPMG Singapore High Tech Entrepreneur Award. Other awards include the DHL & Singapore Press Holdings Business Award for Businessman of the Year in 1994 and the Chevalier DE L'ORDRE NATIONAL DU MERITE conferred by Le President De La Republique Francaise in 1996.

As at the date of this report, Mr. Ngiam was directly interested in 146,979,000 shares of the Company, and was also deemed to be interested in 6,666,667 shares of the Company held by Dynatech Ventures Pte Ltd, a wholly-owned subsidiary of Essex Investment (Singapore) Pte Ltd, which in turn was owned by Mr. Ngiam and Ngiam Mia Kiat Benjamin (who is a director of a wholly-owned subsidiary of the Company) in equal shares. Mr. Ngiam is a brother of Ngiam Mia Kiat Benjamin. Mr. Ngiam is also a director of each of Dynatech Ventures Pte Ltd and Essex Investment (Singapore) Pte Ltd, as well as Chairman and Chief Executive Officer of IPC Corporation Ltd and non-executive director of Wilton Resources Corporation Limited, which are both listed on the Singapore Exchange Securities Trading Limited.

FANG HAIZHOU

Aged 53, Mr. Fang is an executive Director, the managing Director of the Company. He is also a senior pharmaceutical engineer. He has a bachelor's degree in Bio-chemical Engineering from Southern China Institute (華南工學院) and a master's degree in Engineering from Southern China University of Technology (華南理工大學). He has been with Zhuhai Essex Bio-Pharmaceutical Company Limited since its establishment in June 1996. Mr. Fang is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

As at the date of this report, Mr. Fang was personally interested in 5,244,300 shares of the Company.

ZHONG SHENG

Aged 54, Mr. Zhong is an executive Director and is responsible for the financial management and administration of the Group. He holds a master's degree in Industrial Economics from Guangdong Academy of Social Sciences (廣東省社會科學院). Mr. Zhong joined the Group in February 1999. Mr. Zhong has more than 24 years' experience in financial management and project management. Mr. Zhong is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Bio-Tech Investment Limited, Essex Technology Development (HK) Limited, Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Technology Development Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. Mr. Zhong is also a member of the corporate governance committee and an authorised representative of the Company.

As at the date of this report, Mr. Zhong was personally interested in 2,036,150 shares of the Company.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

FUNG CHI YING

Aged 64, Mr. Fung was appointed as an independent non-executive Director on 13 June 2001. Mr. Fung is a practising solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee and a member of the remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Fung has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

MAUFFREY BENOIT JEAN MARIE

Aged 66, Mr. Mauffrey was appointed as an independent non-executive Director on 13 June 2001. He is experienced in business development and sales and marketing in several industries in the Asia Pacific region. He is also a member of the audit committee, remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Mauffrey has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

YEOW MEE MOOI

Aged 56, Ms. Yeow was appointed as an independent non-executive Director on 30 September 2004. Ms. Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor's degree in business administration. Ms. Yeow further obtained her postgraduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practicing accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Ms. Yeow has over 27 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairperson of the remuneration committee, nomination committee and corporate governance committee and a member of the audit committee of the Company.

As at the date of this report, Ms. Yeow has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

NGIAM HIAN LENG MALCOLM*

Aged 34, Mr. Malcolm Ngiam joined the Group in 2015 and has been promoted as Deputy Managing Director of the Company and President of Essex Bio-Investment Limited, a wholly-owned subsidiary of the Company, in 2018. Prior to joining the Group, Mr. Malcolm Ngiam was involved in translational and therapeutics research for more than 10 years. Mr. Malcolm Ngiam leads the business development team for executing the Enrichment Programme and has direct oversight of the research and development and marketing functions of the Group. Mr. Malcolm Ngiam graduated from Imperial College London and has a bachelor's degree in Biochemistry.

As at the date of this report, Mr. Malcolm Ngiam was personally interested in 2,039,000 shares of the Company and also held 1,000,000 share options of the Company.

ZHENG ZANSHUN

Aged 47, Mr. Zheng joined the Group in July 1995 and has over 24 years of working experience in gene recombination technology and drug quality standards. Mr. Zheng was appointed as the managing director of Zhuhai Essex Bio-Pharmaceutical Company Limited, a wholly-owned subsidiary of the Company, on 27 September 2018. Mr. Zheng has a bachelor's degree in Biochemistry from School of Life Sciences in Peking University.

As at the date of this report, Mr. Zheng was personally interested in 595,098 shares of the Company.

DR. XUE QI

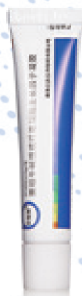
Aged 57, Dr. Xue joined the Group as Chief Scientific Officer on 9 April 2018. Dr. Xue is a well-known science expert in anti-cancer drug discovery and development. He is highly experienced in tumour microenvironment, immuno-oncology and angiogenesis assessment. He has direct oversight of the Group's research and development centre in Zhuhai for development programmes in oncology, ophthalmology and dermatology. Dr. Xue obtained his Clinical Research Scholar Certificate from Harvard Medical School in the USA in June 2014. Dr. Xue graduated from Gunma University in Japan with a doctoral degree in Pathology in 2001.

As at the date of this report, Dr. Xue held 1,000,000 share options of the Company.

* Mr. Patrick Ngiam and Mr. Malcolm Ngiam are father-son relationship.

MANAGEMENT DISCUSSION AND ANALYSIS

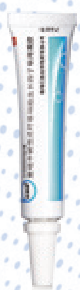
Factory in Zhuhai



Beifuxin Gel

Beifuji Spray

Beifushu Eye Drops

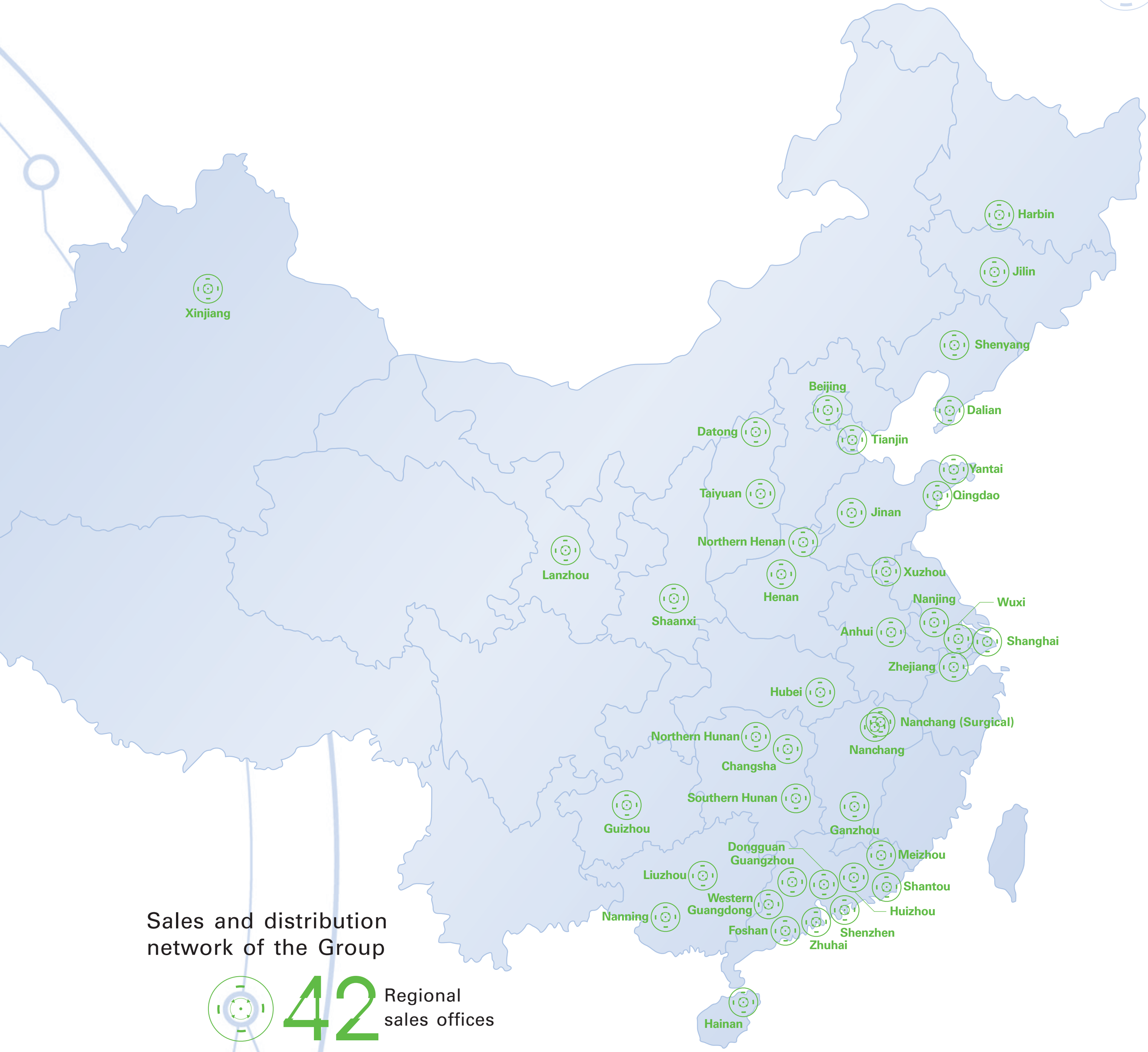


Beifushu Eye Gel

Beifuji Lyophilized Powder

Three of our biopharmaceutical products continue to be listed on the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance issued by the Ministry of Human Resources and Social Security of the PRC.

R&D Centre in Zhuhai



Sales and distribution network of the Group

42 Regional sales offices

The 2nd Congress of Ocular Surface & Tear Film Diseases/
The 4th Congress of Dry Eye Disease in Wuhan in November 2018

The 23rd Congress of Chinese Ophthalmological Society in Hangzhou in September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

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

Currently the Group has five commercialised biopharmaceutical products, formulated with rb-bFGF, in the People's Republic of China (the "PRC"), out of which three were approved by 國家藥品監督管理局 (now the National Medical Products Administration, formerly known as China Food and Drug Administration) as Category I drugs. The products are being marketed and sold as Beifushu for treatment of ocular wounds, Beifuji and Beifuxin for treatment of topical (skin) surface wounds, three of which continue to be listed on the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance issued by the Ministry of Human Resources and Social Security of the PRC.

During the year under review, the Group was granted with the approval for registration and commercialisation of preservative-free single-dose Sodium Hyaluronate Eye Drops and Levofloxacin Eye Drops in the PRC. The Group has also obtained a 藥品GMP證書 (Certificate of Good Manufacturing Practices for Pharmaceutical Products ("GMP")) in respect of the preservative-free single-dose Tobramycin Eye Drops in 2018.

The Group's business focuses on two main therapeutic areas: (i) ophthalmology; and (ii) surgical arena of topical (skin) surface wounds primarily covering dermatology, stomatology and obstetrics and gynaecology; while selectively pursuing therapeutics in neurology, oncology and orthopaedics.

The Group maintains a pipeline of multi-projects in research and development ("R&D") at various stages of clinical programmes, of which several projects involve growth factors and antibody and a handful of projects are on unit dose for ophthalmic and respiratory disease.

The Group's major third party products include (i) Xalatan® Eye Drops and Xalacom® Eye Drops for lowering raised pressure within the eye; (ii) 適麗順 (Iodized Lecithin Capsules*) for treating central serous chorioretinopathy, central exudative chorioretinopathy, vitreous haemorrhage, vitreous opacities and central retinal vein occlusion, etc.; (iii) 伊血安顆粒 (Yi Xue An Granules*) for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion; and (iv) Carisolv products for treating dental caries by using minimally invasive techniques. During the year under review, the Group has secured extension of the import and service agreement with Pfizer International Trading (Shanghai) Limited for Xalatan® Eye Drops and Xalacom® Eye Drops in the PRC for a further 3 years, expiring in 2021.

For the year ended 31 December 2018, the Group achieved a consolidated turnover of approximately HK$1,176.5 million (2017: approximately HK$899.6 million), representing a growth rate of 30.8%. Profit for the year ended 31 December 2018 increased to approximately HK$231.1 million (2017: approximately HK$167.3 million), representing an increase of 38.1% as compared to the previous year. Although the pharmaceutical industry has been calibrated by regulators to become highly competitive in recent years in the PRC, we strive to maintain sustainable growth through our versatile management of sales and marketing process, expanding our presence to second and third-tier cities and establishing new sales channel of pharmaceutical stores in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, the Group initiated an enrichment programme (the "Enrichment Programme") for enhancing its R&D pipeline and expanding its products portfolio. Under the Enrichment Programme, the Group proactively seeks to invest in and forge strategic alliance with companies in the PRC and overseas, which are having first-in-class and novel pharmaceutical projects at various stages of their respective R&D and clinical programmes in ophthalmology, dermatology, oncology and neurology. As at the date of this report, the Group has invested in 12 entities/projects with a total commitment of approximately US$53.9 million, out of which approximately US$43.4 million has been invested by the Group, details of which are outlined in the Report of the Directors. Except for the total commitment in relation to the clinical development of the SkQ_1 Product (as defined below) under the co-development agreement (the "Co-Development Agreement") with Mitotech S.A. ("Mitotech") and Mitotech LLC ("Mitotech LLC") on 16 July 2018 (please refer to the section headed "Co-Development Agreement with Mitotech S.A. and Mitotech LLC" below for details), each of the investments represented less than 5% of the Group's total assets as at 31 December 2018.

During the year under review and up to the date of this report, the Group successfully made several strategic investements and secured distribution rights for certain products. These include:

Research Collaboration Agreement with AC Immune SA ("ACI")

On 19 May 2017, the Company entered into a research collaboration agreement with ACI to undertake the pre-clinical and clinical co-development of a novel biological therapeutic for the treatment of neurodegenerative diseases and neuroinflammation.

In accordance with the aforementioned research collaboration agreement, the parties have agreed to an initial two-year research plan, which intends to develop a basic fibroblast growth factor as a therapeutic for the treatment of neurodegenerative diseases and to generate novel antibody therapeutics. The Group will provide support to the research plan until the selection of a collaboration product mutually agreed by the parties, up to CHF750,000 (equivalent to approximately HK$6.0 million) per year. During the year ended 31 December 2018, an amount of CHF373,500 (equivalent to approximately HK$3.0 million) (2017: CHF77,500 (equivalent to approximately HK$0.6 million)) for the financial support has been incurred.

ACI is a Swiss-based biopharmaceutical company focused on neurodegenerative diseases. In addition, ACI will leverage on its proprietary technology platforms to discover, design and develop novel, proprietary medicines for prevention, diagnosis and treatment of neurodegenerative diseases associated with protein misfolding.

As at 31 December 2018, the fair value of the investment in ACI was approximately HK$37.9 million, representing 2.6% of the Group's total assets as at 31 December 2018.

Subscription of Convertible Preferred C Shares in MeiraGTx Limited ("MeiraGTx")

MeiraGTx, a company incorporated and registered in England and Wales, is a clinical-stage biotech company developing novel gene therapy treatments for a wide range of inherited and acquired disorders for which there are no effective treatments available.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group plans to establish a business relationship with MeiraGTx for offering their treatment solutions in the PRC.

Co-Development Agreement with Mitotech S.A. and Mitotech LLC

As disclosed in the announcement of the Company dated 16 July 2018, Essex Bio-Investment entered into the Co-Development Agreement with Mitotech and Mitotech LLC on 16 July 2018, pursuant to which Essex Bio-Investment has agreed to fund to a maximum of approximately US$16.5 million (equivalent to approximately HK$129.7 million), for a clinical development in the United States Food and Drug Administration ("US FDA") first phase 3 clinical trial of an ophthalmic solution containing SkQ_1 as its sole active pharmaceutical ingredient (the "SkQ_1 Product") which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech in respect of the SkQ_1 Product in accordance with the agreed percentage allocation between Essex Bio-Investment and Mitotech. As at the date of this report, Essex Bio-Investment has provided certain funding to Mitotech in accordance with the terms of the Co-Development Agreement.

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

The Co-Development Agreement presents a good opportunity for the parties to leverage on their respective strengths and resources to jointly pursue and accelerate the development of ophthalmic products for the global market. The Co-Development Agreement enables the Group to the share of achievements of commercial value of the SkQ_1 Product, which may be successfully derived in each country in the world excluding (a) countries of the Eurasian Economic Union (including, in any event, Russia), (b) the PRC and (c) Japan. This cooperation further extends the commercialisation of the SkQ_1 Product in the PRC (including Hong Kong, Macau and Taiwan) and Singapore by the Group under the license agreement with Mitotech on 18 July 2018.

The total commitment of US$16.5 million (equivalent to approximately HK$129.7 million), under the Co-Development Agreement, represented 8.9% of the Group's total assets as at 31 December 2018, out of which US$6.5 million (equivalent to approximately HK$51.1 million) was paid and represented 3.5% of the Group's total assets as at 31 December 2018. Please refer to the announcement of the Company dated 16 July 2018 for details of the transaction.

License Agreement with Mitotech

On 18 July 2018, 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*) ("Zhuhai Essex"), an indirect wholly-owned subsidiary of the Company, entered into a license agreement with Mitotech, pursuant to which Mitotech agreed to grant to Zhuhai Essex an exclusive and royalty-bearing licence of the necessary intellectual property rights for, among others, undertaking development, manufacturing, marketing and commercialising of the SkQ_1 Product in Singapore and the PRC (including Hong Kong, Macau and Taiwan). Zhuhai Essex shall pay Mitotech royalties on aggregate net sales of the SkQ_1 Product labelled for treatment of uveitis and dry eye disease.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As disclosed in the announcement of the Company dated 18 July 2018, (i) Shanggong; (ii) 珠海億勝科技發展有限公司 (Zhuhai Essex Technology Development Company Limited*) ("Zhuhai Essex Tech"), an indirect wholly-owned subsidiary of the Company; and (iii) 9 other independent third parties, entered into an investment agreement on 18 July 2018, pursuant to which, among other things, Zhuhai Essex Tech shall make an investment in cash in the amount of RMB20.0 million (equivalent to approximately HK$23.8 million) as capital contribution in Shanggong, which will increase the registered capital, and the capital reserve, of Shanggong. Upon completion of the investment, Zhuhai Essex Tech will hold around 8% of equity interests in Shanggong. On 2 August 2018, the Group paid the investment of RMB20.0 million to Shanggong.

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

The investment in Shanggong is a strategic consideration for enhancing the Group's market positioning in the ophthalmology business and Shanggong can leverage on the Group's sales resources for penetrating into more hospitals of its AI Algorithm.

Agency Agreement with 廣西萬壽堂藥業有限公司 (Guangxi Medictop Pharmaceutical Company Limited) ("Guangxi Medictop")*

珠海億勝醫藥有限公司 (Essex Medipharma (Zhuhai) Company Limited*), an indirect wholly-owned subsidiary of the Company, has secured extension of the agency agreement with Guangxi Medictop for the exclusive distribution of 伊血安顆粒 (Yi Xue An Granules*) in the PRC at a consideration of RMB20.0 million. The term of the appointment has been extended until 2043.

Convertible Note Purchase Agreement and License Agreement with DB Therapeutics, Inc. ("DBT")

As disclosed in the announcement of the Company dated 29 October 2018, Essex Bio-Investment entered into a convertible note purchase agreement (the "CN Purchase Agreement") with DBT on 29 October 2018, pursuant to which Essex Bio-Investment conditionally agreed to subscribe for, and DBT conditionally agreed to issue, a series of convertible notes (the "Convertible Notes") in an aggregate principal amount not to exceed US$4.5 million (equivalent to approximately HK$35.3 million), each bearing an interest rate of 5% per annum (subject to the DBT's obligation to make certain make whole payment in accordance with the terms and conditions of the Convertible Notes) and maturing on 31 July 2022. Pursuant to the CN Purchase Agreement, the Convertible Notes will be issued in five tranches. Subject to the fulfilment of the respective conditions precedent to each closing as set out in the CN Purchase Agreement, closings will take place in accordance with the agreed purchase schedule during the period between 2018 and 2021. The first tranche of the convertible note in the principal amount of US$0.6 million (equivalent to approximately HK$4.7 million) was disbursed to DBT on 8 November 2018.

Pursuant to the terms and conditions of the Convertible Notes, the holder of the Convertible Notes may elect to convert the whole or part of the principal amount of the Convertible Notes into shares of capital stock of DBT (the "DBT Stocks"). Assuming the Convertible Notes in the principal amount of US$4.5 million are issued and the conversion rights attached thereto are exercised in full, the DBT Stocks to be issued shall represent 45% of the DBT Stocks on a fully-diluted basis. As at the date of this report, Essex Bio-Investment has not converted the principal amount of the Convertible Notes into the DBT Stocks.

