Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

Annual Report 2018

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee *(Managing Director)*
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director

Mr. Simon Miles Ball

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPANY SECRETARY

Mr. Chow Yiu Ming

AUDIT COMMITTEE

Dr. Chan Yau Ching, Bob *(Chairman)*
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

REMUNERATION COMMITTEE

Dr. Tsim Wah Keung, Karl *(Chairman)*
Ms. Leelalertsuphakun Wanee
Dr. Chan Yau Ching, Bob

AUDITOR

HLM CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS

King & Wood Mallesons *(Hong Kong law)*
Beijing Wuhuan Law Firm *(PRC law)*

REGISTERED OFFICE

P. O. Box 309 GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

PLACE OF BUSINESS IN HONG KONG

1/F, Building 20E, Phase 3
Hong Kong Science Park, Shatin
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Ms. Lee Siu Fong
Dr. Li Xiaoyi

WEBSITE

www.leespharm.com

STOCK CODE

950

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company", together with its subsidiaries, the "Group", Hong Kong stock code: 950) is a research-driven and market-oriented biopharmaceutical company with more than 20 years of operation in the pharmaceutical industry in the People's Republic of China (the "PRC" or "China").

The Group is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing, sales and marketing based in Mainland China with global perspectives. The Group has established extensive partnerships with over 20 international companies and currently markets 21 proprietary and licensed-in pharmaceutical products in Mainland China, Hong Kong, Macau and Taiwan.

The Company focuses on several key disease areas such as cardiovascular, woman health, paediatrics, rare diseases, oncology, ophthalmology, dermatology, obstetrics and urology. It has more than 60 products under different development stages stemming from both internal research and development as well as from the licensing of development, commercialisation, and manufacturing rights from various United States, European and Japanese companies.

The Group carries out its sales and distribution activities in Hong Kong, Macau, Taiwan and Mainland China through Hong Kong and Taiwan offices and branch offices in Guangzhou, Shanghai and Beijing with direct and channel sales network covering most of the provinces and cities in Mainland China, marketing both domestic self-developed products and overseas licensed-in products. Zhaoke Pharmaceutical (Hefei) Company Limited, a subsidiary of the Group, is currently operating the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilised powder for injection, small volume parenteral solutions and eye gel. Zhaoke Pharmaceutical (Guangzhou) Limited, a subsidiary of the Group, is currently developing the new manufacturing site in Nansha District, Guangzhou of the PRC which will enable the Group's expansion into solid-dose products such as tablets and capsules. Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited, a subsidiary of the Group, is also developing the new manufacturing facilities for ophthalmic products in the Nansha site.

The mission of the Company is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

CORPORATE PROFILE

Currently, the Group has the following products in the market:

	Country of origin	Market: Mainland China	Hong Kong	Macau	Taiwan	Medical application
Proprietary products:						
* Livaracine®	PRC	✓				Heart and other cardiovascular diseases
Yallaferon®	PRC	✓				Viral-infected venereal diseases
* Slounase®	PRC	✓				Reduction of bleeding
* Eyprotor®	PRC	✓				Cornea ulcer
Licensed-in products:						
* Carnitene®	Italy	✓	✓	✓		Cardiac diseases
Ferplex®	Spain	✓	✓			Treatment of sideropenic anaemias
* Zanidip®	Italy	✓	✓			Hypertension
Rasilez®	Italy	✓	✓	✓	✓	Hypertension
Aloxi®	France		✓			Chemotherapy induced nausea and vomiting
Sancuso®	USA	✓				Chemotherapy induced nausea and vomiting
Veloderm®	Italy	✓				Burns and wounds healing
Gaslon N®	Japan	✓				Gastric ulcer and gastritis
UNIDROX®	Italy		✓			Treatment of urinary tract infections and respiratory tract infections
Levocarnitine oral solution	Italy	✓	✓	✓		Primary and secondary carnitine deficiency
Remodulin®	USA	✓				Treatment of pulmonary arterial hypertension and to diminish symptoms associated with exercise
Mictonorm®	Germany	✓				Urinary incontinence
Trittico®	Italy		✓	✓		Insomnia/Depression
Oncaspar®	USA		✓			Leukemia
Dicoflor®	Italy		✓			Probiotics
VSL#3®	Italy	✓	✓		✓	Probiotics
Zingo™	Hong Kong		✓	✓		Topical local analgesics

* *In the National Drug Reimbursement List of the PRC*

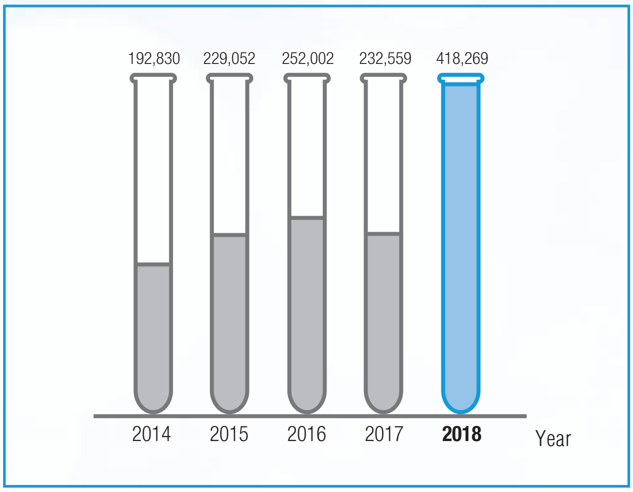
FINANCIAL HIGHLIGHTS

	2018 HK$'000	2017 HK$'000	Change
Revenue	**1,137,626**	1,008,522	+12.8%
Profit attributable to the owners of the Company	**418,269**	232,559	+79.9%
Total equity attributable to the owners of the Company	**2,210,543**	1,804,346	+22.5%
	HK cents	HK cents	
Earnings per share			
Basic	**70.67**	39.38	+79.5%
Diluted	**70.28**	39.26	+79.0%
Dividend per share			
Interim	**3.4**	3.4	
Final	**8.4**	7.0	
Total	**11.8**	10.4	+13.5%
Dividend payout ratio	**16.7%**	26.4%	

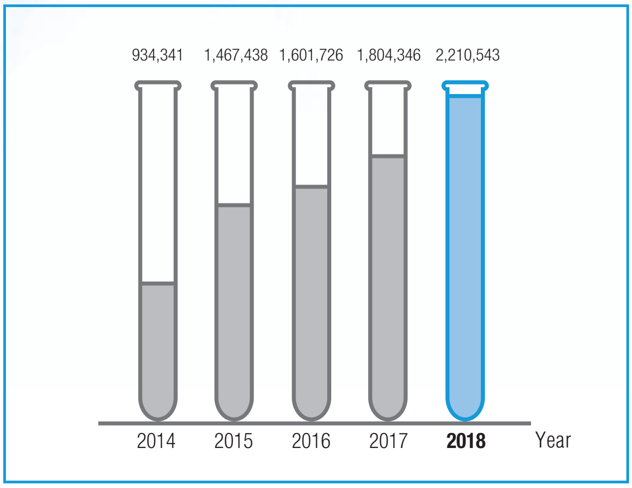
FINANCIAL HIGHLIGHTS

Revenue (HK$'000)

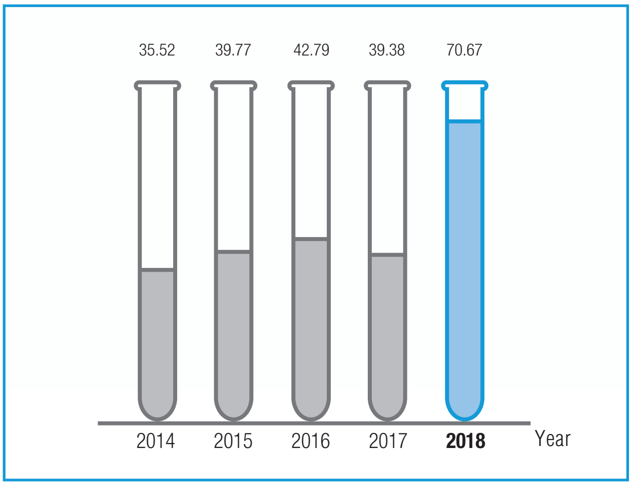
Profit Attributable to the Owners of the Company (HK$'000)



Total Equity Attributable to the Owners of the Company (HK$'000)



Basic Earnings Per Share (HK cents)



FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,137,626**	1,008,522	929,821	922,150	955,208
Cost of sales	**(391,255)**	(326,118)	(261,586)	(273,986)	(284,685)
Gross profit	**746,371**	682,404	668,235	648,164	670,523
Other income	**52,069**	31,756	48,368	12,194	15,798
Other gains and losses, net	**239,156**	20,753	(26,771)	9,999	(15,854)
Selling and distribution expenses	**(221,740)**	(214,150)	(204,225)	(256,465)	(309,202)
Administrative expenses	**(188,926)**	(157,186)	(119,071)	(87,625)	(100,754)
Net (provision for) reversal of impairment loss on financial assets	**(6,823)**	(1,692)	(224)	(959)	3,296
Research and development expenses	**(153,171)**	(85,057)	(67,886)	(38,883)	(32,315)
Profit from operations	**466,936**	276,828	298,426	286,425	231,492
Finance costs	**(4,710)**	(4,256)	(3,803)	(3,040)	(2,671)
Share of results of associates	**(15,842)**	(14,944)	(12,019)	(29,450)	(668)
Profit before taxation	**446,384**	257,628	282,604	253,935	228,153
Taxation	**(56,621)**	(54,689)	(50,198)	(40,938)	(41,368)
Profit for the year	**389,763**	202,939	232,406	212,997	186,785
Attributable to:					
Owners of the Company	**418,269**	232,559	252,002	229,052	192,830
Non-controlling interests	**(28,506)**	(29,620)	(19,596)	(16,055)	(6,045)
Profit for the year	**389,763**	202,939	232,406	212,997	186,785

FIVE-YEAR FINANCIAL SUMMARY

FINANCIAL POSITION

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,002,012**	1,451,206	1,177,685	1,009,659	639,392
Current assets	**1,004,541**	873,318	883,712	841,469	729,988
Current liabilities	**(676,825)**	(431,085)	(358,375)	(281,956)	(308,179)
Net current assets	**327,716**	442,233	525,337	559,513	421,809
Non-current liabilities	**(91,659)**	(96,507)	(68,306)	(52,344)	(62,334)
Net assets	**2,238,069**	1,796,932	1,634,716	1,516,828	998,867
Total equity attributable to the owners of the Company	**2,210,543**	1,804,346	1,601,726	1,467,438	934,341
Non-controlling interests	**27,526**	(7,414)	32,990	49,390	64,526
Total equity	**2,238,069**	1,796,932	1,634,716	1,516,828	998,867

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of Lee's Pharmaceutical Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") and its board ("**Board**") of directors ("**Directors**"), I am pleased to report that the Group has made significant progress with an encouraging performance in the financial year ended 31 December 2018.

2018 was a pivotal year for us from various aspects.

On one hand, the China National Medical Products Administration ("**NMPA**", formerly CFDA) has introduced reforms to drive down drug prices, such as the embarking of a centralised bulk procurement pilot program during the year that resulted in industry players' bidding for contracts at a much lower price. On the other hand, the inflationary pressure in raw material costs and manufacturing overhead in China kept eroding our gross profit margin. Nevertheless, after getting through a series of challenges to transform our channel and direct sales teams, double digit revenue growth has been generated from solid performance delivered thereby across most of our major commercialised products.

Solid progress has also been made on our product pipeline including clinical trial approvals, New Drug Application ("**NDA**")/Abbreviated New Drug Application ("**ANDA**") submission and new drug approvals, such as PD-L1, TG02 and Gimatecan Phase I clinical trial approvals on cancer patients; Tecarfarin Phase I clinical trial approval for patients with mechanical heart valves; Import Drug License ("**IDL**") application of Prulifloxacin and ANDA submission of Sodium Phenylbutyrate and NDA approval of Sancuso®, the transdermal patch of the 5-HT3 receptor antagonist, used for the prevention of nausea and vomiting in chemotherapy patients, just to name a few. In addition, we are exciting to obtain the approval to conduct research and development on Staccato® Fentanyl for inhalation in China for treatment of cancer breakthrough pain, an excellent opportunity to address a highly unmet medical need and there have not been any fast-acting fentanyl product approvals in China for the last 25 years.

Sustainable growth of our business requires the strengthening of our new product development capabilities and thus we continue to stay focus on our strategy to invest heavily in our research and development ("**R&D**") activities. Having said that, the NMPA has also introduced reforms to support innovative drugs, aiming to speed up approvals and accelerate access to patients, which has encouraged us to uphold our aggressive yet prudent approach in R&D. During the year of 2018, we invested over HK$290 million in R&D, including expensed and capitalised parts, which was equivalent to 25.5% of our annual revenue in 2018, and accelerated our various ongoing clinical development programs to reach the destinations.

Our manufacturing competencies in Nansha and Hefei plants have been further upgraded and enhanced. Solid dosage production facilities and ophthalmic drug production facilities in our Nansha sites are fully operational with valid manufacturing licenses for various kinds of products. In our Hefei site, we have completed the renovation and expansion of the aseptic facility, the construction of liposome production line and biologics drug substance production facilities. The expansion of manufacturing capacity and capability enables us to complete successful production technology transfer in several products.

CHAIRMAN'S STATEMENT

We are grateful for the tremendous efforts we have devoted to grow ourselves from a start-up biotech company to a fully integrated specialty pharma in the past 25 years. Nevertheless, it is not uncommon that earlier stage research functions and clinical developments are usually treated "below the horizon" and have little influence on corporate value of a fully integrated pharmaceutical company. By contrast, the same capabilities contribute significantly to the overall value of a biotech company in the industry. Having clarity in pharma business from biotech entrepreneurship could bring about additional value to the Group, illustrated by our recent transaction. Two of our investments in the portfolio, Windtree Therapeutics, Inc. and CVie Therapeutics Limited, have merged into a biotech company during the year under review and the merged company has capitalised the chance to raise capital to support its upcoming clinical trials of three Phase III enabling assets in pulmonary and cardiovascular disease areas, and at the same time unlock the value attributable to our interests therein and made an extra profit to our shareholders. As a result, we believe the transfer of certain of our earlier stage R&D functions, separated by different therapeutic areas such as oncology and ophthalmology focus via assets restructuring, into standalone biotech companies may be a feasible way to attract more investors which enable the biotech companies to raise money at decent valuations to bring the clinical trial programs moving forward and liberate more value for our shareholders.

Another major advancement during the year was that, after long years of research and preparatory studies, we finally commenced the foundation and excavation works of our Nansha Zhaokang International Rehabilitation Hospital Project. Upon completion, this will become one of the largest high-end rehabilitation hospital in the region and is designed to serve the patients in the Guangdong-Hong Kong-Macao Greater Bay Area.

Science is our relentless pursuit and innovation is the cornerstone of the success and our future. Looking ahead, we are full of confidence as we shall have more competent products to be launched in 2019, such as Probiotics VSL#3®, Sancuso®, Rasilez® and INOmax®, to drive revenue growth. The approval and launch of a myriad of products in the next couple of years will usher the Group into an exciting and accelerated growth era and transcend the Group into one of the leading specialty pharmas in China.

Finally, I would like to take this opportunity to thank to the Board, all our business partners, management and every member of staff for their continual support. We will spare no effort to seek new growth opportunities and to enhance our shareholders' value.

Lee Siu Fong
Chairman

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Pharmaceutical sector in China is always competitive, challenging yet exciting due to its fragmented and fluctuating nature. During the year 2018, cost control measures from the regulator such as price and reimbursement cuts together with inflationary pressure on production costs were the major causes for tougher market conditions and squeezing profit margins.

On the other hand, the large population in China and the relatively low healthcare spending as a portion of GDP therein, as compared to that of in the United States, Europe and Japan, have been providing fuel for sustained business growth in the region. In addition, the continuing efforts of the regulator to debottlenecking the review and approve process of new drugs have gradually creating a better environment for the pharmaceutical industry which encourages innovation, especially for the drugs that address highly unmet medical need.

Under these circumstances, the Group managed to make striking progress on all fronts during the year under review.

The transformation of the Group's main engines for driving revenue, both direct and channel sales team, has enhanced the efficiency and brought the revenue growth of the Group back on track with double digit increase in 2018, which has been missing for quite a long time, amid pricing pressure of the products.

The acceleration in research and development ("**R&D**") and innovation that aims to place the seeds of the delivery of innovative products, from licensing of new compound to conducting clinical trials of new drugs in various therapeutic areas, in the expectation of improving profitability of the Group in the longer term has kept going during the year under review. Nevertheless, the making of strong commitments to R&D together with the inflationary pressure on production costs of its commercialised products, have created short-term financial challenges such as gross and net margin erosion to the Group.

Nevertheless, the Group succeeded to unlock the value of certain pharmaceutical investments in the capital market and made an extra profit to the shareholders. During the year under review, one of the Group's investments in the United States capitalised the chance to raise capital to support its upcoming clinical trials of the assets after its merger with the then associated company of the Group and become a biotech company with three Phase III enabling assets in pulmonary and cardiovascular disease areas.