MANAGEMENT DISCUSSION AND ANALYSIS

On 29 October 2018, Essex Bio-Investment and DBT entered into a license agreement (the "License Agreement"), pursuant to which DBT granted to Essex Bio-Investment, among others, an exclusive license to market, sell and distribute the certain radiotherapeutic bandage for treatment of non-melanoma skin cancer (the "Licensed Products") in the PRC (including Hong Kong and Macau), Taiwan, Australia, New Zealand, Korea and Japan (the "Territory"). Essex Bio-Investment, as provided in the License Agreement, is allowed to use DBT's information and intellectual property in and related to the Licensed Products, subject to payment of royalty levied on net sales of the Licensed Products in the Territory. The obligation of Essex Bio-Investment is conditional upon fulfilment of certain conditions by DBT as set out in the License Agreement.

The entering into of the CN Purchase Agreement and the License Agreement is in line with the Group's strategic development plans in dermatology and oncology. The subscription of the Convertible Notes provides the Group an opportunity to have a significant interest in DBT and hence, in the Licensed Products.

DBT is a corporation incorporated under the laws of Delaware and is an early stage medical device company focusing on the development of radiotherapeutic bandages for the treatment of non-melanoma skin cancer (including the Licensed Products). The Licensed Products, if successfully developed, will provide a convenient and cost-effective way to treat localized skin cancer in patients, as compared to surgical interventions, external beam radiation therapy and electronic brachytherapy.

Acquisition of 100% equity interests in 武漢伢典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.) ("Adv. Dental")*

On 18 December 2018, Zhuhai Essex and 武漢伢典創新投資有限公司 ("伢典創新"), the sole shareholder of Adv. Dental, entered into an equity transfer agreement, pursuant to which 伢典創新 agreed to transfer 100% equity interests in Adv. Dental to Zhuhai Essex at a consideration of approximately RMB1.2 million (equivalent to approximately HK$1.3 million), subject to the fulfilment of certain conditions precedent as set out in the equity transfer agreement. As at the date of this report, certain conditions precedent have not been fulfilled yet.

Convertible Loan Agreement with Antikor Biopharma Ltd ("Antikor")

On 22 January 2019, Essex Bio-Investment entered into a convertible loan agreement with Antikor, pursuant to which Essex Bio-Investment agreed to make available a convertible loan in the principal amount of approximately US$0.4 million (equivalent to approximately HK$2.7 million) to Antikor for a term of 6 months. The convertible loan will bear interest at a rate of 5% per annum on the principal amount of the convertible loan outstanding on the conversion date, or 8% per annum if no conversion has been taken place before the maturity date.

The conversion of the principal amount of the convertible loan into such number of shares will represent 6.54% of the enlarged total issued share capital of Antikor on a fully-diluted basis. As at the date of this report, Essex Bio-Investment has not converted the principal amount of the convertible loan into shares of Antikor.

Antikor is a company incorporated and registered in England and Wales, focusing on the development of fragment-based antibody-drug conjugates for cancer treatment including photodynamic therapies. The investment in Antikor is in line with the Group's strategic development plans in oncology.

MARKET DEVELOPMENT

To meet with new challenges in sales amid recent significant regulatory changes on how drugs are priced and prescribed, during the year under review, the Group made significant changes to its sales and marketing organisation and strategies to enable its products to remain relevant with wider market reach for sustainable growth traction. We are investing significantly in:

- Clinical observation programmes on the drugs' clinical indications;
- Reaching out to lower-tier cities;
- Cultivating pharmaceutical stores, where possible, as complementary sales channel;
- Upgrading our sales staff on products knowledge proficiency and professionalism; and
- Using e-channel for training and imparting knowledge purposes.

As at 31 December 2018, the Group maintains 42 regional sales offices (the "RSOs") and a total number of about 1,320 sales and marketing representatives, out of which approximately 730 people are full-time staff and approximately 590 people are on contract basis or from appointed agents.

During the year under review, the Group's pharmaceutical products are being prescribed in around 6,300 hospitals and medical organisations and approximately 1,000 pharmaceutical stores, which are mainly located in the major cities, provinces and county cities in the PRC.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are divided into two specialised teams: ophthalmology and surgical arena of topical (skin) surface wounds. The latter primarily covers dermatology, stomatology and obstetrics and gynaecology.

The RSOs are tasked with the function of (i) promoting the Group's products to pharmaceutical companies and hospitals; and (ii) providing training to medical practitioners on clinical applications of the Group's products. In addition, these RSOs serve another vital role to the Group in gathering market intelligence and feedback for the Group's R&D planning and clinical studies.

RESEARCH AND DEVELOPMENT

The Group's key R&D platforms comprise growth factor, novel antibody, drug formulation and Blow-Fill-Seal ("BFS") platform. Growth factor, novel antibody, and drug formulation are technology platforms for the development of therapeutic drugs, whereas BFS platform is a state-of-the-art manufacturing plant for producing preservative-free single-dose drugs, in particular for the ophthalmic drugs.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The establishment of the BFS platform has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single-dose drugs. The Group has 10 categories of drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the R&D pipeline. During the year under review, the Group was granted with the approval for registration and commercialisation of preservative-free single-dose Sodium Hyaluronate Eye Drops and Levofloxacin Eye Drops in the PRC. The Group has also obtained a certificate of GMP in respect of the preservative-free single-dose Tobramycin Eye Drops in 2018. It is expected that the remaining preservative-free single-dose drugs under the development of the Group would be approved within the next 2 years.

The National Post-Doctoral Research Centre was established in 2017 with the approval from the Ministry of Human Resources and Social Security of the PRC and we started to recruit Post-Doctoral Researchers in 2018.

As at the date of this report, the Group has obtained a total of fifteen patent certificates or authorisation letters: twelve 發明專利 (invention patents) and three 實用新型專利 (utility model patents).

ACQUISITION OF A PIECE OF LAND IN THE PRC

To cope with the rapid expansion of the Group, a piece of land of about 15,000 square metres located at 珠海高新區科技創新海岸 (Zhuhai Hi-Tech Industrial Park*) was acquired in 2018. The land is within walking distance from our existing factory. The plan is to construct the Group's second factory with a gross floor area (GFA) of about 45,000 square metres to house the Group's R&D centre, additional manufacturing facility, administrative office and staff hostel. Construction work is expected to start in the fourth quarter of 2019. Please refer to the announcement of the Company dated 18 July 2018 for details.

OUR PRODUCTION CAPABILITY

The Group's factory in Zhuhai is fully equipped with seven production plants, (i) one of which is for the production of active pharmaceutical ingredients; (ii) four of which are for the production of the Group's flagship biopharmaceutical formulations; and (iii) the remaining two are the state-of-the-art BFS production plants for the production of preservative-free single-dose drugs.

The Group is in the process of applying for the European Union's GMP. Further progress of the application will be updated to the shareholders of the Company in due course.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group achieved a turnover of approximately HK$1,176.5 million (2017: approximately HK$899.6 million), representing a growth rate of 30.8% as compared to the turnover for the year ended 31 December 2017.

Composition of turnover for the years ended 31 December 2018 and 2017, respectively, is shown in the following table:

Expressed in HK$' million	2018			2017		
	Ophthalmic products	Surgical products	Total	Ophthalmic products	Surgical products	Total
Own products						
– Beifushu series	355.0	–	355.0	301.0	–	301.0
– Beifuji series	–	629.4	629.4	–	423.4	423.4
	355.0	629.4	984.4	301.0	423.4	724.4
Third party products						
– Sales of pharmaceutical products	108.3	12.9	121.2	123.1	27.7	150.8
– Provision of marketing services	65.7	5.2	70.9	13.7	10.7	24.4
	174.0	18.1	192.1	136.8	38.4	175.2
Total	529.0	647.5	1,176.5	437.8	461.8	899.6

The overall ophthalmic products contributed approximately HK$529.0 million to the Group's turnover for the year ended 31 December 2018, representing an increase of 20.8% as compared to that of the previous year. The increase was attributable to Beifushu series, which recorded a turnover growth of 17.9%.

Surgical products recorded a total turnover of approximately HK$647.5 million for the year ended 31 December 2018, representing an increase of 40.2% as compared to that of the previous year. The increase was attributable to Beifuji series which recorded a significant turnover growth of 48.7%, but the overall growth was weighed down by a decrease of 52.9% in turnover from third party products. Although turnover from third party products was negatively impacted by the two-invoice system implemented by the PRC government, overall sales performances of third party products remained positive and contributed to the Group's profitability.

Turnover of approximately HK$984.4 million from the Group's flagship biopharmaceutical products represented 83.7% of the Group's turnover for the year ended 31 December 2018, representing an increase of 35.9% as compared to the previous year. The Group maintained strong sales growth traction of its flagship products, being the Beifuji and Beifushu series. The sustainable growth traction is attributed to the Group's expanding sales in second and third-tier cities and through pharmaceutical stores in the PRC during the year under review.

Turnover of approximately HK$192.1 million from the Group's third party products represented 16.3% of the Group's turnover for the year ended 31 December 2018, representing an increase of 9.6% as compared to the previous year. The increase was attributable to the provision of marketing services to third parties, but the overall growth was weighed down by a decrease of 19.6% in turnover from sales of third party products, which was mainly impacted by the two-invoice system but not the fundamental performances of the products.

MANAGEMENT DISCUSSION AND ANALYSIS

Combining the Group's flagship biopharmaceutical products and third party products, the overall turnover contributed from the ophthalmology and surgical segments is represented as 45.0% and 55.0%, respectively.

The Group's gross profit has grown in tandem with the growing sales. The gross profit for the year ended 31 December 2018 was approximately HK$973.5 million (2017: approximately HK$737.6 million), representing an increase of 32.0%.

During the year under review, the Group achieved a profit of approximately HK$231.1 million as compared to the previous year of approximately HK$167.3 million, representing an increase of 38.1%. Under the Co-Development Agreement entered into between the Group, Mitotech and Mitotech LLC on 16 July 2018, the Group has an option to fund a further development, being the second phase 3 clinical trial in the US FDA, of the SkQ_1 Product to a maximum of US$20.0 million, in return for an increased percentage allocation of income received by Mitotech in respect of the SkQ_1 Product and to be shared between the Group and Mitotech. In accordance with HKFRS 9, such option is classified as a financial asset at fair value through profit or loss. During the year ended 31 December 2018, a fair value gain of approximately HK$13.7 million (2017: Nil) was recognised in profit or loss.

The distribution and selling expenses for the year under review were approximately HK$649.7 million as compared to the previous year of approximately HK$515.3 million, representing an increase of 26.1%. Such expenses primarily consisted of remuneration, advertising costs, travelling and transportation costs, costs for organisation of seminars and conferences for product training and awareness, etc. Overall distribution and selling expenses increased in 2018 mainly for the purposes of expanding the sales and marketing function, boosting the sales of the Group's flagship biopharmaceutical product, Beifuxin (a product in Beifuji series), and third party products.

The increase in remuneration and staff costs was due to the salary scales adjustment in the PRC to attract talented candidates from other major cities to join the Group, inflation and other local market conditions.

Other selling and marketing expenses for the year ended 31 December 2018 increased due to the increase in marketing activities carried out for the Group's flagship products and third party products, in particular for Beifuxin, a product in Beifuji series.

The administrative expenses for the year under review were approximately HK$68.9 million as compared to the previous year of approximately HK$40.4 million. The increase in administrative expenses was mainly due to the increase in staff costs and R&D expenses.

R&D expenditures incurred during the year ended 31 December 2018 increased to approximately HK$35.1 million of which approximately HK$17.0 million were capitalised, whereas total expenditures incurred during the year ended 31 December 2017 were approximately HK$27.1 million of which approximately HK$20.7 million were capitalised. Hence the R&D expenses incurred as administrative expenses for the year ended 31 December 2018 increased to approximately HK$18.1 million as compared to the previous year of approximately HK$6.4 million.

The Group had cash and cash equivalents of approximately HK$311.1 million as at 31 December 2018 (2017: approximately HK$240.6 million).

The Group's bank borrowings as at 31 December 2018 were HK$55.0 million (2017: approximately HK$29.0 million), which were repayable in more than 1 year but within 5 years. All of the Group's bank borrowings were denominated in Hong Kong Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 2.7% as at 31 December 2018. Please refer to the sub-section headed "Liquidity and Financial Resources" for details of banking facilities.

The total finance costs of the Group for the year ended 31 December 2018 were approximately HK$7.4 million (2017: approximately HK$9.5 million), including an imputed interest expense on the convertible loan payable amounting to approximately HK$8.3 million (2017: approximately HK$10.3 million) of which approximately HK$2.2 million (2017: approximately HK$1.7 million) was capitalised during the year under review.

Convertible loan from International Finance Corporation ("IFC")

On 6 July 2016, the Company entered into a convertible loan agreement (the "Convertible Loan Agreement") with IFC, being a member of the World Bank Group and an international organisation established by Articles of Agreement among its member countries including the PRC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK$150.0 million at an interest rate of 1.9% per annum. Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into ordinary shares of the Company ("Conversion Shares") at a conversion price of HK$5.90 per share (subject to adjustments as set out in the Convertible Loan Agreement) at any time after the date of the disbursement and prior to the maturity date (i.e. the date falling on the fifth anniversary of the date of the disbursement).

Use of net proceeds from the convertible loan

The net proceeds from the convertible loan (after deducting the fees and expenses in relation to the obtaining of the convertible loan) are approximately HK$145.0 million, which were intended to be utilised for the Company's strategic investment in and development of the Group's biopharmaceutical business and general working capital requirements. As at 31 December 2018 and as at the date of this report, the net proceeds had been used for:

(i) the settlement of bank borrowings of approximately HK$80.0 million which were mainly obtained to finance the Group's strategic investments;

(ii) working capital purpose of approximately HK$26.1 million; and

(iii) the R&D expenditure of approximately HK$38.9 million on the Group's biopharmaceutical business.

Dilutive effect of the conversion of the convertible loan

As at 31 December 2018, no part of the outstanding principal amount of the convertible loan of HK$150.0 million has been converted into Conversion Shares.

On the assumption that the convertible loan would be converted into Conversion Shares in full at the initial conversion price of HK$5.90 per share, the aggregate principal amount of the convertible loan of HK$150.0 million is convertible into 25,423,728 Conversion Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out the total number of shares of the Company to be issued upon full conversion of the convertible loan as at 31 December 2018:

Shareholders	As at 31 December 2018		Immediately upon full conversion of the convertible loan at the conversion price of HK$5.90 per share	
	No. of shares	Approximate%	No. of shares	Approximate%
Ngiam Mia Je Patrick	146,979,000	25.40	146,979,000	24.33
Ngiam Mia Kiat Benjamin	145,354,000	25.12	145,354,000	24.06
Dynatech Ventures Pte Ltd (Note 1)	6,666,667	1.15	6,666,667	1.10
Directors of the Company (the "Directors") (other than Ngiam Mia Je Patrick) (Note 2)	7,280,450	1.26	7,280,450	1.21
IFC	–	–	25,423,728	4.21
Other shareholders	272,469,883	47.07	272,469,883	45.09
	578,750,000	100	604,173,728	100

Notes:

(1) 6,666,667 shares were held by Dynatech Ventures Pte Ltd which was wholly owned by Essex Investment (Singapore) Pte Ltd, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares.

(2) Amongst these 7,280,450 shares, 5,244,300 shares were registered in the name of Fang Haizhou and 2,036,150 shares were registered in the name of Zhong Sheng.

(3) Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director) and is deemed to be interested in the shares in which Ngiam Mia Je Patrick is interested/deemed to be interested.

Dilutive effect on earnings per share

Based on the profit attributable to owners of the Company for the year ended 31 December 2018 of approximately HK$231.1 million, the basic and diluted earnings per share attributable to owners of the Company, after considering the full conversion of the convertible loan, were HK40.50 cents and HK39.44 cents respectively.

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

Based on the cash and cash equivalents as at 31 December 2018 and the cash flow from the operations of the Company for the year then ended, the Company has the ability to meet its repayment obligations under the convertible loan which remained unconverted to Conversion Shares as at 31 December 2018.

CAPITAL INCREASE OF ZHUHAI ESSEX

Zhuhai Essex completed the application for an increase in share capital from RMB50.0 million to RMB150.0 million by the end of March 2018. The increase in share capital of RMB100.0 million (equivalent to approximately HK$124.8 million) was injected in the form of reinvestment of dividend payable to Essex Bio-Pharmacy Limited, the immediate holding company of Zhuhai Essex, by Zhuhai Essex.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, as at 31 December 2018, the Group did not have any immediate plan for material investments or acquisition of material capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group obtained banking facilities of HK$220.3 million, of which HK$55.0 million was utilised. All of the banking facilities were secured by the corporate guarantees provided by the Company and a subsidiary within the Group and a pledged deposit which amounted to HK$11.0 million.

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$311.1 million as compared to approximately HK$240.6 million as at 31 December 2017. Among the cash and cash equivalents of the Group as at 31 December 2018, 72.9% was denominated in Renminbi, 23.8% was denominated in Hong Kong Dollar and 3.3% was denominated in US Dollar.

The Group monitors its capital structure on the basis of a gearing ratio which is defined as the ratio of total liabilities to total assets. The gearing ratio as at 31 December 2018 was 35.9% (2017: 36.2%).

CHARGES ON GROUP ASSETS

As at 31 December 2018, bank deposit of HK$11.0 million (2017: approximately HK$28.2 million) was pledged to secure the Group's banking facilities.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments which amounted to approximately HK$324.7 million (2017: approximately HK$31.4 million).

CONTINGENT LIABILITIES

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

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

Save as disclosed in this report, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2018.

SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this report, the Group did not hold any significant investments as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

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

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

TREASURY POLICY

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

EMPLOYEES

As at 31 December 2018, the Group had a total of 1,034 full-time employees (2017: 1,024 full-time employees). The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK$146.0 million and approximately HK$111.9 million, respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group. Details of the share option scheme of the Company are disclosed in note 34 to the financial statements.

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 unless it is terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive Director was fixed in his service agreements and he is also entitled to a discretionary annual bonus of such amount (if any) as the board of Directors may determine in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all Directors in any financial year shall not exceed 5% of the consolidated net profit after taxation and non-controlling interests but before extraordinary items of the Company as shown in its consolidated audited accounts for such financial year (the "Net Profit"); (b) the Net Profit for such financial year exceeds HK$50,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.4 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three months after the issue of the consolidated audited accounts of the Group for such financial year.

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

* For identification purpose only

REPORT OF THE DIRECTORS

The directors (the "Directors") of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") are pleased to present their report and the audited financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 37 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 65 to 146.

An interim dividend of HK$0.03 per ordinary share was paid on 21 September 2018. The Directors have recommended the payment of a final dividend of HK$0.033 per ordinary share for the financial year ended 31 December 2018 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 6 May 2019. Subject to shareholders' approval, the final dividend will be payable on Monday, 27 May 2019. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 25 April 2019 to Tuesday, 30 April 2019 (both days inclusive) for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 30 April 2019. During this period, no transfer of shares will be registered. In order to be entitled to attend the aforesaid annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 24 April 2019.

The register of members of the Company will be closed from Tuesday, 7 May 2019 to Thursday, 9 May 2019 (both days inclusive) for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to be qualified for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Tuesday, 30 April 2019, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 6 May 2019.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on pages 147 to 148. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

Overview

The Group's emphasis continued primarily on manufacturing and selling of its flagship biopharmaceutical products for the treatment and healing of surface wounds and eye wounds. The Group's business focuses on two main therapeutic areas: (i) ophthalmology; and (ii) surgical arena of topical (skin) surface wounds primarily covering dermatology, stomatology and obstetrics and gynaecology; while selectively pursuing therapeutics in neurology, oncology and orthopaedics. The Group maintains a pipeline of multi-projects in research and development ("R&D") at various stages of clinical programmes, of which several projects involve growth factors and antibody and a handful of projects are on unit dose for ophthalmic and respiratory disease.

The Group's major third party products include (i) Xalatan® Eye Drops and Xalacom® Eye Drops for lowering raised pressure within the eye; (ii) 適麗順 (Iodized Lecithin Capsules*) for treating central serous chorioretinopathy, central exudative chorioretinopathy, vitreous haemorrhage, vitreous opacities and central retinal vein occlusion, etc.; (iii) 伊血安顆粒 (Yi Xue An Granules*) for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion; and (iv) Carisolv products for treating dental caries by using minimally invasive techniques. During the year under review, the Group has secured extension of the import and service agreement with Pfizer International Trading (Shanghai) Limited for their Xalatan® Eye Drops and Xalacom® Eye Drops in the People's Republic of China (the "PRC") for a further 3 years, expiring in 2021.