Together with the efforts made during the year under review for expansion in manufacturing capability and strengthening in regulatory ability, overall, it was a transcendent year for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and Profit

The Group generated a revenue contribution of HK$1,137,626,000 from the sales of pharmaceutical products in 2018, representing a growth of 12.8% as compared to that of in 2017. Major six products contributed 94.0% of revenue in 2018, decrease by 0.9 percentage points as compared to that of in 2017, keeping up the trend of sales growth of other products. Sales of licensed-in products was HK$618,069,000 (2017: HK$544,402,000) and accounted for 54.3% (2017: 54.0%) of the Group's revenue while sales of proprietary products was HK$519,557,000 (2017: HK$464,120,000) and contributed 45.7% (2017: 46.0%) of the Group's revenue.

Revenue of licensed-in products sustained double digit growth for another year. *Zanidip*® and *Ferplex*® achieved decent revenue growth of 46.6% and 24.1%, respectively, while that of *Carnitene*® remained flat during the year. Together with the increased revenue contribution from the sales of other licensed-in products such as *Remodulin*®, the Group has recorded revenue growth of 13.5% from its licensed-in products in 2018, improved by 2.3 percentage points as compared to that of in 2017.

Revenue of proprietary products also attained double digit growth in 2018. *Yallaferon*® achieved an encouraging growth in its revenue of 22.8% and surpassed the HK$100 million mark for the first time. *Livaracine*® and *Slounase*® achieved modest revenue growth of 7.4% and 9.6%, respectively. Together with the remarkable 36.8% revenue growth of *Eyprotor*® during the year under review, the Group has recorded revenue growth of 11.9% from its proprietary products in 2018, significantly improved by 6.4 percentage points as compared to that of in 2017.

Overall gross profit margin was held at 65.6% in 2018, declined by 2.1 percentage points from 67.7% in 2017, as inflationary pressures on production costs persist, especially material costs, throughout the year under review. In addition, the Group's R&D in new drugs remains at full throttle and HK$290,177,000 was spent in R&D activities during 2018 (2017: HK$184,605,000), representing 25.5% (2017: 18.3%) to the corresponding yearly revenue, which is among the highest in domestic pharmaceutical companies. Among which HK$153,171,000 (2017: HK$85,057,000) has been recognised as expenses and HK$137,006,000 (2017: HK$99,548,000) has been capitalised as intangible assets.

The Group continued to transform its sales team and streamline its sales and marketing efficiency in 2018 and the selling expenses to revenue ratio has further lowered to 19.5% (2017: 21.2%). In addition, a one-time net positive impact of approximately HK$214,154,000 was recorded in 2018 which represented the gain on deemed disposal of interest in CVie Therapeutics Limited, the then 49.6% owned associated company of the Group.

Net profit attributable to the owners of the Company was HK$418,269,000 (2017: HK$232,559,000), increased by 79.9% as compared to that of in 2017, and recorded net profit margin of 36.8% (2017: 23.1%).

Quality System, Production and Manufacturing Facilities

During the year under review, the Group continued to upgrade and enhance the production capability in Nansha and Hefei. In Nansha site, solid dosage production facilities are fully operational with valid manufacturing licenses for various kinds of oral dosage products. Ophthalmic drug production facilities are also fully operational with valid manufacturing licenses, from topical formulations, multi-dose eyedrops, and mono-dose eyedrops utilised blow-fill-seal technology. The manufacturing of clinical and registration batches of various products have been commenced to facilitate certain of our clinical development programs. In Hefei site, the aseptic facility has undergone successful renovation and expansion. The construction of liposome production line and biologics drug substance production facilities have been completed. In addition, a new laboratory animal center has commenced operations during the year which can accommodate various animal tests on products such as surfactants, calf blood extractives and snake venom extractives.

Drug Development

The Group's commitment to R&D persisted throughout the year under review and measurable progress has been made.

With respect to New Drug Application ("**NDA**"), one of the Group's licensing products had obtained the approval from the China National Medical Products Administration ("**NMPA**", formerly CFDA). In July 2018, Sancuso® (Granisetron Transdermal System), which the Group obtained its exclusive license rights for commercialisation and promotion in China (excluding Beijing, Shanghai and Guangzhou), has been approved for launch by the NMPA. Sancuso® is the world's first and only transdermal patch of the 5-HT3 receptor antagonist used for the prevention of nausea and vomiting in patients receiving moderately or highly emetogenic chemotherapy regimens. The launch of Sancuso® will further enhance the Group's position in the oncology space.

During the year under review and up to date, the Group has submitted 3 applications for Import Drug License ("**IDL**"), namely Trazodone®, Prulifloxacin and INOMax®. Among the three submissions, Prulifloxacin has completed the clinical audit by NMPA with success and INOMax® has been granted a waiver of clinical study.

In addition, the Group has submitted 4 Abbreviated New Drug Application ("**ANDA**") applications, namely Sodium Phenylbutyrate Tablet, Sodium Phenylbutyrate Powder, Treprostinil and Fondaparinux. Among the four submissions, a complete response letter has been received for Sodium Phenylbutyrate Powder and supplemental data will be provided for final approval before the end of June 2019.

During the period, the Group has completed 4 registration enabling clinical studies, namely Azilsartan Phase III clinical study, Azilsartan bioequivalence study, Natulan clinical study and Leuprorelin Pharmacokinetic/Pharmacodynamic ("**PK/PD**") study. Among them, the ANDA of Azilsartan has since been submitted.

MANAGEMENT DISCUSSION AND ANALYSIS

In January 2018, China Oncology Focus Limited ("**COFL**"), a 65% owned subsidiary of the Group, was granted the approval to proceed with the clinical trials for ZKAB001, an anti PD-L1 monoclonal antibody, in three separate cancer indications: cervical cancer, sarcoma and urothelial carcinoma. On 27 September 2018, the first patient has been enrolled in China in the Phase I clinical trial for ZKAB001 on cervical cancer and the first dosing has been administrated on 10 October 2018. The trial is being conducted by two centers, Cancer Hospital Chinese Academy of Medical Sciences and Wuhan Union Hospital with Doctor Lingying Wu as the principal investigator. The trial consists of two phases, a traditional open labeled 3+3 dose escalation phase followed by an expansion phase. In the dose escalation phase, 3 doses, 5 mg/kg, 10 mg/kg, 15 mg/kg, will be tested with 14 days administration cycle in patients with recurrent and metastatic cervical cancer. Once the maximum tolerated dose ("**MTD**") has been determined, 60 patients will be enrolled under MTD treatment as an expansion phase.

The trials for sarcoma and bladder cancer will also be anticipated to use a 3+3 design with 5mg/kg, 10mg/kg and 15mg/kg dosing regimens. Once the MTD has been established, addition patients are expected to be recruited in an expanded Phase I protocol. Clinical data from these studies is expected to be available by the end of 2019, and positive results could lead to conditional approval of the antibody prior to a confirmatory Phase III study. To date, 9 cervical cancer patients, 2 sarcoma patients and 1 urothelial carcinoma have been enrolled for the respective clinical trials.

Following the approval of the registration enabling global Phase III clinical trial for advanced liver cancer using its oncolytic immunotherapy called Pexa-Vec (formerly JX-594), the PHOCUS study, by the NMPA (Approval No. 2017L04441), the first China patient has been enrolled on 4 September 2018. The study in China is led by world-renowned oncologist Professor Qin Shukui and the trials will take place at 24 major cancer centers around China. This clinical study will globally enroll 600 patients and over 400 of the patients have been enrolled to date, and an interim analysis is expected to be conducted in mid 2019.

In May 2018, the first patient has been enrolled in a Phase II study of the Group's in-house product, Cyclosporine A Eye Gel for the treatment of dry eye syndrome (the "**DES**") in China. This trial designed as a Phase II multi-center, randomised, single-blind, positive controlled and dose finding exploratory clinical trial to evaluate efficacy and safety of Cyclosporine A Eye Gel in treating patients with moderate to severe DES and to explore the optimal dose and frequency of Cyclosporine A Eye Gel in those patients. This trial is led by Professor Zhou Shiyou from Zhongshan Ophthalmic Centre, Sun Yat-sen University. The study plans to enroll a total of 240 patients assigned to four cohorts and, to date, 50% of the patients has been enrolled. The primary outcome measures of the change of eye dryness score from the baseline after the 12 weeks treatment in each cohort. The study is expected to complete by mid 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

In July 2018, the first patient has been enrolled in a registration enabling Phase III study of the Group's in-house product, Adapalene and Clindamycin combination gel for acne. The study is led by Professor Gu Heng from the Hospital for Skin Diseases, Chinese Academy of Medical Sciences and involved 30 most important dermatology centers in China. The targeted enrollment is 1,650 patients and the study is expected to be completed by end of 2019. The study is one of the biggest studies ever conducted by acne in China, and for the first time involves pediatric patients. The study is currently on pace to complete enrolment before the end of first quarter of 2019.