The Group's products and third party products are marketed and sold through around 6,300 hospitals and medical organisations and approximately 1,000 pharmaceutical stores, which are located in the major cities, provinces and county cities in the PRC and are managed directly by its 42 regional sales offices (the "RSOs") with about 1,320 sales and marketing representatives.

In 2015, the Group initiated an enrichment programme (the "Enrichment Programme") for enhancing its R&D pipeline and expanding its products portfolio.

As at the date of this report, the Group has invested in 12 entities/projects with a total commitment of approximately US$53.9 million, out of which approximately US$43.4 million has been invested by the Group. Except for the total commitment in relation to the clinical development of the SkQ_1 Product (as defined below) under the co-development agreement (the "Co-Development Agreement") with Mitotech S.A. and Mitotech LLC on 16 July 2018, each of the investments represented less than 5% of the Group's total assets as at 31 December 2018. The total commitment of US$16.5 million (equivalent to approximately HK$129.7 million), under the Co-Development Agreement, represented 8.9% of the Group's total assets as at 31 December 2018, out of which US$6.5 million (equivalent to approximately HK$51.1 million) was paid and represented 3.5% of the Group's total assets as at 31 December 2018. Please refer to the announcement of the Company dated 16 July 2018 for details of the transaction.

A summary of projects in the Enrichment Programme is as follows:

Company	Relationship/ Stake of the Group	Extended Interests
Wuhan Adv. Dental Co., Ltd. ("Adv. Dental"), PRC Website: http://yadiansci.com It focuses on developing medical equipment of minimally invasive medical technologies, particularly with minimally invasive repair of dental pain-free technology system.	Agent (by agency agreement dated 28 April 2015); and Lender under the convertible loan of RMB10.0 million (by convertible loan agreement dated 30 November 2015)	On 18 December 2018, the Group entered into an equity transfer agreement with the sole shareholder of Adv. Dental to acquire 100% equity interests of Adv. Dental at a consideration of approximately RMB1.2 million, subject to the fulfilment of certain conditions precedent. As at the date of this report, certain conditions precedent have not been fulfilled yet.

REPORT OF THE DIRECTORS

Company	Relationship/ Stake of the Group	Extended Interests
Humacyte Inc ("Humacyte"), USA Website: http://www.humacyte.com Humacyte is a regenerative medicine company focused on vascular therapies.	Investor (Initial investment cost: US$1.1 million) Date of subscription agreement: 29 July 2015	Ongoing discussion on collaboration in the PRC.
Tasly Pharmaceutical Group Co., Ltd. ("Tasly"), PRC Website: http://www.tasly.com Tasly's strength is in the R&D and manufacturing of drugs in genetically engineered mammal expression system.	Strategic cooperation in R&D projects Date of strategic cooperation framework agreement: 28 August 2015	Cooperate with Tasly to develop PDGF gel in phase III clinical trial.
Guangxi Medictop Pharmaceutical Co., Ltd., PRC Website: http://www.medictop.com It is principally engaged in the manufacturing, R&D, and sales of Chinese patent medicines.	Agent (by agency agreements dated 22 September 2015 and 24 July 2018) The Group secured the extension of distribution right of 伊血安顆粒 (Yi Xue An Granules*) in the PRC at a consideration of RMB20.0 million.	Being exclusive sales agent of 伊血安顆粒 (Yi Xue An Granules*) in the PRC, expiring in 2043.
Abpro Corporation ("Abpro"), USA Website: http://www.abpro-labs.com Abpro is a USA-based biotech company focusing on the field of industrial biotechnology; and it is principally engaged in the business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets.	Collaboration and license agreement and investor (Total investment cost: US$3.6 million) Date of collaboration and license and subscription agreements: 22 January 2016	Ongoing discussion with Abpro on collaboration of R&D projects and licensing products.
AC Immune SA ("ACI"), Switzerland Website: http://www.acimmune.com ACI is a clinical stage Swiss-based biopharmaceutical company focused on neurodegenerative diseases with four product candidates in clinical trials. ACI's two proprietary technology platforms create antibodies, small molecules and vaccines designed to address a broad spectrum of neurodegenerative indications, such as Alzheimer's disease.	Investor (Initial investment cost: US$5.0 million) Date of subscription agreement: 11 April 2016 Listed on NASDAQ on 23 September 2016; Stock Quote: ACIU Date of research collaboration agreement: 19 May 2017	Collaboration with ACI to develop a novel biological therapeutic for the treatment of neurodegenerative diseases.
Tibet Linzhi Parkson Pharmaceutical Co., Ltd. ("Parkson Pharmaceutical") and Liaoning Wanxin Pharmaceutical Co., Ltd. ("Wanxin Pharmaceutical"), PRC Each of Parkson Pharmaceutical and Wanxin Pharmaceutical is principally engaged in the manufacturing, R&D of medicines.	Agent (by original agency agreement dated 22 December 2015 (initial license fees of RMB20.0 million); and supplementary agreement dated 29 November 2017 (additional license fees of RMB35.0 million))	Being exclusive sales agent of 適麗順 (Iodized Lecithin Capsules*) in the PRC, expiring in 2031.

REPORT OF THE DIRECTORS

Company	Relationship/ Stake of the Group	Extended Interests
MeiraGTx Limited ("MeiraGTx"), UK Website: http://www.meiragtx.com MeiraGTx is a clinical-stage biotech company developing novel gene therapy treatments for a wide range of inherited and acquired disorders for which there are no effective treatments available.	Investor (Initial investment cost: US$5.0 million) Date of subscription agreement: 23 February 2018 Listed on NASDAQ on 8 June 2018; Stock Quote: MGTX	Ongoing discussion with MeiraGTx on strategic cooperation in the future.
Chengdu Shanggong Medical Technology Co., Ltd. ("Shanggong"), PRC Website: http://www.sgex.com.cn Shanggong is a medical data analytics (AI Algorithm) company in the medical service industry in the PRC, having fully curated, quality controlled approximately 700,000 retinal images of diabetic patients in the PRC, which forms a retinopathy big data that enables AI Algorithm to perform its diagnosis. The AI Algorithm can screen retinal images of patients and detect diabetic retinopathy, which affects almost a third of diabetes patients that would otherwise be examined by highly trained ophthalmologists.	Investor (Initial investment cost: RMB20.0 million) Date of investment agreement: 18 July 2018	Enhancing the Group's market positioning in the ophthalmology business.
Mitotech S.A. ("Mitotech"), Luxembourg Website: http://www.mitotechpharma.com Mitotech is a clinical-stage Luxembourg-based biotechnology company developing novel drugs for the treatment of predominantly age-related disorders.	Strategic cooperation in R&D projects Date of co-development agreement: 16 July 2018 Date of license agreement: 18 July 2018	Cooperate with Mitotech to develop an ophthalmic solution containing SkQ_1 as its sole active pharmaceutical ingredient (the "SkQ_1 Product") which is in the United States Food and Drug Administration first phase 3 clinical trial.
DB Therapeutics, Inc. ("DBT"), USA DBT is an early stage medical device company focusing on the development of radiotherapeutic bandages for the treatment of non-melanoma skin cancer.	Agent (by license agreement dated 29 October 2018); and Lender under the convertible loan (disburse in 5 tranches) of US$4.5 million in total (by convertible loan agreement dated 29 October 2018; first tranche of US$0.6 million disbursed on 8 November 2018)	Being exclusive distributor of certain radiotherapeutic bandage for treatment of non-melanoma skin cancer in the PRC (including Hong Kong and Macau), Taiwan, Australia, New Zealand, Korea and Japan.
Antikor Biopharma Ltd ("Antikor"), UK Website: http://www.antikor.co.uk Antikor is a company focusing on the development of fragment-based antibody-drug conjugates for cancer treatment including photodynamic therapies.	Lender under the convertible loan of US$0.4 million Date of convertible loan agreement: 22 January 2019	Ongoing discussion with Antikor on strategic cooperation in future.

Note: Distribution agreements with Elektron Technology UK Limited for ophthalmic medical devices were terminated in the third quarter of 2018.

REPORT OF THE DIRECTORS

FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended 31 December 2018, the Group achieved a turnover of approximately HK$1,176.5 million (2017: approximately HK$899.6 million), representing a growth rate of 30.8% over last year. Profit for the year was approximately HK$231.1 million representing an increase of 38.1% as compared to the previous year of approximately HK$167.3 million.

The overall ophthalmic products contributed approximately HK$529.0 million to the Group's turnover for the year ended 31 December 2018, representing an increase of 20.8% as compared to that of the previous year.

Surgical products recorded a total turnover of approximately HK$647.5 million for the year ended 31 December 2018, representing an increase of 40.2% as compared to that of the previous year.

Turnover of approximately HK$984.4 million from the Group's flagship biopharmaceutical products represented 83.7% of the Group's turnover for the year ended 31 December 2018, representing an increase of 35.9% as compared to the previous year. Turnover of approximately HK$192.1 million from the Group's third party products represented 16.3% of the Group's turnover for the year ended 31 December 2018, representing an increase of 9.6% as compared to the previous year.

Combining the Group's flagship biopharmaceutical products and third party products, the overall turnover contributed from the ophthalmology and surgical segments is represented as 45.0% and 55.0%, respectively.

At as 31 December 2018, the Group maintains 42 RSOs and a total number of about 1,320 sales and marketing representatives, out of which approximately 730 people are full-time staff and approximately 590 people are on contract basis or from appointed agents.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are divided into two specialised teams: ophthalmology and surgical arena of topical (skin) surface wounds. The latter primarily covers dermatology, stomatology and obstetrics and gynaecology.

To reward our valued shareholders for their years of valuable support, an interim dividend of HK$0.03 per ordinary share was paid on 21 September 2018 and the board of Directors (the "Board") is proposing a final dividend of HK$0.033 per ordinary share to be approved at the upcoming annual general meeting of the Company.

The Group had cash and cash equivalents of approximately HK$311.1 million as at 31 December 2018 (2017: approximately HK$240.6 million).

The bank borrowings as at 31 December 2018 were HK$55.0 million (2017: approximately HK$29.0 million), which were repayable in more than 1 year but within 5 years. All of the bank borrowings were denominated in Hong Kong Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 2.7% as at 31 December 2018.

The total finance costs of the Group for the year ended 31 December 2018 were approximately HK$7.4 million (2017: approximately HK$9.5 million), including an imputed interest expense on the convertible loan payable amounting to approximately HK$8.3 million (2017: approximately HK$10.3 million) of which approximately HK$2.2 million (2017: approximately HK$1.7 million) was capitalised during the year under review.

REPORT OF THE DIRECTORS

FUTURE DEVELOPMENT

The Group expects continued organic growth from its flagship biopharmaceutical products, the Beifushu and Beifuji series, into near future years. This will be assured through expanding sales into major county cities in China and executing its clinical plans to create wider therapeutics reach.

Distribution of third party products such as Xalatan® Eye Drops and Xalacom® Eye Drops, 適麗順 (Iodized Lecithin Capsules*), 伊血安顆粒 (Yi Xue An Granules*) and Carisolv products which were secured under the Enrichment Programme can have synergistic effect to the business of the Group and also expand our product pipeline.

For the medium-term to long-term strategic R&D planning, the Group entered into a collaboration and license agreement with Abpro for the development of antibody-based products.

The Group has secured extension of the import and service agreement with Pfizer International Trading (Shanghai) Limited for Xalatan® Eye Drops and Xalacom® Eye Drops in the PRC for a further 3 years, expiring in 2021.

The Group continuously explored opportunities to strengthen its R&D capabilities. It has entered into the Co-Development Agreement with Mitotech on 16 July 2018. Under the agreement, the Group will invest not more than US$16.5 million for a clinical development in the United States Food and Drug Administration first phase 3 clinical trial (the "Clinical Trial") of the SkQ_1 Product which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech in respect of the SkQ_1 Product. The Clinical Trial has been started in November 2018 and is expected to have the first data read out in the second or third quarter of 2019.

Regarding the longer-term visibility for the marketing and selling of (i) 適麗順 (Iodized Lecithin Capsules*), which are used for treating central serous chorioretinopathy, central exudative chorioretinopathy, vitreous haemorrhage, vitreous opacities and central retinal vein occlusion, etc.; and (ii) 伊血安顆粒 (Yi Xue An Granules*), which are used for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion, the Group has secured extension of the respective agency agreements, expiring in 2031 and 2043 respectively.

Further, the Group entered into an equity transfer agreement with the sole shareholder of Adv. Dental on 18 December 2018 to acquire 100% equity interests of Adv. Dental to secure the distribution right of Carisolv products for treating dental caries by using minimally invasive techniques.

EVENT AFTER THE REPORTING PERIOD

On 22 January 2019, Essex Bio-Investment Limited ("Essex Bio-Investment") entered into a convertible loan agreement with Antikor, pursuant to which Essex Bio-Investment agreed to make available a convertible loan in the principal amount of approximately US$0.4 million (equivalent to approximately HK$2.7 million) to Antikor for a term of 6 months. The convertible loan will bear interest at a rate of 5% per annum on the principal amount of the convertible loan outstanding on the conversion date, or 8% per annum if no conversion has been taken place before the maturity date.

The conversion of the principal amount of the convertible loan into such number of shares will represent 6.54% of the enlarged total issued share capital of Antikor on a fully-diluted basis. As at the date of this report, Essex Bio-Investment has not converted the principal amount of the convertible loan into shares of Antikor.

Antikor is a company incorporated and registered in England and Wales, focusing on the development of fragment-based antibody-drug conjugates for cancer treatment including photodynamic therapies. The investment in Antikor is in line with the Group's strategic development plans in oncology.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of factors that may affect the performance of the Group. The summary of major risks and uncertainties is as follows:

1 *Compliance with the Good Manufacturing Practices ("GMP") Standards*

All pharmaceutical manufacturers in the PRC will be required to comply with the GMP standards by certain time limits, otherwise the pharmaceutical manufacturing enterprise permits will be revoked or will not be renewed, resulting in the termination of the production. The GMP certificate in respect of the facilities necessary for the production of the Group's commercialised biopharmaceutical products has been granted by 國家藥品監督管理局 (now the National Medical Products Administration, formerly known as China Food and Drug Administration) and will expire on 2 February 2024. There can be no assurance that the Group may be able to renew its pharmaceutical manufacturing enterprise permit when the GMP certificate expires and in the event that the GMP certificate is not renewed upon its expiry, the Group's production will have to cease. In such case, the Group's operations and profitability may be materially and adversely affected.

2 *Research and Development Risk*

The Group's future prospect is dependent upon the continuous development and successful commercialisation of new products. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biopharmaceutical product development is highly unpredictable. Products that appear to be promising at the early phases of R&D may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure of obtaining the necessary regulatory approvals. Consequently, the corresponding R&D expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

REPORT OF THE DIRECTORS

3 Reliance on Key Personnel

The Group has experienced a constant growth in the number of employees. The Group's development has also resulted in an increase in responsibilities for its management and employees. There can be no assurance that the Group will be able to manage its expansion by retaining its existing executives and technical personnel and by recruiting additional employees as competition for such personnel is intense. The Group's success is, to a certain extent, attributable to the expertise and experience of its senior management and researchers. Should any of them cease to be involved in the Group's management and/or R&D, the Group's business operations and research capability may be adversely affected.

4 Product Substitution

New drug discoveries and developments in recombinant DNA technology and other pharmaceutical processes are expected to continue at a rapid pace. It is difficult to predict the effect of future technological changes and discoveries on the viability or competitiveness of the Group's products. It is essential for the Group to respond to these changes by developing new products in a timely manner to meet technological advances in the market. In addition, new alliances may have to be formed with new technological partners to enable the Group to have access to emerging technologies and new discoveries. The Group has to adopt and modify development methods, processes and programmes in response to new technologies and discoveries. The failure of the Group to respond rapidly to changing technologies and new discoveries could have a material and adverse impact on the Group's performance. There is also no assurance that other parties will not independently develop products having therapeutic effects similar or superior to the Group's products.

5 Pharmaceutical Pricing Policies in the PRC

The drug pricing system in the PRC is controlled by the government, and it affects the pharmaceutical industry, drug price setting and regulation. Under the government intervention, price reduction across therapeutic categories was common during the last 20 years, which may exert a downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

6 Healthcare Reform in China

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. Moreover, regulatory bodies in the PRC may regularly or unexpectedly make changes to its implementation practice. Accordingly, past enforcement actions taken may not be reflective of future actions. Any enforcement action taken by the government against us may subject us to material and adverse effects. It may also incur significant costs, divert the resources and attention of the management and result in negative publicity and reputation damage. In addition, such changes may be applied on a retrospective basis, thus leading to more uncertainties and risks in respect of our business and operation.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimise our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") will be published within three months after the publication of the annual report of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to, among others, the following major laws and regulations:

Hong Kong

- Listing Rules
- Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")
- Companies Ordinance (Chapter 622, Laws of Hong Kong)

PRC

1 *Business operation*

- Pharmaceutical Administration Law of the PRC 《中華人民共和國藥品管理法》
- Regulations for the Implementation of the Pharmaceutical Administration Law of the PRC 《中華人民共和國藥品管理法實施條例》
- Measures for the Supervision and Administration of Production of Pharmaceutical Products 《藥品生產監督管理辦法》
- Good Manufacturing Practices for Pharmaceutical Products 《藥品生產質量管理規範》
- Measures for the Administration of Good Manufacturing Practices for Pharmaceutical Products 《藥品生產質量管理規範認證管理辦法》
- Good Supply Practices for Pharmaceutical Products 《藥品經營質量管理規範》
- Regulations for the Implementation of the Good Supply Practices for Pharmaceutical Products 《藥品經營品質管制規範實施細則》
- Measures for the Administration of Good Supply Practices for Pharmaceutical Products 《藥品經營質量管理規範認證管理辦法》
- Measures for the Administration of Business Licenses for Pharmaceutical Products 《藥品經營許可證管理辦法》
- Measures for the Supervision and Administration of Circulation of Pharmaceutical Products 《藥品流通監督管理辦法》
- Measures for the Administration of the Prescription and Non-prescription Drugs (Trial) 《處方藥與非處方藥分類管理辦法（試行）》
- Measures for the Administration of Drug Registration 《藥品註冊管理辦法》
- Notice on Issuing the Opinions on Pushing Forward the Pharmaceutical Pricing Reform 《關於印發推進藥品價格改革意見的通知》

2 *Environmental and social standards*

- Environmental Protection Law of the PRC 《中華人民共和國環境保護法》
- Labour Law of the PRC 《中華人民共和國勞動法》
- Labour Contract Law of the PRC 《中華人民共和國勞動合同法》
- Work Safety Law of the PRC 《中華人民共和國安全生產法》
- Water Pollution Prevention and Control Law of the PRC 《中華人民共和國水污染防治法》
- Energy Conservation Law of the PRC 《中華人民共和國節約能源法》
- Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes 《中華人民共和國固體廢物污染環境防治法》

- Fire Protection Law of the PRC 《中華人民共和國消防法》
- Occupational Disease Prevention and Control Law of the PRC 《中華人民共和國職業病防治法》
- Regulations for the Safety Management of Hazardous Chemicals 《危險化學品安全管理條例》

During the year ended 31 December 2018, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

KEY RELATIONSHIPS

1 *Employees*

Human resources are one of the greatest assets of the Group and the Group considers the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control and training of other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognise and reward the contribution of the employees to the growth and development of the Group.

2 *Suppliers*

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

3 *Marketing agents and distributors*

We sell our products to hospitals through RSOs, marketing agents and distributors. We require our RSOs, marketing agents and distributors to comply with the relevant laws and regulations and our sales and marketing policies, including but not limited to selling price, promotional activities and use of our enterprise resource planning (ERP) system. We also monitor the financial condition and repayment history of our distributors, and sales performance of them.

4 *Hospitals and doctors*

The Group's flagship ophthalmic and other surgical products are being marketed by around 6,300 hospitals and medical organisations and approximately 1,000 pharmaceutical stores, which are located in the major cities, provinces and county cities in the PRC.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year under review. For the year ended 31 December 2018, 15,257,000 ordinary shares of the Company were issued as a result of the exercise of 15,257,000 share options (the "Options") granted under the Company's share option scheme as approved by the shareholders of the Company at the annual general meeting held on 3 May 2013 (the "Scheme"). Details of the Company's share capital and details of the Scheme are set out in notes 32 and 34 respectively to the financial statements.

Summary of the Scheme

1. Purpose of the Scheme:

   (a) To recognise and acknowledge the contributions that Eligible Participants (as defined below) have made or may make to the Group.