In December 2018, the first patient has been enrolled in the registration enabling study for Levobetaxolol and is expected to be completed in 2019.

The Group submitted 3 Investigational New Drugs ("**IND**") to the NMPA in 2017, namely Gimatecan, TG02 and Tecarfarin and have been approved during the year under review.

On 7 May 2018, the NMPA approved the clinical trials for Gimatecan, a novel oral lipophilic camptothecin for ovarian cancer and small lung cancer. The trials will be anticipated to use a 3+3 design with 0.4mg/kg, 0.6mg/kg and 0.8mg/kg dosing regimens to determine the MTD in Chinese population. Clinical data from these studies is expected to be available by the end of 2019, and positive results could lead to the following extensive Phase III clinical trial in China.

On 25 May 2018, the NMPA approved the clinical trials for TG02, a novel oral pyrimidine-based multi-kinase inhibitor. The coming Phase I clinical trial in China will be a 3+3 design with the starting dose of 200 mg regimens to determine the MTD in Chinese Glioblastoma ("**GBM**") patients. Clinical data from this study could be available by the end of the year 2019, and the positive results could lead to the following phase II and III clinical trial in China.

On 14 June 2018, the NMPA approved the clinical trials for Tecarfarin, a novel Vitamin K Antagonist for use as an anticoagulant for patients with mechanical heart valves. An open-label, Phase I, sequential cohort, single-dose escalation study to access the safety and tolerability of Tecarfarin in healthy Chinese volunteers has since been completed in Hong Kong. Following the Phase I study in Hong Kong, the Group is preparing for the Phase III registration enabling study. Moreover, the Group has successfully completed the technology transfer for drug substance and product in China, and Tecarfarin will be manufactured in the Group's manufacturing site in Nansha.

In addition, the Group submitted 2 IND to the NMPA, namely Adasuve and BioQ Pharma's Ropivacaine during the year under review and is expected to be approved in 2019. Among those submissions, two meetings have been held with Center for Drug Evaluation ("**CDE**") to discuss the clinical development path, among other things. The Phase I study has been waived and a registration enabling study is under preparation.

Furthermore, the Group has also achieved another milestone in the field of medical device development. On 30 May 2018, the NMPA, for the first time in the last 25 years, approved the Group to conduct R&D on Staccato® Fentanyl for Inhalation in China for treatment of cancer breakthrough pain. Staccato® Fentanyl for Inhalation is a combination drug-device delivery product designed for rapid, systemic delivery of aerosolised fentanyl via the lung. The product integrates the latest IT technology with a unique drug delivery technology, ensuring efficacy while deterring abuse and preventing overdose.

MANAGEMENT DISCUSSION AND ANALYSIS

International Partnership

In-licensing strategy is still the preferred mode of the Group's business development. Nevertheless, the overall number of clinical trial programs has grown substantially in recent years and the Group has become more selective in entering into new deals. As a result, the Group has concluded only one licensing deal during the year under review and freed up resources for the investments in promising clinical development programs.

In December 2018, the Group via COFL, a 65% owned subsidiary of the Group, made an exclusive licensing agreement with Auransa, Inc. ("**Auransa**") for the development and commercialisation of AU018 in China and other countries of Southeast Asia. AU018 is a potentially best-in-class cardioprotective agent intended to be paired with chemotherapy in the treatment of cancer and is currently in preclinical development phase.

Corporate Development

In order to separate the Group's R&D efforts from its core revenue streams, the Group made significant progress in corporate development recently. In July 2018, the Group restructured all its oncology pipeline products into COFL. Subsequently, on 22 October 2018, an aggregate amount of US$21,500,000 has been injected by the shareholders of COFL, on a pro-rata basis, for the working capital replenishment. The Group will actively seek additional funds for investing in clinical development and building teams for COFL.

In addition, the Group also succeeded to unlock the value of certain pharmaceutical investments in the capital market and made an extra profit to the shareholders during the year. In December 2018, the Group has successfully facilitated a biotech alliance between its investment in Windtree Therapeutics, Inc. (OTCQB: WINT) which is principally engaged in clinical-stage biotechnology business focused on developing aerosolised KL4 surfactant therapies for respiratory diseases and other potential applications, and CVie Therapeutics Limited which is principally engaged in cardiovascular diseases drug development and currently owns two assets, namely Rostafuroxin and Istaroxime, both completed Phase IIb studies that target cardiovascular diseases with significant unmet medical need. Following the merger, the product portfolio of the enlarged Windtree Therapeutics, Inc. has been enhanced by having three Phase III enabling assets in pulmonary and cardiovascular disease areas, which in turn attracted strong interest from certain investors and had successfully raised additional funding of approximately US$39 million (approximately HK$302 million) by mean of the issuance of new shares of Windtree Therapeutics, Inc. to support its clinical developments.

With respect to the abovementioned merger, a gain on deemed disposal of the then associated company, CVie Therapeutics Limited, of HK$214,154,000 has been recorded by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Net Profit Attributable to the Owners of the Company

The Group's revenue increased year-on-year by HK$129,104,000 or 12.8%, from HK$1,008,522,000 in 2017 to HK$1,137,626,000 in 2018. During the year, the sales of proprietary products increased by 11.9% and the sales of licensed-in products managed to increase by 13.5%.

Revenue	2018 HK$'000	2017 HK$'000	Change
Proprietary products	**519,557**	464,120	+11.9%
Licensed-in products	**618,069**	544,402	+13.5%
Total	**1,137,626**	1,008,522	+12.8%

Net profit attributable to owners of the Company increased by 79.9%, from HK$232,559,000 in 2017 to HK$418,269,000 in 2018.

Gross Profit Margin

Gross profit margin for the financial year 2018 was 65.6% (2017: 67.7%), decreased by 2.1 percentage points as compared with year 2017.

Other Income

Other income for the financial year 2018 was HK$52,069,000, increased by HK$20,313,000 as compared with the corresponding period of last year. Other income during the year included certain one-off items such as development grants from the local government and research and development service income.

Other Gains and Losses, net

Other gains and losses for the financial year 2018 was HK$239,156,000, mainly attributable to the gain on deemed disposal of the then associated company, CVie Therapeutics Limited, of HK$214,154,000 has been recognised by the Group in December 2018.

Selling and Distribution Expenses

Due to the Group's optimised cost structure in sales and marketing, selling and distribution expenses for the year ended 31 December 2018 maintained steady growth of 3.5% as compared with the corresponding period of last year to HK$221,740,000, accounting for 19.5% of the Group's revenue, as compared with 21.2% for last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses for the year ended 31 December 2018 increased by HK$31,740,000 as compared with the corresponding period of last year to HK$188,926,000. This accounted for 16.6% of the Group's revenue during the year under review, increased by 1.0 percentage point as compared with year 2017. The increase in administrative expenses was in line with the Group's ongoing business expansion in Nansha.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2018 increased by HK$68,114,000 as compared with the corresponding period of last year to HK$153,171,000. It accounted for 13.5% of the Group's revenue during the year under review, increased by 5.1 percentage points as compared with 8.4% for last year. The increase in expenditure was attributable to the Group's continuous investment in new drug development activities in the oncology and ophthalmology areas for the long-term sustainable growth.

Taxation

The income tax expense for the year ended 31 December 2018 increased by HK$1,932,000 as compared with the corresponding period of last year to HK$56,621,000. The Group's effective tax rate was approximately 12.7% during the year under review, decreased by 8.5 percentage points as compared with 21.2% for last year.

Liquidity and Financial Resources

The Group's principal sources of working capital in the current year mainly included cash flow from operating activities and bank borrowings.

As at 31 December 2018, the Group's current ratio (current assets divided by current liabilities) was 1.48 (2017: 2.03). As at 31 December 2018, the Group had net cash position of HK$346,884,000 (2017: net cash of HK$378,317,000) which represented cash and bank balances of HK$222,296,000 (2017: HK$273,990,000), pledged bank deposits of HK$46,524,000 (2017: HK$27,915,000), time deposits of HK$207,298,000 (2017: HK$175,416,000), and short term bank and other borrowings of HK$129,234,000 (2017: HK$99,004,000).

The calculation of Group's gearing ratio based on the net borrowings (after deducting cash and bank balances) to equity attributable to the shareholders of the Company was nil as at 31 December 2018 (2017: Nil).

Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in the future.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen, New Taiwan dollars and United States dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.

Pledge of Assets

Details of the pledge of assets of the Group as at 31 December 2018 are set out in note 47 to the consolidated financial statements.

Contingent Liabilities

Details of the contingent liabilities of the Group as at 31 December 2018 are set out in note 48 to the consolidated financial statements.

Employee Information

As at 31 December 2018, the Group had 1,028 employees (2017: 963 employees) working in Hong Kong and Mainland China.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options may also award to employees according to the assessment of individual performance.

PROSPECT

Going forward, policies on drug pricing and reimbursement constraints will continue to be the key challenges facing the Group in 2019. Nevertheless, following the gradual separation of its earlier stage R&D arms by means of additional fund raising under these biotech vehicles, the Group will be able to reallocate the resources and to revamp the Group's business strategy by sharpening our focus on those near term opportunities in other therapeutic areas such as cardiovascular, woman health, paediatric and rare diseases.

The Group remains confident that the actions we are taking, such as the R&D activities on innovative products in various therapeutic areas, will eventually drive strong and sustainable growth for the future. The newly launched products Mictonorm®, Sancuso®, Probiotics VSL#3®, Dicoflor® and Rasilez® will become a new growth driver for the Group. In a market where old products face tremendous pricing pressure, the Group's new products not only mitigates the risk, but also significantly broaden the revenue base by entering with high growth areas such as cancer therapy and medical food. Furthermore, the expected approval of 3 IDL and 3 ANDA in 2019 will spur a great deal of excitement in the market place, making accelerated growth in future possible.

The Group is well positioned to create value for the shareholders and to face the coming challenging year.

DIRECTORS AND KEY PERSONNEL PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 62

Ms. Lee Siu Fong joined the Group in April 1997 and has since been responsible for the Group's financial affairs. She is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. She is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director, Chief Marketing & Sales Officer & member of remuneration committee, aged 65

Ms. Leelalertsuphakun Wanee joined the Group in April 1997. She was appointed the Chief Marketing & Sales Officer in September 2003 and has been responsible for the Group's sales and marketing activities since then. She is the sister of Ms. Lee Siu Fong and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, aged 56, PhD

Dr. Li Xiaoyi holds a PhD in Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Parke-Davis Research Division of Warner-Lambert company in the United States. He is an Honourary Fellow and Adjunct Professor at the Hong Kong University of Science and Technology. He has also been appointed as a member of the Chinese People's Political Consultative Conference of Anhui Province in China in January 2018. He is the founder of the Group and has been responsible for the daily operations and research and development of the Group since 1994. He is the brother of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

NON-EXECUTIVE DIRECTOR

Simon Miles Ball, *aged 40*

Mr. Simon Miles Ball joined the Board on 29 December 2017. He has more than 17 years of business and management experience within the pharmaceutical industry. He is currently the Global Head of Business Development of the Leadiant Biosciences Group (formerly Sigma Tau Group). He also serves as Country General Manager in United Kingdom, Ireland and Nordics in Leadiant Biosciences Limited and he is a member of the board of directors of Leadiant Biosciences Limited in United Kingdom and Exelead Inc. in the United States of America (formerly known as PharmaSource Inc., the manufacturing company within the Leadiant Biosciences Group). Mr. Ball is also a consultant of Qualister S.A., which is a substantial shareholder of the Company. Mr. Ball obtained his degree in physiology from the University of Leeds. Save as the above, he does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND KEY PERSONNEL PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Chairman of audit committee & member of remuneration committee, aged 56, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. He had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently, he is the managing director of KBR Capital Limited, a company engaged in advising clients on management and investment activities in China and Hong Kong. He is the independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd. and Daisho Microline Holdings Limited, which are listed companies on the main board of the Stock Exchange of Hong Kong Limited. He is also an independent non-executive director of Hangzhou Huaxing Chuangye Communication Technology Co., Ltd., which is a listed company on the Shenzhen Stock Exchange. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Member of audit committee, aged 57, CPA (Practising), FCCA, BBA

Mr. Lam Yat Cheong joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 30 years of auditing and accounting experience. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He had also served directorship at various listed companies in Hong Kong. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Chairman of remuneration committee and member of audit committee, aged 60, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl joined the independent Board on 20 September 2004. He currently serves as Chair Professor of Life Science at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. He has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committees in advising the development of traditional Chinese medicine as health food products. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND KEY PERSONNEL PROFILES

SENIOR MANAGEMENT

Chow Yiu Ming

Group Chief Financial Officer & Company Secretary, aged 45

Mr. Chow Yiu Ming joined the Company in October 2014 and is responsible for the accounting and corporate finance functions of the Group. He has over 22 years of experience in accounting, auditing and finance. Prior to joining the Group, he had held various senior positions with listed and private companies in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Business Administration degree, majoring in Accounting and Finance, from the University of Hong Kong and a Master of Science in Professional Accountancy degree from the University of London.

Jiao Zhongyu

Chief Officer of Enterprise Development Department of the Group, aged 49

Mr. Jiao Zhongyu is responsible for the government affair and legal affairs of the Group in the PRC. He was appointed as the legal adviser of PRC investment by the Group in 1999 in his capacity as a practising lawyer in PRC. He has been appointed as the director of Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke Hefei") since 2010 and has extensive experience in the government affair and legal affairs. In 2012, the Group established the Enterprise Development Department and he has been appointed as the Chief Officer thereof and responsible for the Group's strategic planning and development.

Lau Lit-Fui

Chief Operating Officer of China Ophthalmology Focus Limited and President of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited, aged 56, PhD

Dr. Lau Lit-Fui holds the PhD from the University of Connecticut Health Center. Before joining the Group, he had served as the associate director for the American GlaxoSmithKline R&D China, and has been responsible for the research and development of new drugs for over 23 years. He has extensive experience in management of the research and development of new drugs. He joined the Group in 2012 as the General Manager of Shanghai branch of Zhaoke Hefei and was responsible for the business development of Eastern China region. He had also served as the Head of Research and Development of the Group and was responsible for the management of the research and development of drugs. During the period from May 2016 to March 2019, he was appointed as the President and General Manager of CVie Therapeutics Limited, the then associated company of the Group in Taiwan. He was currently been appointed as Chief Operating Officer of China Ophthalmology Focus Limited and President of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited and is responsible for the management of the research and development of ophthalmic products.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 52, P.E. MSc

Mr. Victor Tsui graduated from The Hong Kong Polytechnics University and University of Wisconsin with a master degree in Engineering. Before joining the Group, he worked for various pharmaceuticals companies in the United States for over 25 years and was responsible for production management. He joined the Group in 2009 as Chief Operating Officer of Powder Pharmaceuticals Incorporated ("PPI", an associated company of the Group). He has been appointed as Chief Manufacturing Officer of the Group since 2012 to oversee the Group's manufacturing operations. He has also been appointed as director of PPI since 22 March 2013.

DIRECTORS AND KEY PERSONNEL PROFILES

Yang Zhongqiang

Executive Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Company Limited, aged 44

Mr. Yang Zhongqiang holds a master's degree in Pharmaceutical Engineering of Shandong University and has a practicing pharmacist certification. He has been working for the Group for more than 20 years, and has been working in the Department of Research and Development of New Drugs and Quality Department of Zhaoke Hefei. He has extensive experience in the research and development of new drug, project management and quality management. He had served as the quality authorised person of Zhaoke Hefei since 2012 to oversee the company's drug quality management and protection works. In 2017, he has been appointed as the Executive Deputy General Manager of Zhaoke Hefei.

Dai Xiangrong

Group Deputy General Manager and President & Chief Operating Officer of China Oncology Focus Limited, aged 39

Mr. Dai Xiangrong holds a bachelor's degree of biochemistry and molecular biology, and a master's degree of biochemistry of Anhui Agricultural University. He is also a licensed pharmacist. He joined the Group in 2007 and is responsible for the research and development of new drugs. He has extensive experience in preclinical studies, clinical research and registration of new drugs. He was responsible for various new drug development programs and succeeded in bringing the programs to clinical research studies. He has been appointed as Senior Director of Research and Development Centre of the Group in 2017 and has been appointed as Group Deputy General Manager since March 2019. He has also been appointed as President and Chief Operating Officer of China Oncology Focus Limited in March 2018 and is fully responsible to the new drug development and registration.

Zhang Guohui

Deputy General Manager of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited, aged 45, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke Hefei for more than 20 years. He was responsible for the research and development of new drugs, production control and GMP management. He has extensive experience in the research and development and registration of new drugs and technology project management. The Research and Development Centre of the Group was established in 2012, and he had served as the director thereof and was responsible for new drug pre-clinical studies and clinical research, the additional development of launched products, drug registration affairs, science and technology project reporting and monitoring work of adverse drug reactions. In 2017, he has been appointed as the Deputy General Manager of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited and is responsible for the research and development of ophthalmic products.