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

2. Participants of the Scheme:

   (a) any director, officer, employee or officer employed by any company in the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Affiliate") (whether full time or part time) (the "Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or

   (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or

   (c) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate (the "Eligible Participants").

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

3. (a) Total number of ordinary shares of HK$0.10 each in the capital of the Company available for issue under the Scheme (excluding those to be issued upon exercise of the outstanding Options) as at the date of this annual report:

   25,375,000 Shares.

REPORT OF THE DIRECTORS

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

4.38%.

4. Maximum entitlement of each Eligible Participant under the Scheme:

Not to exceed 1% of the Shares in issue in any 12-month period unless approved by shareholders of the Company.

5. Period within which the Shares must be taken up under an Option:

Within 10 years from the date on which the Option is offered or such shorter period as the Board may determine.

6. Minimum period for which an Option must be held before it can be exercised:

No minimum period unless otherwise determined by the Board.

7. (a) Price payable on application or acceptance of the Option:

HK$1.00.

(b) The period within which payments or calls must or may be made:

14 days after the offer date of an Option.

(c) The period within which loans for the purposes of the payments or calls must be repaid:

Not applicable.

8. Basis of determining the exercise price:

The exercise price shall be determined by the Board and notified to each grantee and shall not be less than the highest of:

(a) the closing price of a Share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant Option, which must be a business day;

(b) an amount equivalent to the average closing price of a Share as stated in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant of the relevant Option; and

(c) the nominal value of a Share.

9. The remaining life of the Scheme:

Approximately 4.3 years (expiring on 2 May 2023).

10. Key information on the Options granted under the Scheme:

(1) As disclosed in the announcement of the Company dated 30 October 2013, among others, 19,500,000 Options were granted under the Scheme, of which 8,000,000 Options were granted to the Directors and substantial shareholders of the Company. Set out below are details of such Options granted on 30 October 2013:

(a) Exercise price of the Options granted: HK$2.30 per Share.

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

(i) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2014 to 29 October 2018 (both dates inclusive);

(ii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 October 2014 to 29 October 2018 (both dates inclusive);

(iii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2015 to 29 October 2018 (both dates inclusive);

(iv) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 October 2015 to 29 October 2018 (both dates inclusive); and

(v) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 30 April 2016 to 29 October 2018 (both dates inclusive).

(c) All Options granted to the grantees were fully exercised before 29 October 2018.

(2) As disclosed in the announcement of the Company dated 11 November 2016, 2,300,000 Options were granted to three eligible persons under the Scheme. Set out below are details of such Options granted on 11 November 2016:

(a) Exercise price of the Options granted: HK$5.90 per Share.

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

(i) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2017 to 10 November 2021 (both dates inclusive);

(ii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2017 to 10 November 2021 (both dates inclusive);

(iii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2018 to 10 November 2021 (both dates inclusive);

REPORT OF THE DIRECTORS

(iv) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2018 to 10 November 2021 (both dates inclusive); and

(v) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2019 to 10 November 2021 (both dates inclusive).

(c) All outstanding or unexercised Options granted to the grantees shall lapse after 10 November 2021.

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

(a) The exercise price for:

(i) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2018 to 31 October 2019 (both dates inclusive), will be HK$6.50 per Share;

(ii) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2019 to 31 October 2020 (both dates inclusive), will be HK$7.50 per Share; and

(iii) Options to subscribe for up to 1,600,000 Shares, representing 32% of the total number of Options granted, the exercise period of which is from 1 November 2020 to 31 October 2021 (both dates inclusive), will be HK$8.50 per Share.

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

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

Note: As at 31 December 2018, total number of Options exercisable was 1,700,000.

(ii) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2019 to 31 October 2020 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options X the average number of Shares traded per day during the period from 1 November 2018 to 31 October 2019 (both days inclusive)/750,000, whichever is lower; and

(iii) up to 32% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2020 to 31 October 2021 (both dates inclusive). The number of Options exercisable is 1,600,000 Options or 1,600,000 Options X the average number of Shares traded per day during the period from 1 November 2019 to 31 October 2020 (both days inclusive)/1,000,000, whichever is lower;

the term "average number of Shares traded per day" means the total number of Shares traded on the trading days during the relevant period/the total number of trading days in the relevant period, and the number of Shares traded as set out on the website of the Stock Exchange shall be relied upon in respect of the number of Shares traded on each trading day.

(c) Each of the outstanding or unexercised Options granted to HK Zhixin shall lapse after the respective exercise periods. The vesting periods shall be subject to the provisions of the service contract of HK Zhixin in relation to early termination of the service contract. Please refer to the announcement of the Company dated 1 November 2017 for details.

(4) As disclosed in the announcement of the Company dated 27 June 2018, 1,000,000 Options were granted to an eligible person under the Scheme. Set out below are details of such Options granted on 27 June 2018:

(a) Exercise price of the Options granted: HK$10.00 per Share.

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

(i) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2020 to 26 June 2023 (both dates inclusive);

(ii) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2021 to 26 June 2023 (both dates inclusive); and

(iii) up to 40% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2022 to 26 June 2023 (both dates inclusive).

(c) All outstanding or unexercised Options granted to the grantee shall lapse after 26 June 2023.

Details of Share Options Granted

Details of the share options granted to the Directors are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

REPORT OF THE DIRECTORS

The following table discloses the movements in the Company's share options held by each of the Directors, the substantial shareholders of the Company, the employees of the Company in aggregate and other participants granted under the Scheme during the year ended 31 December 2018:

Participants	**Date of grant**	**Exercise price** HK$	**Exercisable period**	**Outstanding as at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Outstanding as at 31 December 2018**
Ngiam Mia Je Patrick	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	100,000	0
Director and substantial	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	100,000	0
shareholder of the Company	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	100,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	100,000	0
Fang Haizhou	30.10.2013	2.3	30.04.2014 – 29.10.2018	700,000	0	700,000	0
Director	30.10.2013	2.3	30.10.2014 – 29.10.2018	700,000	0	700,000	0
	30.10.2013	2.3	30.04.2015 – 29.10.2018	700,000	0	700,000	0
	30.10.2013	2.3	30.10.2015 – 29.10.2018	700,000	0	700,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	700,000	0
Zhong Sheng	30.10.2013	2.3	30.10.2015 – 29.10.2018	360,000	0	360,000	0
Director	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	700,000	0
Ngiam Mia Kiat Benjamin	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	100,000	0
Non-executive director of	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	100,000	0
a wholly-owned subsidiary of	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	100,000	0
the Company and substantial	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	100,000	0
shareholder of the Company	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	100,000	0
Total for directors of the Group				5,560,000	0	5,560,000	0
Employees	30.10.2013	2.3	30.04.2014 – 29.10.2018	1,937,000	0	1,937,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2018	1,940,000	0	1,940,000	0
	30.10.2013	2.3	30.04.2015 – 29.10.2018	1,940,000	0	1,940,000	0
	30.10.2013	2.3	30.10.2015 – 29.10.2018	1,940,000	0	1,940,000	0
	30.10.2013	2.3	30.04.2016 – 29.10.2018	1,940,000	0	1,940,000	0
	11.11.2016	5.9	11.05.2017 – 10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.11.2017 – 10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.05.2018 – 10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.11.2018 – 10.11.2021	460,000	0	0	460,000
	11.11.2016	5.9	11.05.2019 – 10.11.2021	460,000	0	0	460,000
	27.06.2018	10.0	27.06.2020 – 26.06.2023	0	300,000	0	300,000
	27.06.2018	10.0	27.06.2021 – 26.06.2023	0	300,000	0	300,000
	27.06.2018	10.0	27.06.2022 – 26.06.2023	0	400,000	0	400,000
Total for employees				11,997,000	1,000,000	9,697,000	3,300,000
An investor relations consultant	1.11.2017	6.5	1.11.2018 – 31.10.2019	1,700,000	0	0	1,700,000
	1.11.2017	7.5	1.11.2019 – 31.10.2020	1,700,000	0	0	1,700,000
	1.11.2017	8.5	1.11.2020 – 31.10.2021	1,600,000	0	0	1,600,000
Total for an investor relations consultant				5,000,000	0	0	5,000,000
Total for the Scheme				22,557,000	1,000,000	15,257,000	8,300,000

Note: The closing price of the ordinary shares of the Company immediately before the date on which the Options were granted during the year under review was HK$6.36 per Share.

The weighted average share price for Options exercised during the year ended 31 December 2018 immediately before the dates of exercise was HK$6.73 per Share.

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

The valuation of share options is set out in note 34 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed public float under the Listing Rules throughout the year under review and up to the date of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year under review are set out in note 33 to the financial statements and in the consolidated statement of changes in equity on page 67, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company has reserves of HK$1,766,060 available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands as detailed in note 33 to the financial statements. Before the date of this report, subsidiaries of the Company had declared dividends to the Company and the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Law of the Cayman Islands, amounted to HK$41,766,060 of which HK$19,098,750 has been proposed as a final dividend for the year.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$603,000 (2017: approximately HK$218,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 50.5% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 27.3% of the Group's total sales.

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 67.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 53.0% of the Group's total purchases.

None of the Directors, or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

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

Executive Directors:

Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director)*
Zhong Sheng

Independent non-executive Directors:

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

In accordance with the Company's articles of association and as recommended by the nomination committee of the Company, Ngiam Mia Je Patrick and Fung Chi Ying will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held on Tuesday, 30 April 2019.

DIRECTORS' SERVICE CONTRACTS

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 unless terminated by either party by giving the other not less than six months' written notice.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report on page 49 of this report.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

PERMITTED INDEMNITY PROVISION

Article 165(1) of the Articles of Association of the Company provides, among other things, that the Directors and other officers 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 attached to any of them. Such permitted indemnity provision is currently in force and was in force during the year ended 31 December 2018.

DIRECTORS' OR CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with the Director or controlling shareholders of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year under review.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is implemented by the human resources department on the basis of their merit, qualifications, and competence and is reviewed by the executive Directors.

The Company has adopted the model whereby the remuneration committee of the Board (the "Remuneration Committee") makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors (if any).

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group's corporate goals and objectives resolved by the Board from time to time.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST-PAID EMPLOYEES

Details of the remuneration of Directors (on a named basis) and the five highest-paid employees are set out in notes 11 and 12 to the financial statements, respectively.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in shares of the Company:

Name	Capacity	Number of ordinary shares/underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2018
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,645,667 (Note 1)	26.55%
Fang Haizhou	Beneficial owner	5,244,300 (Note 2)	0.91%
Zhong Sheng	Beneficial owner	2,036,150 (Note 3)	0.35%

Notes:

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

   (b) *6,666,667 ordinary shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mia Je Patrick was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*

2. *5,244,300 ordinary shares were registered in the name of Fang Haizhou.*

3. *2,036,150 ordinary shares were registered in the name of Zhong Sheng.*

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2018, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares of the Company:

Name	Capacity	Number of ordinary shares/underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2018
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	152,020,667 (Note 1)	26.27%
Lauw Hui Kian	Family interest	153,645,667 (Note 2)	26.55%

Notes:

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

   (b) *6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*

2. *Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested under the SFO.*

Save as disclosed above, as at 31 December 2018, no other persons or entities (other than the Directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

REPORT OF THE DIRECTORS

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year under review are set out in note 42 to the financial statements. None of these related party transactions constitutes connected transaction or continuing connected transaction which is required to be disclosed under the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the substantial shareholders of the Company and any of their respective close associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

AUDITOR

BDO Limited will retire and a resolution for the re-appointment of auditor of the Company will be proposed at the forthcoming annual general meeting to be held on Tuesday, 30 April 2019.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year under review. Please refer to the Corporate Governance Report on pages 49 to 59 of this report.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick
Chairman

Hong Kong
11 March 2019

* For identification purpose only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") is committed to achieving good corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules").

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company (the "Directors"), all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the financial year ended 31 December 2018.

BOARD OF DIRECTORS

The board of Directors (the "Board"), which currently comprises six Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Board and the other Directors are set out in the section headed "Profiles of Directors and Senior Management" of this report. All the Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

To improve the transparency and independency of the corporate governance of the Company, the chairman and the managing Director (who is responsible for the day-to-day management of the Company's business) of the Company are segregated and are not exercised by the same individual since August 2005. Ngiam Mia Je Patrick is the chairman of the Board and an executive Director, and Fang Haizhou is the managing Director and an executive Director.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi are the independent non-executive Directors. Each of their term of appointment is two years commencing from 30 September 2018, determinable by either party serving not less than one month's written notice on the other.

All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

CORPORATE GOVERNANCE REPORT

The Company has arranged for appropriate insurance cover in respect of legal actions against the Directors.

The Board held a full board meeting for each quarter.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the corporate governance committee (the "Corporate Governance Committee") and has delegated various responsibilities to them.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

Four Board meetings and one annual general meeting were held during the year ended 31 December 2018. The attendance record for the Board meetings and general meeting is as follows:

Directors	**Board meetings attendance**	**General meetings attendance**
Executive Directors		
Ngiam Mia Je Patrick	4/4	1/1
Fang Haizhou	4/4	1/1
Zhong Sheng	4/4	1/1
Independent Non-executive Directors		
Fung Chi Ying	4/4	1/1
Mauffrey Benoit Jean Marie	4/4	1/1
Yeow Mee Mooi	4/4	1/1

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2018 is recorded in the table below:

Directors	**Reading regulatory updates**	**Attending external seminars/ programmes**
Executive Directors		
Ngiam Mia Je Patrick	√	√
Fang Haizhou	√	√
Zhong Sheng	√	√
Independent Non-executive Directors		
Fung Chi Ying	√	√
Mauffrey Benoit Jean Marie	√	√
Yeow Mee Mooi	√	√

REMUNERATION COMMITTEE

The Remuneration Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors. The majority of the members of the Remuneration Committee are independent non-executive Directors.

The existing terms of reference of the Remuneration Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors and the senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

During the year under review, two meetings of the Remuneration Committee were held. Details of the attendance of the Remuneration Committee meetings are as follows:

Members	**Attendance**
Yeow Mee Mooi *(Chairperson)*	2/2
Ngiam Mia Je Patrick	2/2
Fung Chi Ying	2/2
Mauffrey Benoit Jean Marie	2/2

The Remuneration Committee has considered and reviewed the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors and has assessed the performance of the Directors. The Remuneration Committee considers that the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION COMMITTEE

The Nomination Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Nomination Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Nomination Committee include recommending the appointment and removal of Directors. The Nomination Committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review. The Nomination Committee also reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors.

In addition, the Board adopted a board diversity policy on 7 March 2014 (the "Diversity Policy"). Under the Diversity Policy, the Company recognises the benefits of board diversity and supports the principle that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring.

The Company believes that a diverse board will include and make good use of the difference in skills, experience and background, technical and industry experience, ethnicity, gender, age, nationality, knowledge and length of service and other qualities of the members of the Board. These factors will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole.

The Nomination Committee reviews and assesses the composition of the Board and, where appropriate, makes recommendation to the Board on the appointment of new Directors. The Nomination Committee also reviews the structure, size and diversity of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.

During the year under review, one meeting of the Nomination Committee was held. Details of the attendance of the Nomination Committee meeting are as follows:

Members	**Attendance**
Yeow Mee Mooi *(Chairperson)*	1/1
Ngiam Mia Je Patrick	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

During the meeting, the Nomination Committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Ngiam Mia Je Patrick and Fung Chi Ying will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee in June 2001. The Audit Committee comprises three members, namely Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, all being independent non-executive Directors. The chairperson of the Audit Committee is Fung Chi Ying. The existing terms of reference of the Audit Committee have been adopted on 14 January 2019 in compliance with the amendments to the Listing Rules. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The main responsibilities of the Audit Committee are to review and supervise the financial statements and the auditors' reports and monitor the integrity of the financial statements of the Group. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also responsible for overseeing the financial reporting system, internal control and risk management systems and their effectiveness.

The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal control, risk management and financial reporting. External auditor and the Directors are invited to attend the committee meetings as and when necessary. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

The Audit Committee held four meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Members	**Attendance**
Fung Chi Ying *(Chairperson)*	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

CORPORATE GOVERNANCE REPORT

The work performed by the Audit Committee during the year under review and up to the date of this report included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2018, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly. The Group's unaudited interim results for the six months ended 30 June 2018 and the audited annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been duly made.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established on 23 March 2012. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Zhong Sheng, an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Corporate Governance Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. The role and function of the Corporate Governance Committee include developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

The Corporate Governance Committee held one meeting during the year under review. Details of the attendance of the Corporate Governance Committee meeting are as follows:

Members	**Attendance**
Yeow Mee Mooi *(Chairperson)*	1/1
Zhong Sheng	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

During the year under review, the work performed by the Corporate Governance Committee included reviewing and monitoring appropriate training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

DIVIDEND POLICY

Provided that the Group is profitable and without affecting the normal operations of the Group, the Company may consider to declare and pay dividends to the shareholders of the Company.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account various factors, which include, but are not limited to, the operating results and performance, cash flow, financial position, capital requirements and future prospects of the Group, as well as the interests of the shareholders of the Company.

Declaration and payment of dividend by the Company are also subject to the laws of the Cayman Islands, the memorandum and articles of association of the Company and any applicable laws, rules and regulations.

For the avoidance of doubt, there can be no assurance that a dividend will be proposed or declared in any specific period.

COMPANY SECRETARY

Yau Lai Man, the company secretary of the Company, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 December 2018.

AUDITOR'S REMUNERATION

During the year under review, the auditor's remuneration paid and payable by the Group to the external auditor in relation to the audit and non-audit services amounted to HK$1,042,250 and HK$284,900 respectively.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to the Company's articles of association, any one or more members 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, 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 months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

Procedures for shareholders to propose a person for election as a director

Subject to applicable laws and regulations, including the Companies Law, Cap. 22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary of the Company or at the branch register of members of the Company.

CORPORATE GOVERNANCE REPORT

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgment of such a written notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address:	Room 2818, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong
Fax:	(852) 2587 7363
Email:	essex@essexbio.com

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge that they are responsible for the preparation of financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The external auditor of the Group have also stated their reporting responsibility in the auditor's report of the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

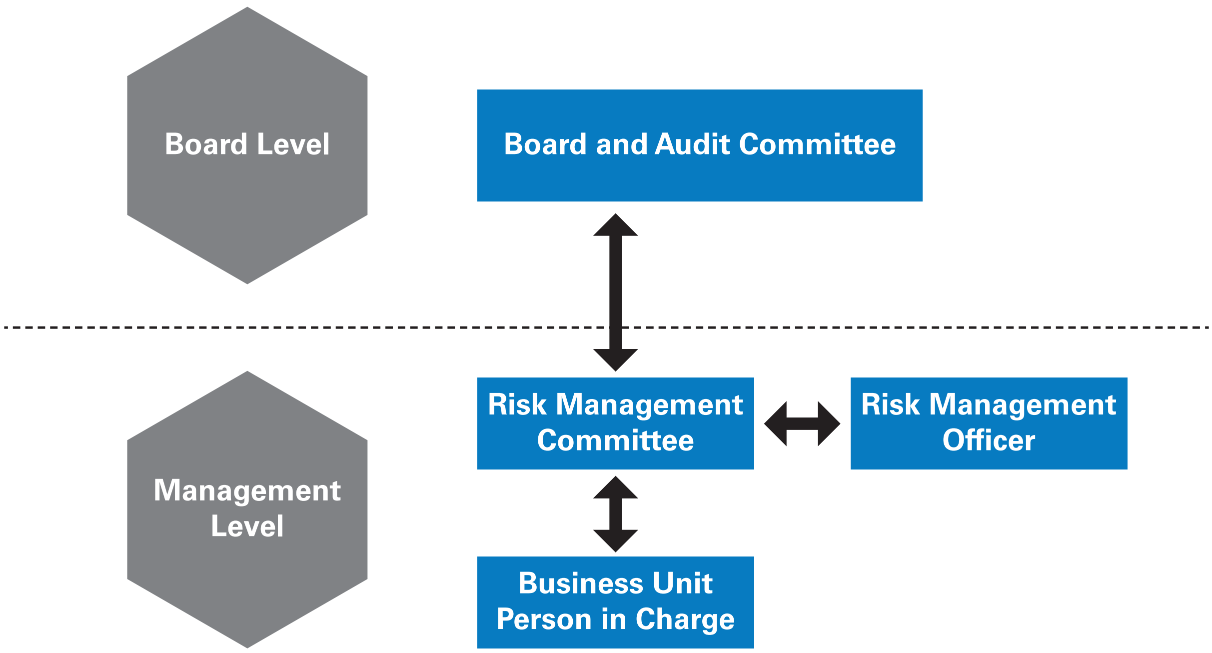
The Board acknowledges that a sound system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times. The Board reviews and monitors the effectiveness of the internal control and risk management systems on a yearly basis to ensure that the systems in place are adequate, and it has conducted a review of the risk management and internal control systems during the year under review.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Internal Control Framework

Risk management

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual (the "Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures in 2016. The organisational structure for risk management is set out as follows:



The Board and Audit Committee oversee the structure and performance of the risk management functions, assess the effectiveness of the underlying risk management system.

The Risk Management Committee of the Group (the "Risk Management Committee") comprises executive Directors and management personnel from the Group. The committee aims to promote the awareness of risk management in daily operations. The Risk Management Committee is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual.

Management of business units work together with the risk management officer to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. Risk management officer is responsible for reporting risk management status to the Risk Management Committee annually.

CORPORATE GOVERNANCE REPORT

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and their implication;

- **Risk handling** – adopt appropriate risk management strategy and risk response plans;

- **Risk monitoring** – create mechanisms for monitoring to ensure the risk response plans are executed smoothly;

- **Risk reporting** – summarise the result of risk assessment and report to Risk Management Committee.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by Risk Management Committee to the Audit Committee and the Board annually.

Internal Control

The internal control framework of the Group has been established based on the framework developed by Committee of Sponsoring Organisations of the Treadway Commission for internal controls. To assist the Audit Committee in its overseeing and monitoring activities, the Group maintains an independent internal audit function. The role of internal audit is to provide independent assurance that the risk management, governance and internal control processes of the Group are operating effectively. The internal auditors assess the operating effectiveness of the risk management and internal control systems during their course of audits. They carried out internal audit on all functions and the frequency is determined by the level of assessed risks on each function. Internal auditors shall provide independent and objective report on operational and management activities of each function. The annual audit plans are reviewed and approved by the Audit Committee and audit findings are submitted to the Audit Committee for review.

The Audit Committee reviews internal control issues identified by the internal auditors, including the remedial actions taken to address and resolve the identified issues, and evaluates the adequacy and effectiveness of their risk management and internal control systems. The Audit Committee also reviews the internal control functions with particular emphasis on the scope and frequency of audits and the adequacy of resources.

To further strengthen the internal control systems, heads of all departments are required to confirm the effectiveness of the internal controls of their respective departments, including the identification of key issues in the control system and develop the action plan to remediate the weaknesses of the internal controls. Management is required to submit a confirmation to the Audit Committee and the Board annually to confirm the effectiveness of the risk management and internal control systems of the Group.

Review the effectiveness of the risk management and internal control systems

The Risk Management Committee met once during the year under review and reported to the Audit Committee for the annual risk assessment, internal control review and testings. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Audit Committee.

For the year ended 31 December 2018, the Board has conducted the review of risk management and internal control system functions of the Group and considered they are effective and adequate. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

During the review of risk management and internal control systems of the Group, the Board has assessed the adequacy of resources, staff qualifications, experience, training programmes and budget of the Group's accounting and financial reporting function and considered that these resources are properly allocated.

Disclosure of inside information

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorised use of inside information.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company had not amended its constitutional documents.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established the following communication channels with its shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders of the Company; (ii) the opportunity for shareholders of the Company to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's share registrar serves the shareholders of the Company in respect of all share registration matters.

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the Shareholders of Essex Bio-Technology Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Essex Bio-Technology Limited (the "Company") and its subsidiaries (hereafter referred to as the "Group") set out on pages 65 to 146, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2018, 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 (the "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 judgement, 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, we do not provide a separate opinion on these matters.

Capitalisation of development expenditure as intangible assets and subsequent measurement

Refer to notes 4(h), 5 and 20 to the consolidated financial statements.

Capitalised development expenditure amounted to the net carrying amount of HK$96,201,242 as at 31 December 2018. Development expenditure mainly comprised development of biopharmaceutical products. The Group capitalises eligible product development costs upon meeting the criteria as described in Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38"). Capitalisation criteria assessment under HKAS 38 requires significant judgement and measurement uncertainty at inception and throughout the lives of the individual projects. Judgements involved to determine the eligibility of the costs for capitalisation and the subsequent measurement requires detailed and sensitivity analysis.

Our Response

Our audit procedures included, amongst others, the following:

(i) Assessing the eligibility of the development costs for capitalisation as intangible assets under HKAS 38 and evaluating the assumptions and methodologies used by the Group to test the impairment of these intangible assets; and

(ii) Reviewing the design of the controls identified by the management surrounding the intangible assets capitalisation and subsequent measurement and for which we considered key, testing such controls and performing substantive test of details on the capitalised development costs. These procedures included on a sample basis testing underlying evidence including hours registration, testing estimates of useful life, and testing estimates surrounding future economic cash flows.

Valuation of convertible loan receivables, unlisted equity investments, and derivative financial instrument

Refer to notes 4(i), 5, 21 and 22 to the consolidated financial statements.

As at 31 December 2018, the Group's convertible loan receivables, unlisted equity investments, and derivative financial instrument amounted to HK$26,765,719, HK$72,725,057, and HK$13,739,443 respectively. The Group engaged an independent firm of professionally qualified valuers (the "external valuer") to apply valuation techniques to determine the fair values of these financial instruments. These valuation techniques, in particular those that included significant unobservable inputs, involved subjective judgements and assumptions. The sensitivity of the assumptions used may have material impact on the valuation of these financial instruments.

We focused on this area due to the magnitude of the balances involved and the significant accounting judgements and estimates required in determining the fair values of these financial instruments.

INDEPENDENT AUDITOR'S REPORT

Our Response

Our audit procedures included, amongst others, the following:

(i) Examining the terms of the financial instruments and the relevant agreements;

(ii) With the assistance of our own valuation specialists, assessing the key assumptions, inputs and parameters adopted by the external valuer against available market information and the appropriateness of valuation methodologies adopted by the external valuer;

(iii) Evaluating the objectivity, independence, capabilities and competence of the external valuer engaged by the Group; and

(iv) Evaluating the adequacy of the related disclosures in the consolidated financial statements.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

Directors' Responsibilities 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 of the Company 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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 judgement 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.

- 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 the Audit Committee 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.

INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee 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 the directors, 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.

BDO Limited
Certified Public Accountants
Lam Siu Fung
Practising Certificate Number: P05308

Hong Kong, 11 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Turnover	6&7	**1,176,457,931**	899,589,729
Cost of sales		**(202,916,031)**	(161,987,759)
Gross profit		**973,541,900**	737,601,970
Other revenue, and other gains and losses	8	**25,542,828**	24,647,137
Distribution and selling expenses		**(649,719,067)**	(515,298,269)
Administrative expenses		**(68,908,719)**	(40,405,123)
Finance costs	9	**(7,403,254)**	(9,499,843)
Profit before income tax	10	**273,053,688**	197,045,872
Income tax	14	**(41,962,014)**	(29,747,219)
Profit for the year		**231,091,674**	167,298,653
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
– Changes in fair value		**–**	609,477
– Reclassification adjustments for gain on disposal of available-for-sale financial assets included in profit or loss	8	**–**	(341,550)
		–	267,927
Exchange differences on translation of financial statements of foreign operations		**(47,671,039)**	42,362,557
		(47,671,039)	42,630,484
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(25,538,048)**	–
Other comprehensive income for the year		**(73,209,087)**	42,630,484
Total comprehensive income for the year		**157,882,587**	209,929,137
Earnings per share attributable to owners of the Company			
Basic	16	**HK40.50 cents**	HK29.75 cents
Diluted	16	**HK39.44 cents**	HK29.35 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$	2017 HK$
Non-current assets			
Property, plant and equipment	17	**169,324,142**	171,239,491
Land use rights	18	**16,931,785**	6,493,945
Goodwill	19	**2,281,895**	2,435,133
Other intangible assets	20	**218,776,322**	138,129,589
Convertible loan receivables	21	**10,580,884**	33,062,058
Available-for-sale financial assets	22	**–**	90,393,260
Financial assets at fair value through other comprehensive income	22	**142,132,332**	–
Financial assets at fair value through profit or loss	22	**13,739,443**	–
Deposits and prepayments	25	**2,323,982**	2,805,718
Pledged bank deposit	26	**11,000,000**	–
Total non-current assets		**587,090,785**	444,559,194
Current assets			
Inventories	23	**70,749,493**	102,869,822
Trade and other receivables	24	**459,083,791**	335,983,002
Deposits and prepayments	25	**5,454,083**	7,508,033
Convertible loan receivable	21	**16,184,835**	–
Financial assets at fair value through profit or loss	22	**28,122**	–
Pledged bank deposit	26	**–**	28,229,076
Cash and cash equivalents	27	**311,097,828**	240,627,387
Total current assets		**862,598,152**	715,217,320
Total assets		**1,449,688,937**	1,159,776,514
Current liabilities			
Trade and other payables	28	**291,514,254**	225,190,047
Bank borrowings	29	**–**	29,004,214
Current tax liabilities		**23,772,020**	22,959,188
Total current liabilities		**315,286,274**	277,153,449
Net current assets		**547,311,878**	438,063,871
Total assets less current liabilities		**1,134,402,663**	882,623,065
Non-current liabilities			
Bank borrowings	29	**55,000,000**	–
Convertible loan payable	30	**134,365,666**	128,974,146
Deferred tax liabilities	31	**16,135,101**	14,160,527
Total non-current liabilities		**205,500,767**	143,134,673
Total liabilities		**520,787,041**	420,288,122
NET ASSETS		**928,901,896**	739,488,392
Capital and reserves attributable to owners of the Company			
Share capital	32	**57,875,000**	56,349,300
Reserves		**871,026,896**	683,139,092
TOTAL EQUITY		**928,901,896**	739,488,392

On behalf of the Board

Fang Haizhou **Zhong Sheng**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company										
	Share capital HK$ Note 32	Share premium HK$	Capital reserve HK$ Note 33(i)	Statutory surplus reserve HK$ Note 33(ii)	Foreign currency translation reserve HK$ Note 33(iii)	Share option reserve HK$ Note 34	Available-for-sale financial assets reserve HK$ Note 22	Fair value through other comprehensive income reserve HK$ Note 22	Conversion component of convertible loan payable HK$ Note 30	Retained earnings HK$	Total HK$
At 1 January 2017	**56,214,900**	**17,554,104**	**362,442**	**41,516,886**	**(34,438,170)**	**16,894,786**	**13,440,257**	**–**	**33,323,218**	**411,995,643**	**556,864,066**
Profit for the year	–	–	–	–	–	–	–	–	–	167,298,653	167,298,653
Other comprehensive income											
– Changes in fair value of available-for-sale financial assets, net	–	–	–	–	–	–	267,927	–	–	–	267,927
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	42,362,557	–	–	–	–	–	42,362,557
Total comprehensive income for the year	–	–	–	–	42,362,557	–	267,927	–	–	167,298,653	209,929,137
2016 final dividend paid	–	–	–	–	–	–	–	–	–	(17,988,768)	(17,988,768)
2017 interim dividend paid	–	–	–	–	–	–	–	–	–	(14,055,525)	(14,055,525)
Exercise of share options	134,400	4,304,246	–	–	–	(1,347,446)	–	–	–	–	3,091,200
Equity-settled share-based payments	–	–	–	–	–	1,648,282	–	–	–	–	1,648,282
At 31 December 2017	**56,349,300**	**21,858,350**	**362,442**	**41,516,886**	**7,924,387**	**17,195,622**	**13,708,184**	**–**	**33,323,218**	**547,250,003**	**739,488,392**
At 1 January 2018											
As originally presented	56,349,300	21,858,350	362,442	41,516,886	7,924,387	17,195,622	13,708,184	–	33,323,218	547,250,003	739,488,392
Initial application of HKFRS 9 (Note 3(a))	–	–	–	–	–	–	(13,708,184)	37,383,183	–	1,829,700	25,504,699
As restated	**56,349,300**	**21,858,350**	**362,442**	**41,516,886**	**7,924,387**	**17,195,622**	**–**	**37,383,183**	**33,323,218**	**549,079,703**	**764,993,091**
Profit for the year	–	–	–	–	–	–	–	–	–	231,091,674	231,091,674
Other comprehensive income											
– Changes in fair value of equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	–	(25,538,048)	–	–	(25,538,048)
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(47,671,039)	–	–	–	–	–	(47,671,039)
Total comprehensive income for the year	–	–	–	–	(47,671,039)	–	–	(25,538,048)	–	231,091,674	157,882,587
Appropriation of profits	–	–	–	9,343,825	–	–	–	–	–	(9,343,825)	–
2017 final dividend paid	–	–	–	–	–	–	–	–	–	(14,249,700)	(14,249,700)
2018 interim dividend paid	–	–	–	–	–	–	–	–	–	(17,155,200)	(17,155,200)
Exercise of share options	1,525,700	48,861,517	–	–	–	(15,296,117)	–	–	–	–	35,091,100
Equity-settled share-based payments	–	–	–	–	–	2,340,018	–	–	–	–	2,340,018
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	–	(2,537,158)	–	2,537,158	–
At 31 December 2018	**57,875,000**	**70,719,867**	**362,442**	**50,860,711**	**(39,746,652)**	**4,239,523**	**–**	**9,307,977**	**33,323,218**	**741,959,810**	**928,901,896**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Cash flows from operating activities			
Profit before income tax		**273,053,688**	197,045,872
Adjustments for:			
Interest income from convertible loan receivables	8	**(1,300,806)**	(3,622,668)
Interest income from bank deposits	8	**(2,028,313)**	(2,993,822)
Change in fair value of derivative component of convertible loan receivables	8	**–**	20,521
Fair value gain on available-for-sale financial assets (transfer from equity on disposal)	8	**–**	(341,550)
Change in fair value of financial assets at fair value through profit or loss	8	**(15,452,703)**	–
Waiver of other payable	8	**(1,450,307)**	–
Finance costs	9	**7,403,254**	9,499,843
Amortisation of land use rights	10	**237,346**	155,217
Amortisation of other intangible assets	10	**4,976,342**	4,935,220
Depreciation of property, plant and equipment	10	**14,433,266**	12,835,851
Equity-settled share-based payments		**2,340,018**	1,648,282
Exchange gains, net	10	**(8,906,223)**	(7,651,606)
Loss on disposal of property, plant and equipment	10	**16,536**	26,710
Write-off of inventories	10	**147,603**	1,481,068
Operating cash flows before working capital changes		**273,469,701**	213,038,938
Decrease in inventories		**27,722,077**	9,407,596
Increase in trade and other receivables		**(150,858,992)**	(58,222,345)
Decrease in deposits and prepayments		**2,017,313**	29,375,993
Increase in trade and other payables		**85,776,510**	15,628,324
Cash generated from operations		**238,126,609**	209,228,506
Tax paid		**(37,253,928)**	(15,508,475)
Net cash generated from operating activities		**200,872,681**	193,720,031

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$	2017 HK$
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(18,867,502)**	(7,673,260)
Deposits paid for acquisition of property, plant and equipment		**(2,417,722)**	(2,693,655)
Increase in land use rights	18	**(11,679,928)**	–
Increase in other intangible assets		**(68,772,838)**	(58,813,837)
Purchase of convertible loan receivables		**(10,580,884)**	–
Purchase of available-for-sale financial assets		**–**	(7,891,249)
Purchase of financial assets at fair value through other comprehensive income		**(65,167,989)**	–
Purchase of financial assets at fair value through profit or loss		**(6,026,627)**	–
Bank interest received		**2,028,313**	2,993,822
Interest received from convertible loan receivables		**345,475**	1,561,334
Decrease/(increase) in pledged bank deposit		**16,845,746**	(7,101,584)
Proceeds from disposal of available-for-sale financial assets		**–**	1,504,900
Proceeds from disposal of financial assets at fair value through other comprehensive income		**8,962,551**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**10,432,445**	–
Net cash used in investing activities		**(144,898,960)**	(78,113,529)
Cash flows from financing activities			
Proceeds from bank borrowings		**55,000,000**	–
Repayments of bank borrowings		**(29,502,070)**	(9,775,786)
Proceeds from shares issued under share option scheme		**35,091,100**	3,091,200
Interest paid on bank borrowings		**(1,332,185)**	(874,985)
Interest paid on convertible loan payable		**(2,905,417)**	(2,762,917)
Dividends paid to owners of the Company		**(31,404,900)**	(32,044,293)
Net cash generated from/(used in) financing activities		**24,946,528**	(42,366,781)
Net increase in cash and cash equivalents		**80,920,249**	73,239,721
Cash and cash equivalents at beginning of year		**240,627,387**	156,180,115
Effect of exchange rate changes on cash and cash equivalents		**(10,449,808)**	11,207,551
Cash and cash equivalents at end of year		**311,097,828**	240,627,387
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**311,097,828**	240,627,387

Non-cash transaction

During the year ended 31 December 2018, additions of property, plant and equipment of HK$2,767,618 (2017: HK$378,904) were transferred from deposits and prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General

Essex Bio-Technology Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 1061). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, and development, manufacture and sale of biopharmaceutical products in the People's Republic of China (the "PRC").

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. The measurement bases are fully described in the accounting policies set out in note 4 below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to HKFRSs 2014–2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to HKFRSs 2014–2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

Amendments to HKFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments

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

(i) Classification and measurement of financial instruments

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

Available-for-sale financial assets reserve	HK$
Balance as at 31 December 2017	13,708,184
Reclassify investments from available-for-sale at fair value to fair value through other comprehensive income ("FVTOCI") (Note 3(a)(i)(a))	(13,019,371)
Reclassify investments from available-for-sale at fair value to fair value through profit or loss ("FVTPL") (Note 3(a)(i)(b))	(688,813)
Restated balance as at 1 January 2018	–

FVTOCI reserve	HK$
Balance as at 31 December 2017	–
Reclassify investments from unlisted equity investments at cost to FVTOCI (Note 3(a)(i)(c))	24,363,812
Reclassify investments from available-for-sale at fair value to FVTOCI (Note 3(a)(i)(a))	13,019,371
Restated balance as at 1 January 2018	37,383,183

Retained earnings	HK$
Balance as at 31 December 2017	547,250,003
Reclassify the entire convertible loan receivable to FVTPL (Note 3(a)(i)(d))	1,140,887
Reclassify investments from available-for-sale at fair value to FVTPL (Note 3(a)(i)(b))	688,813
Restated balance as at 1 January 2018	549,079,703

3. Adoption of HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

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

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

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

– It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 9 – Financial Instruments (Continued)

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

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

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

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

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 9 – Financial Instruments (Continued)

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

(a) As at 1 January 2018, certain listed equity securities were reclassified from available-for-sale financial assets to financial assets at FVTOCI. The Group intends to hold these listed equity securities for long term strategic purposes. Under HKFRS 9, the Group has designated these listed equity securities at the date of initial application as measured at FVTOCI. As a result, financial assets with a fair value of HK$51,792,799 were reclassified from available-for-sale financial assets at fair value to financial assets at FVTOCI and fair value gains of HK$13,019,371 were reclassified from the available-for-sale financial assets reserve to the FVTOCI reserve on 1 January 2018.

(b) As at 1 January 2018, certain listed equity securities were reclassified from available-for-sale financial assets to financial assets at FVTPL. The Group intends to hold these listed equity securities for trading. Under HKFRS 9, the Group has designated these listed equity securities at the date of initial application as measured at FVTPL. As a result, financial assets with a fair value of HK$2,450,972 were reclassified from available-for-sale financial assets at fair value to financial assets at FVTPL and fair value gains of HK$688,813 were reclassified from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

(c) As at 1 January 2018, unlisted equity investments were reclassified from available-for-sale financial assets at cost to financial assets at FVTOCI. These unlisted equity investments have no quoted price in an active market. The Group intends to hold these unlisted equity investments for long term strategic purposes. In addition, the Group has designated these unlisted equity investments at the date of initial application as measured at FVTOCI. As at 1 January 2018, the difference between the previous carrying amount and the fair value of HK$24,363,812 has been included in the opening FVTOCI reserve.