Li Lok-Yee Mandy

Associate Director, R&D of the Group, aged 40, PhD

Dr. Mandy Li graduated with a Bachelor of Science degree in Biochemistry in 2000 from the Chinese University of Hong Kong where she also received her PhD in 2004. Before joining the Group, she had served as the Research Scientist for a local biopharmaceutical company focused on the research and development of innovative anticancer drugs. She joined the Group in 2014 and is responsible for the research and development of new drugs, project management, and business development and licensing. In 2019, she has been appointed as Associate Director, R&D of the Group and is mainly responsible for the project management and business development of the Group.

DIRECTORS AND KEY PERSONNEL PROFILES

Yang Nan

Senior Medical Director of the Group, aged 40

Dr. Yang Nan joined the Company in January 2017 and is responsible for medical affairs of the Group and design of clinical trial protocols therefor. She has extensive experience in drug development and clinical study. Prior to joining the Group, she had served for Novo Nordisk and GlaxoSmithKline R&D as medical affairs manager. She holds a Doctor of Medicine degree from Peking University Health Science Center and a PhD from University of Groningen.

Zhang Zhenhua

Director of Human Resources and Development of the Group, aged 46

Ms. Zhang Zhenhua holds a master's degree of business administration of the Southern Cross University Australia. She has more than 25 years of working experience in multinational corporations and with broad knowledge and experience in human resources management. In September 2017, she has been appointed as the Director of Human Resources and Development of the Group and is responsible for the management of human resources and development of the Group.

Chen Yueshen

Director of Administration in China, aged 60

Mr. Chen Yueshen had been serving for the Group for more than 20 years in various positions such as the Director and Deputy General Manager of Zhaoke Hefei, Chief Operating Officer of the Group and the Deputy General Manager of Zhaoke Pharmaceutical (Guangzhou) Limited. He was responsible for the daily operations of Zhaoke Hefei, including being responsible for the production and quality management of Zhaoke Hefei. He has extensive experience in quality management systems and GMP production. In November 2018, he has been appointed as the Director of Administration in China and is responsible for the Group's administrative matters in China.

Yin Lei

Associate Director, R&D of the Group and Deputy General Manager of Zhaoke (Guangzhou) Pharmaceutical Limited, aged 46

Mr. Yin Lei holds a bachelor's degree from the Anhui University of Chinese Medicine. He is also a licensed pharmacist. He joined the Group in 2014 and is responsible for the research and development of new drugs. He has been engaged in drug research and development for nearly 20 years and has led to many successful cases in the field of small molecule drugs, peptide drugs and biochemical drugs. In 2019, he has been appointed as Associate Director, R&D of the Group and is fully responsible for the research and development of new drugs of the Group.

Xia Hongling

Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Company Limited, aged 54

Ms. Xia Hongling holds a Bachelor's degree in Business Administration from the Renmin University of China and has the qualification of accountant in China. Before joining the Group, she had been responsible for the accounting and finance function with a large state-owned manufacturing enterprise for over 10 years. She joined the Group in 1997 and held various positions in accounting and logistics department in Zhaoke Hefei for over 20 years. She has extensive experience in accounting, finance and logistics management in pharmaceutical industry. She has been appointed as Deputy General Manager of Zhaoke Hefei since 2017.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

BUSINESS REVIEW AND PERFORMANCE

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 9 to 10 and pages 11 to 19 of this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in the development of, manufacturing of and sale and marketing of pharmaceutical products.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 50 to the consolidated financial statements.

ASSOCIATED COMPANIES

Particulars of the Group's principal associated companies are set out in note 21 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 55.

The Board has resolved to recommend a final dividend for the year ended 31 December 2018 (the "Final Dividend") equivalent to HK$0.084 per share (2017: HK$0.070 per share) to the shareholders whose names appear on the register of members of the Company as at the close of business on 29 May 2019. Upon approval by shareholders, the final dividend will be paid on 13 June 2019.

Together with the interim dividend of HK$0.034 per share (2017: HK$0.034 per share) paid on 27 September 2018, total distribution of dividend by the Company for the year ended 31 December 2018 will be HK$0.118 per share (2017: HK$0.104 per share).

REPORT OF THE DIRECTORS

TAX RELIEF AND EXEMPTION

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 7 to 8.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

SHARE OPTIONS

Details of movements in the share options of the Company and its subsidiaries during the year are set out in note 41 to the consolidated financial statements.

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 which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS

DONATIONS

During the year, the Group made charitable donations amounting to HK$1,359,000 (2017: HK$1,804,000).

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 59. Details of the movements in the reserves of the Company during the year are set out in note 51 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$743,089,000 (2017: HK$740,617,000). This includes the Company's share premium account in the amount of HK$731,771,000 (2017: HK$724,868,000) at 31 December 2018, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 15.94% in aggregate for the Group's total revenue for the year (2017: 15.70%).

Purchase from the Group's five largest suppliers accounted for approximately 78.42% in aggregate for the Group's total purchases for the year (2017: 81.53%). The largest supplier of the Group accounted for approximately 24.85% of the Group's total purchases (2017: 26.66%).

None of the Directors, their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Lee Siu Fong, *Chairman*

Leelalertsuphakun Wanee, *Managing Director*

Li Xiaoyi, *Chief Executive Officer*

Non-executive Director

Simon Miles Ball

Independent Non-executive Directors

Chan Yau Ching, Bob

Lam Yat Cheong

Tsim Wah Keung, Karl

In accordance with Article 112 of the Company's Articles of Association, Ms. Lee Siu Fong, Dr. Chan Yau Ching, Bob, and Dr. Tsim Wah Keung, Karl will retire at the forthcoming annual general meeting and, being eligible, have agreed to offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. During the year, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$288,251 and HK$310,748 respectively.

REPORT OF THE DIRECTORS

Dr. Li Xiaoyi ("Dr. Li") has a service contract with the Company since 1 September 2003 and after that the contract has been renewed. During the year, the monthly salaries and allowance has been revised to HK$429,233. Both the Company and Dr. Li shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee and Ms. Leelalertsuphakun, and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Ms. Lee, Ms. Leelalertsuphakun and Dr. Li are executive Directors. In accordance with supplementary agreement dated 16 April 2017 signed between the Company and each of the executive Directors, employment terms of executive Directors have been revised as follows:

1. Executive Directors are entitled to annual management bonus 1.5% to 3.0% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive Directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

3. Each of executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("Mr. Lam") and Dr. Tsim Wah Keung, Karl ("Dr. Tsim") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive Director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2016 and 20 September 2016 respectively. Director's fees for both of Mr. Lam and Dr. Tsim are HK$144,000 per annum and bonus will not be paid.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007. The contract has been renewed for three years from 12 October 2016. Director's fee is HK$144,000 per annum and bonus will not be paid.

Mr. Simon Miles Ball has a three-year service contract with the Company from 29 December 2017. Director's fee is HK$144,000 per annum and bonus will not be paid.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND KEY PERSONNEL

Brief biographical details of the Directors and the key personnel are set out on pages 20 to 24.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has also purchased and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors.

KEY RISKS AND UNCERTAINTIES

The Board acknowledges its responsibility for the effectiveness of the internal control and risk management systems of the Group, which are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

Business Risk

The Group's business risks include rapid change in the general market conditions, downturn pressure on the overall economy of China and price competition from other market players. The Board is responsible for the overall management of the business and review of material business decisions involving material risks exposures from time to time.

Financial Risk

The Group adopts financial risk management policies to manage its currency risk, interest rate risk, credit risk, and liquidity risk. The Board also reviews monthly management accounts, capital structure and key operating data of the Group.

Compliance Risk

The Board adopts procedures to ensure the Group is in compliance with the applicable laws, rules and regulations. The Group engages professional advisers and consultants to keep the Group abreast of the latest developments in the regulatory environment, including legal, financial, environmental and operational developments. The Group also adopts a strict policy in prohibiting any unauthorised use or dissemination of confidential or inside information.

Operational Risk

The Group adopts procedures to manage its operational risk such as inadequate management efficiency, inefficient raw material procurement and production facilities utilisation. The Board has reviewed the effectiveness of the Group's internal control and risk management systems covering business, financial, compliance and operational risks of the Group and is satisfied that such systems are effective and adequate.

SOCIAL RESPONSIBILITIES AND SERVICES AND ENVIRONMENTAL POLICY

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. The Group pursues this business approach by managing its business prudently and executing management decisions with due care and attention. Over the years, the Group has been fully committed to environmental protection. Periodic internal control meetings are held to review environmental issues in the production plants to update environmental laws and regulations and to make valuable suggestions and recommendations for improvement.