(d) As at 1 January 2018, the entire of debt component and derivative component of one of the convertible loan receivables were reclassified to financial assets at FVTPL. The derivative component causes the financial assets to fail to meet the SPPI criterion. This is because the embedded feature cannot be separated and the contractual terms of that convertible loan receivable as a whole do not give rise solely to payments of principal and interest on the principal amount outstanding of the loan. As a result, that convertible loan receivable in its entirety is classified as at FVTPL. As at 1 January 2018, the difference between the previous carrying amount and the fair value of HK$1,140,887 has been included in the opening retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 9 – Financial Instruments (Continued)

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

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

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39** HK$	**Carrying amount as at 1 January 2018 under HKFRS 9** HK$
Listed equity securities	Available-for-sale (at fair value) (Note 3(a)(i)(a))	FVTOCI	51,792,799	51,792,799
Listed equity securities	Available-for-sale (at fair value) (Note 3(a)(i)(b))	FVTPL	2,450,972	2,450,972
Unlisted equity investments	Available-for-sale (at cost) (Note 3(a)(i)(c))	FVTOCI	36,149,489	60,513,301
Convertible loan receivable	Debt component: Amortised cost Derivative component: FVTPL (Note 3(a)(i)(d))	As a whole: FVTPL	16,201,992	17,342,879
Convertible loan receivable	Debt component: Amortised cost	FVTPL	16,860,066	16,860,066
Trade and other receivables	Loans and receivables (Note 3(a)(ii))	Amortised cost	335,983,002	335,983,002
Cash and cash equivalents	Loans and receivables	Amortised cost	240,627,387	240,627,387

(ii) Impairment of financial assets

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

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

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets *(Continued)*

Measurement of ECLs

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 to 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 to 180 days past due, depending on credit worth of customers.

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

Presentation of ECLs

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

Impact of the ECLs model

(a) Impairment of trade receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets *(Continued)*

Impact of the ECLs model (Continued)

(b) Impairment of other receivables

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

(iii) Transition

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

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

– The determination of the business model within which a financial asset is held;

– The designation and revocation of previous designations of certain financial assets as measured at FVTPL; and

– The designation of certain equity investments not held for trading as at FVTOCI.

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

3. Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)*

HKFRS 15 – Revenue from Contracts with Customers (Continued)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this year.

Amendments to HKAS 40 – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provide guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

3. Adoption of HKFRSs *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective*

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] No mandatory effective date yet determined but available for adoption

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of its operating lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed in note 35 below.

As set out in note 35 below, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of properties as at 31 December 2018 amounted to HK$1,174,264. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial performance but it is expected that the Group has to separately recognise the interest expense on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Group's operating leases will be required to be recognised in the Group's consolidated statement of financial position as right-of-use assets and lease liabilities. The Group will also be required to remeasure the lease liabilities upon the occurrence of certain events (e.g. a change in the lease term) and recognise the amount of the remeasurement of the lease liabilities as an adjustment to the right-of-use assets. In addition, payments for the principal portion of the lease liabilities will be presented within financing activities in the Group's consolidated statement of cash flows.

Based on the current assessment of the Group, the initial adoption of HKFRS 16 would not have a significant impact on the Group's financial performance and position.

3. Adoption of HKFRSs *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12 Income Taxes by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at FVTOCI if specified conditions are met, instead of at FVTPL.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendments clarify that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulate that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition-date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition-date fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of HKFRSs *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

3. Adoption of HKFRSs *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group has already commenced an assessment of the impact of adopting the above standards and amendments to existing standards to the Group. Except for those disclosed above, the Group has so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceeds the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to the amount below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual rates are as follows:

Buildings and leasehold improvements	2%–20% or the remaining lease period whichever is shorter
Plant and machinery	9%–18%
Furniture, fixtures and equipment	18%–20%
Motor vehicles	18%–20%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Land use rights

Land use rights represent payments for leasehold land held for own use under operating leases. The Group made up-front payments to obtain land use rights as operating leases on which properties are developed. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as expense.

(g) Leasing

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

The total rental payable under the operating leases are recognised in profit or loss (other than goodwill) on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(h) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on unit-of-production method or straight-line basis over their useful lives, where appropriate. The amortisation expense is recognised in profit or loss.

Distribution rights and project development cost amortised under straight-line method	5–25 years

(ii) Research and development expenditure

Expenditure on internally developed products is capitalised if it can be demonstrated that:

1. it is technically feasible to develop the product for it to be sold;
2. adequate resources are available to complete the development;
3. there is an intention to complete and sell the product;
4. the Group is able to sell the product;
5. sale of the product will generate future economic benefits; and
6. expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Capitalised development expenditure amortised under license period	5 years

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

4. Significant Accounting Policies *(Continued)*

(i) Financial instruments (accounting policies applied after 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(i) Financial instruments (accounting policies applied after 1 January 2018) (Continued)

(i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVTOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECLs on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVTOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

4. Significant Accounting Policies *(Continued)*

(i) *Financial instruments (accounting policies applied after 1 January 2018) (Continued)*

(ii) *Impairment loss on financial assets (Continued)*

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 to 90 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 to 180 days past due, depending on credit worth of customers.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(i) Financial instruments (accounting policies applied after 1 January 2018) (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at FVTPL *(Continued)*

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings and the debt component of convertible loan issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible loan payable

Convertible loan payable issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan into equity, is included in equity (conversion component of convertible loan payable).

In subsequent periods, the liability component of the convertible loan payable is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in conversion component of convertible loan payable until the embedded option is exercised (in which case the balance stated in conversion component of convertible loan payable will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in conversion component of convertible loan payable will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

4. Significant Accounting Policies *(Continued)*

(i) Financial instruments (accounting policies applied after 1 January 2018) (Continued)

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(j) Financial Instruments (accounting policies applied until 31 December 2017)

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at FVTPL are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(j) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(i) Financial assets (Continued)

Convertible loan receivables

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract. Where the Group needs to separate an embedded derivative from the host contract but is unable to measure the embedded derivative separately, the combined instruments are designated as at FVTPL. Derivative component is initially recognised at fair value and is classified separately into respective items on initial recognition. The derivative component is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss in the period in which they arise. The Group may conclude, however, that the equity component of the combined instrument may be sufficiently significant to preclude it from obtaining a reliable estimate of the entire instrument because the embedded derivative will be settled by an unquoted equity instrument whose fair value cannot be reliably measured. In that case, the combined instrument is measured at cost less any accumulated impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any accumulated impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. Significant Accounting Policies *(Continued)*

(j) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(ii) Impairment loss on financial assets (Continued)

For loans and receivables and debt component of convertible loan receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

For available-for-sale financial assets

For available-for-sale equity investment that is carried at fair value, where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. All of the Group's financial liabilities are financial liabilities at amortised cost.

Financial liabilities at amortised cost including trade and other payables, and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(j) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(iv) Convertible loan payable

Convertible loan payable issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan into equity, is included in equity (conversion component of convertible loan payable).

In subsequent periods, the liability component of the convertible loan payable is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in conversion component of convertible loan payable until the embedded option is exercised (in which case the balance stated in conversion component of convertible loan payable will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in conversion component of convertible loan payable will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for depreciation in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. Significant Accounting Policies *(Continued)*

(k) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Revenue recognition

Revenue recognition (accounting policies applied after 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

(i) Development, manufacture and sale of biopharmaceutical products

Customers obtain control of the biopharmaceutical products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(l) Revenue recognition (Continued)

Revenue recognition (accounting policies applied after 1 January 2018) (Continued)

(i) Development, manufacture and sale of biopharmaceutical products *(Continued)*

The Group's contracts with customers from the sale of product provides customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refunded in cash. The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provided that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. The Directors considered that the financial impact of the returned goods is minimal, with reference to the historical returned goods pattern and the management assessment of possible return of goods.

(ii) Provision of marketing service

The Group provides pharmaceutical product marketing services to various manufacturers. Revenue from marketing services is recognised at a point in time when those services are provided. Invoices are usually payable within 90 days.

(iii) Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (accounting policies applied until 31 December 2017)

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer. Service fee income is recognised when the services are provided. Interest income is accrued on a time-apportioned basis taking into account the principal outstanding and effective interest rate applicable.

4. Significant Accounting Policies *(Continued)*

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(n) Foreign currency (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

(o) Employee benefits

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. Significant Accounting Policies *(Continued)*

(p) Impairment of other assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following other assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the higher of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent 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 in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, 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 or cash-generating unit.

(q) Share-based payment

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies *(Continued)*

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(t) Related parties

(i) A person or a close member of that person's family is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of key management personnel of the Group or the Company's parent.

(ii) An entity is related to the Group if any of the following conditions apply:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

4. Significant Accounting Policies *(Continued)*

(t) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(u) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, 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 differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

(a) Research and development costs

In accordance with the accounting policy set out in note 4, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as other intangible assets provided they meet all the requirements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities, the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits.

(b) Impairment of trade and other receivables

The Group makes allowance for impairment on trade and other receivables based on assumptions about risk of default and ECL rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of the reporting period.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the end of each reporting period.

(d) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

(e) *Valuation of share options granted*

The fair value of share options granted was calculated using Binominal option pricing model valuation model based on the Group management's significant inputs into calculation including an estimated life of share options granted to be five years, based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted.

(f) *Income taxes*

The Group is subject to income taxes in Hong Kong and the PRC. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(g) *Fair value measurement*

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

(g) Fair value measurement (Continued)

(i) Financial instruments measured at fair value

Convertible loan receivables, equity investments and derivative financial instrument included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value of financial instruments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

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

(ii) Financial instruments not measured at fair value

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

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

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

(iii) Information about level 2 fair value measurement

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

(iv) Information about level 3 fair value measurement

The fair values of the financial instruments included in the level 3 category as at end of the current year have been determined by the Directors with reference to the valuation, details of which are set out in notes 21 and 22.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

(g) *Fair value measurement (Continued)*

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

Recurring fair value measurement financial assets:	**As at 31 December 2018**			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Listed equity investments	**69,435,397**	**–**	**–**	**69,435,397**
Unlisted equity investments	**–**	**51,871,323**	**20,853,734**	**72,725,057**
Convertible loan receivables	**–**	**–**	**26,765,719**	**26,765,719**
Derivative financial instrument	**–**	**–**	**13,739,443**	**13,739,443**

Recurring fair value measurement financial assets:	As at 31 December 2017			
	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Listed equity investments	54,243,771	–	–	54,243,771
Derivative component of convertible loan receivables	–	–	7,318,415	7,318,415

There was no transfer under the fair value hierarchy classification during the years ended 31 December 2018 and 2017.

6. Segment Reporting

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

– Pharmaceutical products: Manufacture and sale of biopharmaceutical products

– Provision of marketing services

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For the year ended 31 December 2018

6. Segment Reporting *(Continued)*

(a) Reportable segments

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

For the year ended 31 December 2018

	Pharmaceutical products HK$	Provision of marketing services HK$	Total HK$
Reportable segment revenue			
– Revenue from external customers	**1,105,608,765**	**70,849,166**	**1,176,457,931**
Reportable segment profit	**261,238,548**	**18,725,351**	**279,963,899**

For the year ended 31 December 2017

	Pharmaceutical products HK$	Provision of marketing services HK$	Total HK$
Reportable segment revenue			
– Revenue from external customers	875,200,942	24,388,787	899,589,729
Reportable segment profit	192,554,418	21,819,464	214,373,882

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

	2018 HK$	2017 HK$
Reportable segment profit	**279,963,899**	214,373,882
Unallocated corporate income and expenses, net	**(12,619,642)**	(6,179,885)
Change in fair value of financial assets at FVTPL	**15,452,703**	–
Equity-settled share-based payments	**(2,340,018)**	(1,648,282)
Finance costs	**(7,403,254)**	(9,499,843)
Profit before income tax	**273,053,688**	197,045,872

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

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

6. Segment Reporting *(Continued)*

(b) *Geographical information*

(i) *Revenue from external customers*

For the years ended 31 December 2018 and 2017, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile).

(ii) *Non-current assets*

	2018 HK$	2017 HK$
PRC	**372,472,905**	321,103,876
Hong Kong	**37,165,221**	–
	409,638,126	321,103,876

The non-current asset information above excludes convertible loan receivables, financial assets at FVTOCI, financial assets at FVTPL, available-for-sale financial assets and pledged bank deposit, and is based on the physical locations of the respective assets, except for goodwill and other intangible assets of which is based on the area of the group entities' operations.

(c) *Information about major customers*

For the year ended 31 December 2018, revenue of HK$321,554,016 (2017: HK$226,950,494 and HK$91,842,987) was derived from the sales of pharmaceutical products segment to one customer (2017: two customers), which individually accounted for over 10% of the Group's total revenue.

7. Turnover

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns), further details of which are set out in note 6.

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8. Other Revenue, and Other Gains and Losses

	2018 HK$	2017 HK$
Fair value gain on available-for-sale financial assets (transfer from equity on disposal)	**–**	341,550
Change in fair value of financial assets at FVTPL	**15,452,703**	–
Licensing income	**–**	10,879,801
Interest income from convertible loan receivables	**1,300,806**	3,622,668
Government grants (Note)	**5,230,385**	6,797,842
Interest income from bank deposits	**2,028,313**	2,993,822
Waiver of other payable	**1,450,307**	–
Sundry income	**80,314**	31,975
Change in fair value of derivative component of convertible loan receivables	**–**	(20,521)
	25,542,828	24,647,137

Note:

These government grants were received for the purpose of supporting the development of new pharmaceutical products, and there were no conditions to be fulfilled or contingencies relating to these grants.

9. Finance Costs

	2018 HK$	2017 HK$
Interest expense on bank borrowings	**1,332,185**	874,985
Imputed interest expense on convertible loan payable	**8,296,937**	10,302,723
Less: Amount capitalised	**(2,225,868)**	(1,677,865)
	7,403,254	9,499,843

10. Profit Before Income Tax

This is arrived at after charging/(crediting):

	2018 HK$	2017 HK$
Amortisation of land use rights	**237,346**	155,217
Amortisation of other intangible assets	**4,976,342**	4,935,220
Auditor's remuneration	**1,297,250**	1,018,700
Cost of inventories	**150,644,613**	157,937,369
Cost of services	**52,123,815**	2,569,322
Depreciation of property, plant and equipment	**14,433,266**	12,835,851
Employee costs excluding directors' emoluments:		
– Salaries and other benefits	**132,173,886**	99,407,791
– Pension fund contributions	**7,664,794**	7,057,484
– Equity-settled share-based payments to the employees (Note 34)	**849,351**	1,548,282
Equity-settled share-based payments to the consultant of the Group (Note 34)	**1,490,667**	100,000
Exchange gains, net	**(8,906,223)**	(7,651,606)
Write-off of inventories	**147,603**	1,481,068
Loss on disposal of property, plant and equipment	**16,536**	26,710
Research and development costs recognised as expenses	**18,124,411**	6,431,465

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11. Directors' Emoluments

	Executive Directors			Independent Non-executive Directors			
	Fang Haizhou HK$ (Note (a))	Zhong Sheng HK$	Ngiam Mia Je Patrick HK$	Fung Chi Ying HK$	Mauffrey Benoit Jean Marie HK$	Yeow Mee Mooi HK$	Total HK$
For the year ended 31 December 2018:							
Fee	**–**	**–**	**–**	**200,000**	**200,000**	**200,000**	**600,000**
Other emoluments:							
Salaries and other benefits	**765,759**	**666,520**	**888,697**	**–**	**–**	**–**	**2,320,976**
Pension fund contributions	**22,623**	**18,000**	**–**	**–**	**–**	**–**	**40,623**
Discretionary bonuses (Note (b))	**1,036,809**	**933,128**	**1,836,637**	**–**	**–**	**–**	**3,806,574**
Total emoluments	**1,825,191**	**1,617,648**	**2,725,334**	**200,000**	**200,000**	**200,000**	**6,768,173**
For the year ended 31 December 2017:							
Fee	–	–	–	200,000	200,000	200,000	600,000
Other emoluments:							
Salaries and other benefits	720,787	648,708	864,944	–	–	–	2,234,439
Pension fund contributions	22,807	18,000	–	–	–	–	40,807
Discretionary bonuses (Note (b))	1,009,102	908,191	1,210,922	–	–	–	3,128,215
Total emoluments	1,752,696	1,574,899	2,075,866	200,000	200,000	200,000	6,003,461

Notes:

(a) Fang Haizhou is designated as the Managing Director of the Group.

(b) The performance related incentive payment is at the discretion of the directors depending on the financial performance of the Group.

For the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration for the years ended 31 December 2018 and 2017.

12. Five Highest Paid Individuals and Senior Management

Of the five individuals with the highest paid in the Group, three (2017: three) were directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining two (2017: two) individuals were as follows:

	2018 HK$	2017 HK$
Salaries and other benefits	**3,446,204**	2,502,204
Pension fund contributions	**18,000**	18,000
Equity-settled share-based payments	**315,630**	673,166
	3,779,834	3,193,370

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	1

For the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the highest paid, non-director individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the year ended 31 December 2018, the emoluments were paid to three (2017: one) members of the senior management (other than the directors of the Company) which fell within the band of Nil to HK$500,000, HK$1,000,001 to HK$1,500,000 and HK$1,500,001 to HK$2,000,000 (2017: HK$500,001 to HK$1,000,000), respectively.

13. Retirement Benefits

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of the employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2018 amounted to HK$7,705,417 (2017: HK$7,098,291).

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14. Income Tax

Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 **HK$**	2017 HK$
Current tax – the PRC		
– Provision for the year	**37,022,980**	26,873,488
Deferred tax (Note 31)	**4,939,034**	2,873,731
	41,962,014	29,747,219

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

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprise. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% for the years ended 31 December 2018 and 2017.

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

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

	2018 **HK$**	2017 HK$
Profit before income tax	**273,053,688**	197,045,872
Tax calculated at Hong Kong profits tax rate of 16.5% (2017: 16.5%)	**45,053,858**	32,512,569
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,181,233)**	(2,467,520)
Tax effect of expenses not deductible for tax purposes	**3,846,147**	3,053,855
Tax effect of revenue not taxable for tax purposes	**(4,843,741)**	(2,081,744)
Tax benefits	**(5,334,396)**	(2,116,166)
Tax losses not recognised	**2,875,006**	2,436,215
Withholding tax arising from distributable profits of a subsidiary in the PRC	**3,581,341**	(236,449)
Others	**(34,968)**	(1,353,541)
Income tax	**41,962,014**	29,747,219

15. Dividends

	2018 HK$	2017 HK$
Interim dividend – HK$0.03 (2017: HK$0.025) per share	**17,155,200**	14,055,525
Proposed final dividend – HK$0.033 (2017: HK$0.025) per share	**19,098,750**	14,087,325
	36,253,950	28,142,850

The Directors propose a final dividend of HK$0.033 (2017: HK$0.025) per ordinary share to be paid. The amount of proposed final dividend is based on the number of issued ordinary shares as at the end of the reporting period. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

16. Earnings Per Share

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

Earnings

	2018 HK$	2017 HK$
Profit attributable to owners of the Company for the purposes of calculating basic earnings per share	**231,091,674**	167,298,653
Interest expense on convertible loan payable, net of amount capitalised	**6,071,069**	N/A
Profit attributable to owners of the Company for the purposes of calculating diluted earnings per share	**237,162,743**	167,298,653

Number of shares

	2018	2017
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**570,614,849**	562,315,266
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	**5,326,305**	7,615,298
– convertible loan payable	**25,423,728**	N/A
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**601,364,882**	569,930,564

The computation of diluted earnings per share for the year ended 31 December 2018 does not assume the issue of potential ordinary shares in relation to certain share options granted as they have anti-dilutive effect.

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the issue of potential ordinary shares in relation to certain share options granted and the conversion of convertible loan payable as they had anti-dilutive effect.

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17. Property, Plant and Equipment

	Buildings and leasehold improvements HK$	Plant and machinery HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
Cost:						
At 1 January 2017	113,613,790	72,326,419	6,921,821	3,821,410	–	196,683,440
Additions	1,531,941	3,475,180	3,045,043	–	–	8,052,164
Disposal	–	(183,728)	(36,371)	–	–	(220,099)
Exchange adjustment	8,628,627	5,589,335	591,294	288,081	–	15,097,337
At 31 December 2017	123,774,358	81,207,206	10,521,787	4,109,491	–	219,612,842
Additions	391,072	12,187,757	7,086,571	835,100	1,134,620	21,635,120
Disposal	–	–	(511,346)	–	–	(511,346)
Exchange adjustment	(6,429,754)	(4,681,099)	(755,942)	(212,973)	(43,992)	(12,123,760)
At 31 December 2018	117,735,676	88,713,864	16,341,070	4,731,618	1,090,628	228,612,856
Accumulated depreciation:						
At 1 January 2017	6,706,202	19,864,692	3,177,301	3,033,599	–	32,781,794
Charge for the year	2,341,001	8,909,980	1,344,351	240,519	–	12,835,851
Disposal	–	(162,393)	(30,996)	–	–	(193,389)
Exchange adjustment	602,946	1,861,441	246,012	238,696	–	2,949,095
At 31 December 2017	9,650,149	30,473,720	4,736,668	3,512,814	–	48,373,351
Charge for the year	2,437,619	9,636,376	2,107,461	251,810	–	14,433,266
Disposal	–	–	(494,810)	–	–	(494,810)
Exchange adjustment	(594,629)	(1,952,919)	(288,589)	(186,956)	–	(3,023,093)
At 31 December 2018	11,493,139	38,157,177	6,060,730	3,577,668	–	59,288,714
Carrying amount:						
At 31 December 2018	106,242,537	50,556,687	10,280,340	1,153,950	1,090,628	169,324,142
At 31 December 2017	114,124,209	50,733,486	5,785,119	596,677	–	171,239,491

The carrying amount of construction in progress represented the costs incurred for the construction of the new factory which will be reclassified to buildings and leasehold improvements when the construction is completed.