COMPLIANCE WITH REGULATIONS

The Group is not aware of any instances of material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), Listing Rules, and other applicable local laws and regulations in various jurisdictions during the year ended 31 December 2018 and up to the date of this annual report.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The sustainability of the Group's business relies on the growth of the Group's employees. Remuneration packages of the employees are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understands this principal and thus maintain good relationship with the customers to fulfil their immediate and long-term need.

The Group strives to maintain fair and co-operating relationship with the suppliers.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE REPORT

The Environmental, Social and Corporate Governance Report prepared in accordance with Appendix 27 of the Listing Rules will be published on the websites of the Company and the Stock Exchange within three months after the publication of this annual report.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"). At the annual general meeting of the Company held on 10 May 2012, a new share option scheme of the Company (the "New Share Option Scheme") was adopted upon expiry of the 2002 Share Option Scheme.

The total number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on 10 May 2012, the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the annual general meeting, which is 47,023,543 Shares. The total number of Shares available for issue under the New Share Option Scheme as at 31 December 2018 was 26,631,543 Shares.

As at 31 December 2018, the number of Shares in respect of which options had been granted and remained outstanding under the 2002 Share Option Scheme and New Share Option Scheme was 15,627,000 (2017: 15,345,000) Shares, representing 2.6% (2017: 2.6%) of the Shares in issue at that date.

Details of the Company's share option schemes are set out in note 41 to the consolidated financial statements.

SHARE OPTION SCHEME OF A SUBSIDIARY

A share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited, was approved by the shareholders of the Company on 12 November 2012 ("CVie's Scheme"). Details of the CVie's Scheme are set out in note 41 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as the interests disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2018, the Directors and the chief executive of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under 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") as set out in Appendix 10 of the Listing Rules:

(a) Long position in Shares

Name of Director	Nature of interest	Number of ordinary shares held	Total	Approximate percentage of shareholding
Lee Siu Fong	Beneficial owner	1,684,375		
	Interest held jointly with Leelalertsuphakun Wanee	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	117,285,000	19.81%
Leelalertsuphakun Wanee	Beneficial owner	3,560,000		
	Interest held jointly with Lee Siu Fong	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	119,160,625	20.13%
Li Xiaoyi	Beneficial owner	41,052,266		
	Family interest *(Note 2)*	16,000,000		
	Others	2,074,442	59,126,708	9.99%
Chan Yau Ching, Bob	Beneficial owner	520,000		0.09%
Lam Yat Cheong	Beneficial owner	300,000		0.05%
Tsim Wah Keung, Karl	Beneficial owner	300,000		0.05%

Notes:

(1) 114,000,625 Shares are held through Huby Technology Limited ("Huby Technology"). Huby Technology is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(2) These Shares are held by High Knowledge Investments Limited which is wholly owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li Xiaoyi.

REPORT OF THE DIRECTORS

(b) Long position in underlying shares – share options of the Company

Under the share option schemes of the Company, the following Directors of the Company have personal interest in options to subscribe for the Shares. Details of the share options granted to them are as follows:

Name of Director	Date of grant	Exercisable period *(Notes)*	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Balance as at 31 December 2018	Exercise price per share HK$
Lee Siu Fong	30 December 2013	(1)	538,000	–	–	538,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	590,000	–	–	590,000	7.548
	13 April 2018	(5)	–	456,000	–	456,000	11.216
			2,161,000	456,000	–	2,617,000	
Leelalertsuphakun Wanee	30 December 2013	(1)	338,000	–	–	338,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	590,000	–	–	590,000	7.548
	13 April 2018	(5)	–	456,000	–	456,000	11.216
			1,961,000	456,000	–	2,417,000	
Li Xiaoyi	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	590,000	–	–	590,000	7.548
	13 April 2018	(5)	–	456,000	–	456,000	11.216
			1,623,000	456,000	–	2,079,000	

Notes:

(1) Divided into 2 tranches exercisable from 30 June 2014 and 30 March 2015 respectively to 29 December 2023.

(2) Divided into 2 tranches exercisable from 30 September 2015 and 30 June 2016 respectively to 30 March 2025.

(3) Divided into 2 tranches exercisable from 30 September 2016 and 30 June 2017 respectively to 30 March 2026.

(4) Divided into 2 tranches exercisable from 13 October 2017 and 13 July 2018 respectively to 12 April 2027.

(5) Divided into 2 tranches exercisable from 13 October 2018 and 13 July 2019 respectively to 12 April 2028.

(c) As at 31 December 2018, Dr. Li Xiaoyi had beneficial interest in (a) 12,740 ordinary shares in Powder Pharmaceuticals Incorporated; and (b) 830 share options which can be converted into 830 ordinary shares of Powder Pharmaceuticals Incorporated when exercised.

(d) Save as disclosed above, no interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and the underlying shares of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2018, the following parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

(a) Long position in Shares

Name	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Huby Technology Limited	Beneficial owner	114,000,625	19.26%
Assicurazioni Generali S.p.A	Interest of a controlled corporation	81,405,000	13.75%
Li Zhenfu	Interest of a controlled corporation	81,405,000	13.75%
Lion River I N.V.	Interest of a controlled corporation	81,405,000	13.75%
GL Partners Capital Management Limited	Interest of a controlled corporation	76,165,488	12.87%
Apta Finance S.A.	Interest of a controlled corporation	56,821,398	9.60%
Cavazza Paolo	Interest of a controlled corporation	56,821,398	9.60%
Paponi Claudia	Family interest	56,821,398	9.60%
GSR Capital Joy Corporation	Beneficial owner	37,309,935	6.30%
GSR Capital Ltd	Interest of a controlled corporation	37,309,935	6.30%
Wu Sonny	Interest of a controlled corporation	37,309,935	6.30%
High Knowledge Investments Limited	Beneficial owner *(Note 1)*	16,000,000	2.70%
Lue Shuk Ping, Vicky	Interest of a controlled corporation *(Note 1)*	16,000,000	2.70%
	Family interest *(Note 2)*	43,126,708	7.29%

Notes:

(1) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky.

(2) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

REPORT OF THE DIRECTORS

(b) Long position in underlying shares – share options of the Company

Name	Capacity	Number of underlying shares held	Approximate percentage of shareholding
Lue Shuk Ping, Vicky	Family interest *(Note 1)*	2,079,000	0.35%

Note:

(1) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

(c) Short Position in Shares

No short positions of other persons and substantial shareholders in the Shares or underlying shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 December 2018, the Directors are not aware of any other person or corporation having an interest or short position in Shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group conducted certain transactions with parties deemed as "related parties" under applicable accounting standards. The details of these transactions are set out in note 49 to the consolidated financial statements. Save for the transactions mentioned in the section headed "Connected Transactions and Continuing Connected Transactions" which is subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned in note 49 to the consolidated financial statements also constituted connected transactions or continuing connecting transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected transactions and continuing connected transactions, and details of which have been disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

Connected Transactions

1. *Advance of shareholder loans to China Oncology Focus Limited ("COFL"), a subsidiary of the Group*

During the year ended 31 December 2018, the following shareholder loans were provided by the Group to COFL:

Advance Date	Term	Interest rate per annum	Loan amount original currency	Loan amount
24 April 2018	1 year	4%	HK$12,000,000	HK$12,000,000
28 May 2018	1 year	4%	HK$5,000,000	HK$5,000,000
14 June 2018	1 year	4%	HK$10,000,000	HK$10,000,000

Details of these transactions have been disclosed in the Company's announcement dated 24 April 2018, 28 May 2018 and 14 June 2018.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the Directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They held 90% of the equity interest in Perfect Concept Holdings Limited ("Perfect Concept") as at the dates of the transaction and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's Pharmaceutical International Limited ("Lee's International") is a shareholder of COFL and at the same time, Perfect Concept, is also a shareholder of COFL. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COFL, and therefore, the shareholder loans made by Lee's International to COFL under the shareholder loan agreements constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

These shareholder loans have been fully repaid in October 2018.