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18. Land Use Rights

	HK$
Cost:	
At 1 January 2017	7,506,238
Exchange adjustment	565,867
At 31 December 2017	8,072,105
Additions	11,679,928
Exchange adjustment	(871,192)
At 31 December 2018	18,880,841
Accumulated amortisation:	
At 1 January 2017	1,166,846
Charge for the year	155,217
Exchange adjustment	94,422
At 31 December 2017	1,416,485
Charge for the year	237,346
Exchange adjustment	(82,613)
At 31 December 2018	1,571,218
Carrying amount:	
At 31 December 2018	17,309,623
Portion classified as current assets (included in deposits and prepayments)	(377,838)
Non-current assets	16,931,785
At 31 December 2017	6,655,620
Portion classified as current assets (included in deposits and prepayments)	(161,675)
Non-current assets	6,493,945

The Group's interests in leasehold lands are held in the PRC.

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19. Goodwill

	HK$
Cost:	
As 1 January 2017	2,227,853
Exchange adjustment	207,280
As 31 December 2017	2,435,133
Exchange adjustment	(153,238)
As 31 December 2018	2,281,895

Impairment testing on goodwill

The recoverable amount of the goodwill is determined based on the cash-generating unit ("CGU") of the Group's sales network of biopharmaceutical products to which the goodwill belongs on the value-in-use basis. The calculation is based on the most recent five-year financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

(a) Gross margin ratio of 81% (2017: 81%)
(b) Pre-tax discount rate of 11.6% (2017: 10.6%) per year

Management determined the gross margin mainly based on past performance of the CGU and management's expectations for the market development. The discount rate is determined based on the PRC risk-free interest rate adjusted by the specific risk associated with the CGU. The recoverable amounts of the CGU have been determined from value-in-use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2017: 3%), which does not exceed the long-term growth rate for the pharmaceutical production industry in the PRC.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the carrying amount of goodwill as at 31 December 2018 and 2017.

The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

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20. Other Intangible Assets

	Development expenditure HK$	Acquired intangible assets HK$	Total HK$
Cost:			
At 1 January 2017	69,617,733	23,310,074	92,927,807
Additions	22,412,399	38,079,303	60,491,702
Exchange adjustment	6,110,813	3,341,447	9,452,260
At 31 December 2017	98,140,945	64,730,824	162,871,769
Additions	19,267,013	75,430,200#	94,697,213
Exchange adjustment	(5,659,910)	(4,889,432)	(10,549,342)
At 31 December 2018	111,748,048	135,271,592	247,019,640
Accumulated amortisation and impairment losses:			
At 1 January 2017	14,947,194	3,280,345	18,227,539
Amortisation	–	4,935,220	4,935,220
Exchange adjustment	1,126,811	452,610	1,579,421
At 31 December 2017	16,074,005	8,668,175	24,742,180
Amortisation	318,172	4,658,170	4,976,342
Exchange adjustment	(845,371)	(629,833)	(1,475,204)
At 31 December 2018	15,546,806	12,696,512	28,243,318
Carrying amount:			
At 31 December 2018	96,201,242	122,575,080	218,776,322
At 31 December 2017	82,066,940	56,062,649	138,129,589

During the year ended 31 December 2018, the project development cost of the SkQ_1 Product (as defined in note 22(e)) amounting to HK$51,731,693 was incurred. The remaining amount represented a distribution right acquired during the year ended 31 December 2018.

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21. Convertible Loan Receivables

In 2015, the Group entered into a convertible loan agreement with an independent third party, 武漢伢典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.*) ("Adv. Dental"), with principal amount of RMB10,000,000 (approximately HK$11,937,448) which carries interest at 5% per annum payable quarterly in arrears with maturity on 13 December 2019 at redemption amount of 100% of the principal amount ("Convertible Loan A"). The principal amount of Convertible Loan A can be converted into such equity interest representing 30% of the entire equity interest of Adv. Dental at any time from the date of issue to the maturity date. The principal activities of Adv. Dental are manufacturing and selling of dental treatment techniques in the PRC. Convertible Loan A is secured by 100% equity interest in Adv. Dental.

In 2016, the Group entered into a convertible loan agreement with an independent third party, 廣西萬壽堂藥業有限公司 (Guangxi Medictop Pharmaceutical Company Limited*) ("Guangxi Medictop"), with principal amount of RMB15,000,000 (approximately HK$17,528,115) which carries interest at 6% per annum payable quarterly in arrears with maturity on 8 January 2019 at redemption amount of 100% of the principal amount ("Convertible Loan B"). Guangxi Medictop is principally engaged in manufacture, research and development and sale of Chinese patent medicines for gynecology and cardiovascular. Convertible Loan B is secured by 20% equity interest in Guangxi Medictop.

There were components of Convertible Loan B, other than the debt component, namely conversion option, redemption option and put option, which lapsed in 2017.

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

During the year ended 31 December 2018, Convertible Loan B was settled by way of acquiring a distribution right (Note 20).

During the year ended 31 December 2018, the Group entered into a convertible loan agreement with an independent third party, a private company incorporated in Singapore (the "Investee"), with principal amount of SG$2,000,000 (approximately HK$11,800,000) which carries interest at 2.5% per annum payable quarterly in arrears with maturity on 1 June 2023 ("Convertible Loan C"). Convertible Loan C will be disbursed to the Investee in three tranches and the first tranche in the principal amount of SG$1,000,000 (equivalent to HK$5,884,110) ("Tranche A of Convertible Loan C") was disbursed to the Investee during the year. The entire principal amount of Convertible Loan C can be converted into such number of shares representing 40% of the enlarged total issued share capital of the Investee at any time before the maturity date. In the event that no conversion has been taken place before the maturity date, the Investee shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan C of 6% per annum. Tranche A of Convertible Loan C is classified as financial asset at FVTPL upon the initial recognition.

21. Convertible Loan Receivables *(Continued)*

During the year ended 31 December 2018, the Group entered into an agreement with an independent third party, DB Therapeutics, Inc ("DBT"), to subscribe for a convertible loan with principal amount of US$4,500,000 (equivalent to approximately HK$35,278,200) which carries interest at 5% per annum with maturity on 31 July 2022 ("Convertible Loan D"). Convertible Loan D will be disbursed to DBT in five tranches and the first tranche in the principal amount of US$600,000 (equivalent to HK$4,696,774) ("Tranche A of Convertible Loan D") was disbursed to DBT during the year. The entire principal amount of Convertible Loan D can be converted into such number of shares representing 45% of the enlarged total issued share capital of DBT on a fully-diluted basis at any time before the maturity date. In the event that no conversion has been taken place before maturity date, DBT shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan D of 8% per annum. Tranche A of Convertible Loan D is classified as financial asset at FVTPL upon initial recognition.

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

	Total HK$
At 31 December 2018	
– Convertible Loan A	**16,184,835**
– Tranche A of Convertible Loan C	**5,884,110**
– Tranche A of Convertible Loan D	**4,696,774**
Total	**26,765,719**
Less: Current portion	**(16,184,835)**
Non-current portion	**10,580,884**

	Debt component HK$	Derivative component HK$	Total HK$
At 31 December 2017			
– Convertible Loan A	8,883,577	7,318,415	16,201,992
– Convertible Loan B	16,860,066	–	16,860,066
Total, classified under non-current assets	25,743,643	7,318,415	33,062,058

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For the year ended 31 December 2018

21. Convertible Loan Receivables *(Continued)*

The movements in fair value of convertible loan receivables during the year ended 31 December 2018 are as follows:

	HK$
At 1 January 2018, as originally presented	**33,062,058**
Initial application of HKFRS 9 (Note 3(a))	**1,140,887**
At 1 January 2018, as restated	**34,202,945**
Additions	**10,580,884**
Settlement	**(16,631,119)**
Change in fair value recognised in profit or loss	**(269,708)**
Exchange differences	**(1,117,283)**
At 31 December 2018	**26,765,719**

The movements in fair value of the derivative component of convertible loan receivables during the year ended 31 December 2017 are as follows:

	HK$
At 1 January 2017	6,825,260
Change in fair value recognised in profit or loss	(20,521)
Exchange differences	513,676
At 31 December 2017	7,318,415

As at 31 December 2018, the fair values of convertible loan receivables are calculated using Binomial Share Option Model with the following key assumptions:

	Convertible Loan A	Convertible Loan C	Convertible Loan D
Stock price	RMB6.32	SG$0.44	US$0.09
Exercise price	RMB4.67	SG$0.21	US$1.00
Dividend yield	Nil	Nil	Nil
Expected volatility	46%	108%	101%
Expected life	0.92 years	4.42 years	3.58 years
Risk-free interest rate	2.56%	1.89%	2.48%

21. Convertible Loan Receivables *(Continued)*

The fair values of convertible loan receivables are classified as level 3 in the fair value hierarchy. There is no transfer under the fair value hierarchy classification for the years ended 31 December 2018 and 2017.

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

During the respective loan periods and where applicable following the conversion of the convertible loan receivables, the Group was entitled to appoint 1 out of 3 directors or 2 out of 5 directors of Adv. Dental, 1 out of 4 directors of the Investee and 1 out of 5 directors of DBT in accordance with the agreements of the convertible loan receivables. Accordingly, given the potential voting right and the right to appoint directors, the Group has regarded Adv. Dental, the Investee and DBT as associates of the Group. As at 31 December 2018 and up to the date of approval of these financial statements, as the Group has not converted the convertible loan receivables into equity interests of Adv. Dental, the Investee and DBT, the Group is not entitled to share any profit or loss of Adv. Dental, the Investee and DBT and accordingly, the Group has no interest in associates. The Directors are of the opinion that no further disclosure is considered meaningful in this regard.

22. Available-for-sale Financial Assets, Financial Assets at Fair Value Through Other Comprehensive Income and Financial Assets at Fair Value Through Profit or Loss

	2018 **HK$**	2017 HK$
Non-Current		
Equity investments designated at FVTOCI (Note (a))		
– Listed equity investments (Note (b))	**69,407,275**	54,243,771
– Unlisted equity investments (Note (c))	**72,725,057**	–
Available-for-sale investments		
– Unlisted equity investments, at cost (Note (c))	**–**	36,149,489
	142,132,332	90,393,260
Derivative financial instrument (Note (e))	**13,739,443**	–
Current		
Equity investments designated at FVTPL		
– Listed equity investments (Note (d))	**28,122**	–
	155,899,897	90,393,260

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22. Available-for-sale Financial Assets, Financial Assets at Fair Value Through Other Comprehensive Income and Financial Assets at Fair Value Through Profit or Loss *(Continued)*

Notes:

(a) The equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature and there is no frequent trading past experience.

(b) The balance represents two (2017: one) listed equity securities which are listed on the NASDAQ Stock Market of the United States, namely AC Immune SA ("ACI") and MeiraGTx Limited ("MeiraGTx") (2017: ACI). The fair value was based on quoted market price as at 31 December 2018.

During the year ended 31 December 2018, the Group subscribed convertible preferred C shares of MeiraGTx, a then private company, for a consideration of approximately US$5,000,000 (equivalent to HK$39,210,753). On 8 June 2018, the shares of MeiraGTx were listed on the NASDAQ Stock Market of the United States, and the convertible preferred C shares held by the Group were converted into 477,158 ordinary shares of MeiraGTx.

During the year ended 31 December 2018, the Group divested an insignificant portion of its equity interests in ACI and MeiraGTx. The aggregate fair value on respective dates of disposal was HK$8,962,551 and the accumulated gain recognised in other comprehensive income of HK$2,537,158 was transferred to retained earnings.

(c) The balance represents three (2017: two) unlisted equity investments, namely the investments in (i) series B preferred stock of a private company incorporated in the United States in 2017 and 2018; (ii) series C preferred stock and common stock (2017: series C preferred stock and warrants) of another private company incorporated in the United States in 2018; and (iii) approximately 8% equity interest in a private company established in the PRC in 2018.

(d) The equity investments were irrevocably designated at FVTPL as the Group considers these investments to be held for trading.

(e) During the year ended 31 December 2018, the Group entered into a co-development agreement with an independent third party, Mitotech S.A. ("Mitotech") under which the Group has agreed to fund to a maximum of approximately US$16,520,000 (approximately HK$129,682,000), for a clinical development in the United States Food and Drug Administration first phase 3 clinical trial (the "First P3") of an ophthalmic solution containing SkQ_1 as its sole active pharmaceutical ingredient (the "SkQ_1 Product") which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech in respect of the SkQ_1 Product in accordance with the agreed percentage allocation between the Group and Mitotech. Pursuant to the agreement, the Group shall have the right to exercise an option to fund a second phase 3 clinical trial (the "Second P3 Option") following the First P3. The Second P3 Option is classified as financial asset at FVTPL upon the initial recognition.

During the year ended 31 December 2018, a gross loss amounted to HK$25,538,048 and a gross gain amounted to HK$15,722,411 were recognised in other comprehensive income and profit or loss respectively.

During the year ended 31 December 2017, a gross gain recognised in other comprehensive income amounted to HK$609,477, of which HK$341,550 was reclassified from other comprehensive income to profit or loss for the year upon disposal.

As at 31 December 2018, the fair values of equity interest in the PRC private company and derivative financial instrument are calculated using Value Allocation Model and Option Pricing Model respectively with the following key assumptions:

	Unlisted equity investment	**Derivative financial instrument**
Expected volatility	64%	N/A
Risk-free interest rate	2.95%	N/A
Discount rate	N/A	25%

23. Inventories

	2018 HK$	2017 HK$
Raw materials	**10,687,723**	7,339,149
Work in progress	**4,164,487**	5,503,679
Finished goods	**55,897,283**	90,026,994
	70,749,493	102,869,822

During the year, the Group has carried out regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption, physical condition and management judgement. As a result, inventories of HK$147,603 (2017: HK$1,481,068) have been written off and recognised in profit or loss.

24. Trade and Other Receivables

	2018 HK$	2017 HK$
Trade receivables	**434,874,696**	319,788,212
Value-added tax recoverable	**–**	12,789,499
Other receivables	**24,209,095**	3,405,291
	459,083,791	335,983,002

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

The Directors have considered the track records of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2018 and 2017.

The ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$	2017 HK$
0–60 days	**271,285,662**	188,510,122
61–90 days	**49,332,635**	44,654,100
Over 90 days	**114,256,399**	86,623,990
	434,874,696	319,788,212

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24. Trade and Other Receivables *(Continued)*

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2018 HK$	2017 HK$
Neither past due nor impaired	**320,618,297**	233,164,222
Less than 3 months past due	**84,508,795**	70,774,702
Over 3 months past due	**29,747,604**	15,849,288
	434,874,696	319,788,212

The Group recognised impairment loss based on the accounting policies set out in notes 4(i) and 4(j).

25. Deposits and Prepayments

	2018 HK$	2017 HK$
Deposits paid for acquisition of property, plant and equipment	**2,323,982**	2,805,718
Prepayments for purchase of finished goods	**2,660,870**	1,214,475
Other deposits	**316,694**	302,154
Other prepayments	**2,476,519**	5,991,404
Total	**7,778,065**	10,313,751
Less: Current portion	**(5,454,083)**	(7,508,033)
Non-current portion	**2,323,982**	2,805,718

Deposits and prepayments do not contain impaired assets and their carrying amounts approximate their fair values.

26. Pledged Bank Deposit

Pledged bank deposit of the Group represents deposit pledged to a bank to secure banking facilities granted to the Group, and will be released upon the release of the relevant banking facilities.

27. Cash and Cash Equivalents

As at 31 December 2018, cash and cash equivalents denominated in Renminbi (“RMB”) amounted to approximately HK$226,800,000 (2017: approximately HK$220,200,000). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

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28. Trade and Other Payables

	2018 HK$	2017 HK$
Trade payables	**3,736,474**	1,265,806
Other payables and accruals (Note)	**287,777,780**	223,924,241
	291,514,254	225,190,047

Note:

Other payables and accruals included the accruals for sales and marketing costs of HK$221,623,163 (2017: HK$203,324,862).

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$	2017 HK$
0–60 days	**3,732,964**	1,239,916
61–90 days	**442**	–
Over 90 days	**3,068**	25,890
	3,736,474	1,265,806

29. Bank Borrowings

	2018 HK$	2017 HK$
Secured bank loans		
Due for repayment within one year	**–**	19,336,143
Due for more than one year and within five years	**55,000,000**	9,668,071
Total bank borrowings	**55,000,000**	29,004,214
Less: Current portion	**–**	(29,004,214)
Non-current portion	**55,000,000**	–
Carrying amount of bank loans due for repayment within one year, or more than one year but contain a repayment on demand clause effective within one year after the end of the reporting period	**–**	29,004,214

As at 31 December 2018, the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and a subsidiary within the Group; and (ii) a pledged bank deposit of HK$11,000,000.

As at 31 December 2017, the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and a subsidiary within the Group; and (ii) a pledged bank deposit of HK$28,229,076.

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For the year ended 31 December 2018

29. Bank Borrowings *(Continued)*

The bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings was 2.7% (2017: 2.5%) as at 31 December 2018.

The Group obtained banking facilities of HK$220,300,000 (2017: HK$149,080,000), of which HK$55,000,000 (2017: HK$38,780,000) was utilised at the end of reporting period.

30. Convertible Loan Payable

On 6 July 2016 ("Issue Date"), the Group entered into a convertible loan agreement with International Finance Corporation ("IFC"), pursuant to which IFC agreed to lend, and the Group agreed to borrow, a convertible loan in an aggregate principal amount of HK$150,000,000 at an interest rate of 1.9% per annum (the "Convertible Loan Payable").

Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at a conversion price of HK$5.90 per share (subject to anti-dilutive adjustments as set out in the convertible loan agreement) at any time after the date of disbursement and prior to the maturity date. The maturity date is the date falling on the fifth anniversary of the date of the disbursement.

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

Pursuant to the convertible loan agreement, unless otherwise agreed in writing by the IFC, the Company shall, within 10 days following the occurrence of a change of control defined in the convertible loan agreement, prepay the outstanding principal amount of the Convertible Loan Payable, together with accrued interest, the make whole premium (if any), increased costs (if any) thereon and all other amounts payable under the convertible loan agreement, including the amount of unwinding costs payable if the prepayment is not made on an interest payment date.

The fair value of the debt component and the equity conversion component were determined at the issuance of the Convertible Loan Payable. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At Issue Date and at 31 December 2018, the fair value of the make whole premium was determined by the Directors to be minimal.

30. Convertible Loan Payable *(Continued)*

The movements of the Convertible Loan Payable are as follows:

	Debt component HK$	**Conversion component** HK$	**Total** HK$
As at 1 January 2017	121,434,340	33,323,218	154,757,558
Imputed interest expense	10,302,723	–	10,302,723
Interest paid	(2,762,917)	–	(2,762,917)
As at 31 December 2017	128,974,146	33,323,218	162,297,364
Imputed interest expense	8,296,937	–	8,296,937
Interest paid	(2,905,417)	–	(2,905,417)
As at 31 December 2018	134,365,666	33,323,218	167,688,884

31. Deferred Tax Liabilities

Details of the deferred tax liabilities recognised and movements are as follows:

	Development expenditure HK$	**Undistributed earnings of PRC subsidiaries** HK$	**Total** HK$
At 1 January 2017	8,200,581	2,841,594	11,042,175
Settled during the year	–	(502,980)	(502,980)
Charged/(credited) to profit or loss for the year	3,110,180	(236,449)	2,873,731
Exchange differences	747,601	–	747,601
At 31 December 2017	12,058,362	2,102,165	14,160,527
Settled during the year	(47,726)	(2,102,165)	(2,149,891)
Charged to profit or loss for the year	4,939,034	–	4,939,034
Exchange differences	(814,569)	–	(814,569)
At 31 December 2018	16,135,101	–	16,135,101

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31. Deferred Tax Liabilities *(Continued)*

The Group has tax losses arising in Hong Kong of approximately HK$136,622,000 (2017: approximately HK$119,197,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Withholding tax on undistributed earnings is calculated at 5% on the distributable earnings of the subsidiaries in the PRC expected to be distributed to the holding company with its principal place of business located in Hong Kong. At the end of the reporting period, undistributed earnings of the subsidiaries in the PRC on which deferred tax has not been provided for amounted to approximately HK$463,000,000 (equivalent to approximately RMB406,000,000) (2017: approximately HK$372,000,000 (equivalent to approximately RMB310,000,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

32. Share Capital

Authorised

	2018		2017	
	Number	**HK$**	Number	HK$
Ordinary shares of HK$0.1 each	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000

Issued and fully paid

	2018		2017	
	Number	**HK$**	Number	HK$
At the beginning of the year	**563,493,000**	**56,349,300**	562,149,000	56,214,900
Employee share options exercised	**15,257,000**	**1,525,700**	1,344,000	134,400
At the end of the year	**578,750,000**	**57,875,000**	563,493,000	56,349,300

33. Reserves

The Company	Share premium HK$	Share option reserve HK$	Conversion component of convertible loan payable HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2017	17,554,104	16,894,786	33,323,218	5,186,820	72,958,928
Profit for the year	–	–	–	40,129,606	40,129,606
Equity-settled share-based payments	–	1,648,282	–	–	1,648,282
Exercise of share options	4,304,246	(1,347,446)	–	–	2,956,800
2016 final dividend paid	–	–	–	(17,988,768)	(17,988,768)
2017 interim dividend paid	–	–	–	(14,055,525)	(14,055,525)
Balance at 31 December 2017	21,858,350	17,195,622	33,323,218	13,272,133	85,649,323
Profit for the year	–	–	–	19,898,827	19,898,827
Equity-settled share-based payments	–	2,340,018	–	–	2,340,018
Exercise of share options	48,861,517	(15,296,117)	–	–	33,565,400
2017 final dividend paid	–	–	–	(14,249,700)	(14,249,700)
2018 interim dividend paid	–	–	–	(17,155,200)	(17,155,200)
Balance at 31 December 2018	70,719,867	4,239,523	33,323,218	1,766,060	110,048,668

The nature and purpose of each reserve of the Group are set out below:

(i) Capital reserve

The capital reserve represents discount on acquisition of a subsidiary in prior years.

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(n).

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34. Share-Based Payments

(a) Equity-settled share option scheme

The Share Option Scheme (the "Scheme") was approved on 3 May 2013. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include (i) any director, officer, employee or officer employed by any company within the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate") (whether full time or part time) ("Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or (iii) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate ("Eligible Participants").

The maximum number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other schemes involving the issue or grant of options or similar rights over shares or other securities by the Company must not, in aggregate, exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

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

Any grant of share options to any director, chief executive or substantial shareholder or any of their respective associates must be approved by the independent non-executive directors of the Company (but excluding, for all purposes, any independent non-executive director of the Company who is a proposed grantee). Where any grant of share options to a substantial shareholder or an independent non-executive director of the Company or their respective associates would result in the total number of the shares issued and to be issued upon exercise of the share options granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million,

such further grant of share options must be approved by the shareholders of the Company. The Company must send a circular to its shareholders. All connected persons must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such share options must be taken on a poll in accordance with the Listing Rules.

34. Share-Based Payments *(Continued)*

(a) Equity-settled share option scheme (Continued)

Share options granted on 30 October 2013

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

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

(2) All holders of options might only exercise their options in the following manner:

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

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

The above share options granted on 30 October 2013 were fully exercised during the year ended 31 December 2018.

Share options granted on 11 November 2016

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

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

(2) All holders of options might only exercise their options in the following manner:

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

(3) All outstanding or unexercised share options granted to the grantees shall lapse after 10 November 2021.

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34. Share-Based Payments *(Continued)*

(a) Equity-settled share option scheme (Continued)

Share options granted on 27 June 2018

Pursuant to a board resolution on 27 June 2018, the Company granted 1,000,000 share options to an employee of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

(1) All options granted were at an exercise price of HK$10.00 per share;

(2) The holder of options might only exercise the options in the following manner:

The share options will be vested in 3 tranches, i.e. the first 30% from two years after the date of grant, the second 30% from three years after the date of grant and the remaining 40% from four years after the date of grant;

(3) All outstanding or unexercised share options granted to the grantee shall lapse after 26 June 2023.

The estimated fair values of share options granted during the year ended 31 December 2018 were estimated at the date of grant using the Binomial Pricing Model. The inputs into the model are as follows:

	27 June 2018
Share price	HK$6.20
Exercise price	HK$10.00
Expected volatility	48%
Expected life	5 years
Risk-free interest rate	2.73%

The risk-free rate was based on market yield rate of Hong Kong Monetary Authority Exchange Fund Note with maturity on 27 June 2018 as of the date of valuation. Expected volatility was based on the historical volatility of the share prices of comparable companies over the periods that are equal to the expected life before the grant date.

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34. Share-Based Payments *(Continued)*

(a) *Equity-settled share option scheme (Continued)*

Set out below are details of movements of the outstanding options granted under the Scheme during the years ended 31 December 2018 and 2017:

For the year ended 31 December 2018

		Number of share options			
	Exercise price	**Outstanding as at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Outstanding as at 31 December 2018**
Executive directors					
– Fang Haizhou	**HK$2.30**	**3,500,000**	**–**	**(3,500,000)**	**–**
– Ngiam Mia Je Patrick	**HK$2.30**	**500,000**	**–**	**(500,000)**	**–**
– Zhong Sheng	**HK$2.30**	**1,060,000**	**–**	**(1,060,000)**	**–**
Other eligible employees	**HK$2.30**	**10,197,000**	**–**	**(10,197,000)**	**–**
Other eligible employees	**HK$5.90**	**2,300,000**	**–**	**–**	**2,300,000**
Other eligible employee	**HK$10.00**	**–**	**1,000,000**	**–**	**1,000,000**
Total		**17,557,000**	**1,000,000**	**(15,257,000)**	**3,300,000**

For the year ended 31 December 2017

		Number of share options			
	Exercise price	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Outstanding as at 31 December 2017
Executive directors					
– Fang Haizhou	HK$2.30	3,500,000	–	–	3,500,000
– Ngiam Mia Je Patrick	HK$2.30	500,000	–	–	500,000
– Zhong Sheng	HK$2.30	1,060,000	–	–	1,060,000
Other eligible employees	HK$2.30	11,541,000	–	(1,344,000)	10,197,000
Other eligible employees	HK$5.90	2,300,000	–	–	2,300,000
Total		18,901,000	–	(1,344,000)	17,557,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. Share-Based Payments *(Continued)*

(a) *Equity-settled share option scheme (Continued)*

Share options and weighted average exercise price for the years ended 31 December 2018 and 2017 are as follows:

For the year ended 31 December

	2018		2017	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Outstanding at 1 January	**17,557,000**	**2.77**	18,901,000	2.74
Exercised during the year	**(15,257,000)**	**2.30**	(1,344,000)	2.30
Granted during the year	**1,000,000**	**10.00**	–	–
Outstanding at 31 December	**3,300,000**	**7.14**	17,557,000	2.77
Exercisable at the end of the year	**1,840,000**	**5.90**	16,177,000	2.50

The weighted average share price for share options exercised during the year at the date of exercise was HK$6.73 (2017: HK$4.91) per share.

The weighted average remaining contractual life for share options was as follows:

Date of grant	**31 December 2018**	31 December 2017
30 October 2013	**N/A**	0.8 years
11 November 2016	**2.9 years**	3.9 years
27 June 2018	**4.5 years**	N/A

Of the total number of share options outstanding as at 31 December 2018, 1,460,000 (2017: 1,380,000) share options had not vested and were not exercisable as at 31 December 2018.

During the year ended 31 December 2018, the Company recognised the total expense of HK$849,351 (2017: HK$1,548,282) in relation to share options granted by the Company to the employees.

34. Share-Based Payments *(Continued)*

(b) *Equity-settled service contract*

Share options granted on 1 November 2017

On 1 November 2017, the Company entered into a service contract with Hong Kong Zhixin Financial News Agency Limited ("HK Zhixin") to appoint HK Zhixin as the Group's investor relations consultant for a term of four years. In consideration of the services provided by HK Zhixin, the Company granted 5,000,000 share options to HK Zhixin.

Set out below were details of the share options granted to HK Zhixin:

(1) All holders of options might only exercise their options at respective exercise prices in the following manner:

  (i) Up to 34% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2018 to 31 October 2019 at HK$6.50 per share;

  (ii) Up to 34% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2019 to 31 October 2020 at HK$7.50 per share; and

  (iii) Up to 32% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2020 to 31 October 2021 at HK$8.50 per share;

(2) Each of the outstanding or unexercised share options granted to HK Zhixin shall lapse after the respective exercise periods.

The fair value of the services on 1 November 2017 was HK$2,400,000, which was based on terms and conditions stated in the services contract.

As at 31 December 2018, 1,700,000 share options were exercisable at HK$6.50 per share. The weighted average remaining contractual life for share options was 1.8 (2017: 2.8) years. During the year ended 31 December 2018, no share options have been exercised.

During the year ended 31 December 2018, the Company recognised the total expense of HK$1,490,667 (2017: HK$100,000) in relation to share options granted by the Company to HK Zhixin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. Operating Lease Arrangements

Operating lease payments represent rentals payable by the Group on properties under operating lease arrangement. Lease is negotiated for a term of 2 years at fixed rent.

Minimum lease payment paid during the year under operating lease was as follows:

	2018 **HK$**	2017 HK$
Minimum leases payment:		
– Properties	**1,000,060**	967,800

The total future minimum lease payment is due as follows:

	2018 **HK$**	2017 HK$
Not later than one year	**1,006,512**	161,300
Later than one year and not later than five years	**167,752**	–
	1,174,264	161,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. Holding Company Statement of Financial Position

	Notes	2018 HK$	2017 HK$
Non-current assets			
Interests in subsidiaries		**264,251,351**	270,583,749
Current assets			
Prepayments		**258,650**	234,326
Cash and cash equivalents		**41,537,378**	3,256,408
Total current assets		**41,796,028**	3,490,734
Total assets		**306,047,379**	274,074,483
Current liabilities			
Other payables and accruals		**3,758,045**	3,101,714
Net current assets		**38,037,983**	389,020
Total assets less current liabilities		**302,289,334**	270,972,769
Non-current liabilities			
Convertible loan payable	30	**134,365,666**	128,974,146
Total liabilities		**138,123,711**	132,075,860
NET ASSETS		**167,923,668**	141,998,623
Capital and reserves attributable to owners of the Company			
Share capital	32	**57,875,000**	56,349,300
Reserves	33	**110,048,668**	85,649,323
TOTAL EQUITY		**167,923,668**	141,998,623

On behalf of the Board

Fang Haizhou **Zhong Sheng**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. Interests in Subsidiaries

Details of the subsidiaries as at the end of the reporting period were as follows:

Name of subsidiary	Form of business structure	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Percentage of ownership interest directly	Percentage of ownership interest indirectly	Principal activity
Essex Bio-Investment Limited	Limited liability company	British Virgin Islands/ Hong Kong	US$5	100%	–	Investment holding
Essex Bio-Tech Investment Limited	Limited liability company	British Virgin Islands	US$500	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Limited liability company	Hong Kong	HK$8,000,000	–	100%	Investment holding
Essex Technology Development (HK) Limited	Limited liability company	Hong Kong	HK$10,000	–	100%	Investment holding
珠海億勝生物製藥有限公司 Zhuhai Essex Bio-Pharmaceutical Company Limited*[1]	Limited liability company	PRC	RMB150,000,000	–	100%	Manufacture and sale of biopharmaceutical products
珠海億勝醫藥有限公司 Essex Medipharma (Zhuhai) Company Limited*[1]	Limited liability company	PRC	RMB3,000,000	–	100%	Marketing and distribution of biopharmaceutical products
珠海億勝科技發展有限公司 Zhuhai Essex Technology Development Company Limited*[1]	Limited liability company	PRC	RMB25,000,000	–	100%	Investment holding

(1) These subsidiaries are registered as wholly-foreign-owned enterprises under the law of the PRC.

38. Capital Commitments

	2018 HK$	2017 HK$
Contracted but not provided for:		
– property, plant and equipment	**2,025,283**	1,578,666
– development expenditure (Note)	**27,839,132**	29,776,037
– acquired intangible assets	**77,950,308**	–
– construction of the new factory	**216,896,589**	–
	324,711,312	31,354,703

Note:

Development expenditure represented the contract fee to independent third parties for carrying out the research and development on the Group's projects.

39. Financial Risk Management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) *Credit risk*

The Group's credit risk is primarily attributable to its trade and other receivables, convertible loan receivables and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments including ECL rates when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on ECL risk. At the end of reporting period, the Group has a certain concentration of credit risk as 28% (2017: 26%) and 50% (2017: 50%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

ECLs rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. No impairment for trade and other receivables is provided as the amount of additional impairment measured under the ECLs model is immaterial.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24.

The credit risk on bank balances is limited because the counterparties are banks with high credit-rating or with good reputation.

(b) *Liquidity risk*

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates current at the reporting date) and the earliest date the Group can be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. Financial Risk Management *(Continued)*

(b) Liquidity risk (Continued)

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year HK$	More than 1 year but less than 5 years HK$
31 December 2018				
Trade and other payables	**291,514,254**	**291,514,254**	**291,514,254**	**–**
Bank borrowings	**55,000,000**	**56,857,456**	**1,488,398**	**55,369,058**
Convertible loan payable	**134,365,666**	**157,584,167**	**2,881,667**	**154,702,500**
	480,879,920	**505,955,877**	**295,884,319**	**210,071,558**

	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 5 years HK$
31 December 2017				
Trade and other payables	225,190,047	225,190,047	225,190,047	–
Bank borrowings	29,004,214	29,004,214	29,004,214	–
Convertible loan payable	128,974,146	160,370,833	2,889,583	157,481,250
	383,168,407	414,565,094	257,083,844	157,481,250

Maturity analysis – bank borrowings based on scheduled repayments

	Carrying amount HK$	**Within 1 year** HK$	**More than 1 year but less than 5 years** HK$	**Total contractual undiscounted cash flow** HK$
At 31 December 2018	**55,000,000**	**1,488,398**	**58,694,633**	**60,183,031**
At 31 December 2017	29,004,214	19,889,309	9,764,997	29,654,306

39. Financial Risk Management *(Continued)*

(c) *Interest rate risk*

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from pledged bank deposits and bank borrowings. Borrowings bearing variable and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. The Group has not implemented any procedures to hedge its interest rate risk.

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK$230,000.

At 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK$121,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the relevant periods and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2017.

(d) *Currency risk*

The Group's main operations are currently in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

40. Capital Risk Management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes the bank borrowings and convertible loan payable, cash and cash equivalents, pledged bank deposit and total equity. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. Capital Risk Management *(Continued)*

The gearing ratio of the Group at the end of reporting period was as follows:

	2018 HK$	2017 HK$
Bank borrowings	**55,000,000**	29,004,214
Convertible loan payable	**134,365,666**	128,974,146
Less: Cash and cash equivalents	**(311,097,828)**	(240,627,387)
Less: Pledged bank deposit	**(11,000,000)**	(28,229,076)
Net cash and pledged bank deposit	**(132,732,162)**	(110,878,103)
Total equity	**928,901,896**	739,488,392
Net debt to equity ratio	**N/A**	N/A

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts are calculated as the sum of borrowings less the sum of cash and cash equivalents and pledged bank deposit as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level and the Directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the reporting dates.

41. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amount and fair value of financial assets and liabilities:

	2018 HK$	2017 HK$
Financial assets		
FVTPL		
– Equity investments	**28,122**	–
– Convertible loan receivables	**26,765,719**	–
– Derivative financial instrument	**13,739,443**	–
– Derivative component of convertible loan receivable	**–**	7,318,415
FVTOCI		
– Equity investments	**142,132,332**	–
Available-for-sale financial assets		
– At cost	**–**	36,149,489
– At fair value	**–**	54,243,771
Loans and receivables at amortised cost (including bank balances and cash)	**781,181,619**	630,583,108
	963,847,235	728,294,783
Financial liabilities		
Financial liabilities measured at amortised cost	**480,879,920**	383,168,407

42. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

(a) *Purchase of finished goods*

Related party relationship	2018 HK$	2017 HK$
Associate	788,874	570,597

(b) *Provision of marketing service income*

Related party relationship	2018 HK$	2017 HK$
Associate	525,391	–

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

Related party relationship	2018 HK$	2017 HK$
Associate	604,698	964,822

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

Related party relationship	2018 HK$	2017 HK$
Associate	–	146,038

(e) *Year-end balance arising from trade receivable from provision of service income*

Related party relationship	2018 HK$	2017 HK$
Associate	535,322	–

(f) Members of key management during the year comprised the executive directors only whose remuneration is set out in note 11.

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For the year ended 31 December 2018

43. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities. 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 from financing activities.

	Bank borrowings (Note 29) HK$	**Convertible loan payable (Note 30) HK$**
At 1 January 2018	**29,004,214**	**128,974,146**
Changes from cash flows:		
Proceeds from bank borrowings	**55,000,000**	**–**
Repayments of bank borrowings	**(29,502,070)**	**–**
Interest paid	**(1,332,185)**	**(2,905,417)**
Total changes from financing cash flows	**24,165,745**	**(2,905,417)**
Other changes:		
Interest expenses	**1,332,185**	**8,296,937**
Exchange loss	**497,856**	**–**
At 31 December 2018	**55,000,000**	**134,365,666**

	Bank borrowings (Note 29) HK$	Convertible loan payable (Note 30) HK$
At 1 January 2017	38,780,000	121,434,340
Changes from cash flows:		
Repayments of bank borrowings	(9,775,786)	–
Interest paid	(874,985)	(2,762,917)
Total changes from financing cash flows	(10,650,771)	(2,762,917)
Other change:		
Interest expenses	874,985	10,302,723
At 31 December 2017	29,004,214	128,974,146

44. Approval of Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of Directors on 11 March 2019.

* For identification purpose only

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 2 below:

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$	HK$	HK$	HK$	HK$
TURNOVER	**1,176,457,931**	899,589,729	775,662,998	654,010,499	518,299,695
Cost of sales	**(202,916,031)**	(161,987,759)	(152,636,311)	(124,418,858)	(107,042,880)
Gross profit	**973,541,900**	737,601,970	623,026,687	529,591,641	411,256,815
Other revenue, and other gains and losses	**25,542,828**	24,647,137	7,395,501	6,382,673	2,039,556
Distribution and selling expenses	**(649,719,067)**	(515,298,269)	(410,539,424)	(352,109,409)	(271,365,907)
Administrative expenses	**(68,908,719)**	(40,405,123)	(47,958,700)	(51,157,864)	(42,368,241)
Finance costs	**(7,403,254)**	(9,499,843)	(9,686,016)	(2,056,200)	(3,807,592)
PROFIT BEFORE INCOME TAX	**273,053,688**	197,045,872	162,238,048	130,650,841	95,754,631
Income tax	**(41,962,014)**	(29,747,219)	(25,953,667)	(25,755,651)	(20,481,540)
PROFIT FOR THE YEAR	**231,091,674**	167,298,653	136,284,381	104,895,190	75,273,091
Other comprehensive income for the year	**(73,209,087)**	42,630,484	(18,972,805)	(21,827,038)	(790,435)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**157,882,587**	209,929,137	117,311,576	83,068,152	74,482,656
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY	**157,882,587**	209,929,137	117,311,576	83,068,152	74,482,656

FIVE YEAR FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$	HK$	HK$	HK$	HK$
Non-current assets	**587,090,785**	444,559,194	377,815,452	277,113,324	218,964,914
Current assets	**862,598,152**	715,217,320	555,481,952	359,465,593	284,076,953
Current liabilities	**(315,286,274)**	(277,153,449)	(243,956,823)	(208,229,323)	(160,478,657)
Net current assets	**547,311,878**	438,063,871	311,525,129	151,236,270	123,598,296
Non-current liabilities	**(205,500,767)**	(143,134,673)	(132,476,515)	(15,402,758)	(11,517,378)
Net assets	**928,901,896**	739,488,392	556,864,066	412,946,836	331,045,832

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2016, 2015 and 2014 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2018 and 2017 are as set out on page 65 of the audited financial statements.

2. The consolidated statement of financial position as at 31 December 2016, 2015 and 2014 are extracted from the published audited financial statements for the years ended 31 December 2016, 2015 and 2014, prepared on the basis as if the Group had been in existence for these years. The consolidated statement of financial position of the Group as at 31 December 2018 and 2017 are as set out on page 66 of the audited financial statements.