2. *Advance of shareholder loan to Zhaoke (Guangzhou) Oncology Pharmaceutical Limited ("ZKON"), a subsidiary of the Group*

On 28 May 2018, the shareholder loan in the principle amount of RMB3,700,000 was provided by the Group to ZKON for one year at an interest rate of 5% per annum. Details of this transaction have been disclosed in the Company's announcement dated 28 May 2018.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the Directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They held 90% of the equity interest in Perfect Concept as at the date of the transaction and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's International is a shareholder of COFL and at the same time, Perfect Concept, is also a shareholder of COFL. ZKON is a wholly-owned subsidiary of COFL. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COFL, and therefore, the shareholder loan made by the Group to ZKON under the shareholder loan agreement constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

REPORT OF THE DIRECTORS

3. *Issue of subsidiary's shares to Lee's International, a subsidiary of the Group*

On 19 September 2014, each of Lee's International and Perfect Concept subscribed for 7,799 and 4,200 shares of COFL at the consideration of US$7,799 and US$4,200, respectively. Upon completion of the subscription, the entire issued shares of COFL were held by Lee's International and Perfect Concept as to 65% and 35% respectively. Subsequently, each of Lee's International and Perfect Concept further subscribed, on pro-rata basis, an aggregate of 104,650 and 56,350 shares of COFL during the period between 13 October 2014 and 22 October 2018 at the aggregate consideration of US$16,829,800 and US$9,062,200, respectively. Details of the above transactions have been disclosed in the Company's announcement dated 3 January 2018 and 22 October 2018.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the Directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 59.82% of the equity interest in Perfect Concept since 22 October 2018 (held 90% of the equity interest therein before 22 October 2018) and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules.

As at the date of each of the subscriptions of COFL shares by Lee's International, COFL was a non-wholly owned subsidiary of the Company which was owned as to 65% by Lee's International and 35% by Perfect Concept, which is a connected person of the Company. As Perfect Concept exercises and controls 10% or more of the voting power of COFL, COFL is a connected subsidiary of the Company under the Listing Rules. Accordingly, the subscriptions of COFL shares by Lee's International constituted connected transaction of the Company under Chapter 14A of the Listing Rules.

4. *Advance of shareholder loans to Powder Pharmaceuticals Incorporated ("PPI"), an associate of the Group*

During the year ended 31 December 2018, the following shareholder loans were provided by the Group to PPI:

Advance Date	Term	Interest rate per annum	Loan amount original currency	Loan amount
28 March 2018	1 year	4%	HK$3,000,000	HK$3,000,000
15 June 2018	1 year	4%	HK$3,000,000	HK$3,000,000
20 July 2018	1 year	4%	HK$25,056,000	HK$25,056,000
28 September 2018	1 year	4%	HK$3,000,000	HK$3,000,000
29 November 2018	1 year	4%	HK$4,000,000	HK$4,000,000

Details of these transactions have been disclosed in the Company's announcement dated 28 March 2018, 15 June 2018, 20 July 2018, 28 September 2018 and 29 November 2018.

GL Partners Capital Management Limited ("GL Partners") became a substantial shareholder of the Company on 31 March 2017. The Company and GL Partners are both shareholders of PPI at the same time, while GL Partners, being a connected person of the Company, is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of PPI. Therefore PPI is a commonly held entity under the Listing Rules. Therefore, advance of shareholder loans to PPI constitutes a connected transaction.

As at 31 December 2018, the Group had interest in 33.92% of issued share capital of PPI.

Continuing Connected Transactions

1. *Provision of financial guarantee to PPI, as associate of the Group*

On 7 December 2018, the Company as guarantor entered into a corporate guarantee in favour of a bank as a security for the provision of a revolving demand loan facility of up to HK$8,000,000 and an overdraft facility of up to HK$4,000,000 (the "Facility"), provided that the total outstanding balance of the Facility shall not at any time exceed HK$8,000,000 to PPI for the purpose of funding its normal commercial operation.

REPORT OF THE DIRECTORS

The above continuing connected transactions have been reviewed by the independent non-executive Directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of relevant agreements that are fair and reasonable and in the interests of Shareholders as a whole.

d. have not exceeded the cap disclosed in previous announcements.

The Company's auditor, HLM CPA Limited, also has confirmed that the above continuing connected transactions:

a. have received the approval of the Company's Board of Directors;

b. have been entered into in accordance with the relevant agreement governing the transactions; and

c. have not exceeded the cap disclosed in previous announcements.

Save as disclosed above, there was no other transaction requiring disclosure of connected transactions and continuing connected transactions in accordance with the requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this annual report.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018 (2017: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

STAFF RETIREMENT SCHEME

The group companies operated in Hong Kong are required to participate in a defined contribution retirement scheme set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance (Cap. 485). Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,500 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,500 (the "Mandatory Contributions"), and are charged to the profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement at the age of 65 years old, death or total incapacity.

In addition, pursuant to the government regulations in the PRC, the employees of the group companies operated in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. Those group companies are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement is to make the specified contributions.

Executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

Particulars of the scheme of the Group are set out in note 40 to the consolidated financial statements.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Special enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the year ended 31 December 2018.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report on pages 41 to 46.

AUDIT COMMITTEE

The Company established an audit committee with written terms of references adopted in compliance with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules. The members of the audit committee are the three independent non-executive Directors, and Dr. Chan Yau Ching, Bob, an independent non-executive Director, is the chairman of the audit committee.

The audit committee is to serve as a focal point for communication between other Directors, the external auditors, the internal auditors (where an internal audit function exists) of the Company, and the management as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time.

The audit committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

The audit committee has reviewed the Group's interim and annual consolidated financial statements for the year 2018, including the accounting principles and practices adopted by the Group.

AUDITOR

The consolidated financial statements have been audited by HLM CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Lee Siu Fong
Chairman

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to uphold good corporate governance to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of Directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a nomination committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2018, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The non-executive Director provides the Group with a wide range of expertise and knowledge in the pharmaceutical sector. The independent non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, financial and pharmaceutical field. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The list of Directors and their roles and functions is posted on the websites of the Company and the Stock Exchange.

The Chairman and Chief Executive Officer of the Company is Ms. Lee Siu Fong and Dr. Li Xiaoyi, respectively.

The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

CORPORATE GOVERNANCE REPORT

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive Directors and management.

During the year ended 31 December 2018, 25 Board meetings and 1 shareholders meeting were held and the attendance of individual Director at these meetings is set out below:

Attendees	Number of Board meetings attended/Total	Number of shareholders meeting attended/Total
Executive Directors		
Lee Siu Fong *(Chairman)*	25/25	0/1
Leelalertsuphakun Wanee *(Managing Director)*	24/25	1/1
Li Xiaoyi *(Chief Executive Officer)*	25/25	1/1
Non-executive Director		
Simon Miles Ball	21/25	0/1
Independent non-executive Directors		
Chan Yau Ching, Bob	21/25	0/1
Lam Yat Cheong	20/25	0/1
Tsim Wah Keung, Karl	21/25	0/1

The Company's auditor, HLM CPA Limited, also attended the shareholders meeting.

NON-EXECUTIVE DIRECTORS

All non-executive Directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Group regularly updates Directors on the latest development regarding the Listing Rules and other applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties. In addition, the Group has been encouraging Directors to attend training courses or via online aids or reading relevant materials on the latest development of applicable laws, rules and regulations so that they can continuously update and further enhance their knowledge and skills.

Records of the Directors' training during 2018 are as follows:

Directors	**Type of continuous professional development training**
Executive Directors	
Lee Siu Fong *(Chairman)*	(i) & (ii)
Leelalertsuphakun Wanee *(Managing Director)*	(i) & (ii)
Li Xiaoyi *(Chief Executive Officer)*	(i) & (ii)
Non-executive Director	
Simon Miles Ball	(i) & (ii)
Independent non-executive Directors	
Chan Yau Ching, Bob	(i) & (ii)
Lam Yat Cheong	(i) & (ii)
Tsim Wah Keung, Karl	(i) & (ii)

(i) Attending seminar(s) or training session(s).

(ii) Reading newspapers, journals and updates relating to the Company's business or Directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements, etc.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Group, which give a true and fair view of the financial position of the Group on a going concern basis.

The Company set up an audit committee with written terms of reference in compliance with Rules 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risks management system of the Group.

CORPORATE GOVERNANCE REPORT

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive Directors of the Company. In the financial year ended 31 December 2018, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditor and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendees	Number of audit committee meetings attended/Total	Attendance percentage
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	4/4	100%

REMUNERATION COMMITTEE

A remuneration committee has been established in February 2012 in accordance with the requirement of Appendix 14 of the Listing Rules. The remuneration committee of the Company comprises two independent non-executive Directors and one executive Director.

Dr. Tsim Wah Keung, Karl is the chairman of the remuneration committee and Ms. Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are members of the remuneration committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual executive Director and senior management. The major roles and functions of the Company's remuneration committee are as follows:

a. Establish and apply a formal and transparent procedure for setting policy on remuneration for executive Directors and senior management, and for fixing the remuneration packages for all Directors and senior management; and

b. Ensure that procedures and principles for fixing packages of all Directors and senior management are proper so that the levels of remuneration of Directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain the Directors and senior management but not excessive.

The terms of reference of the remuneration committee are posted on the websites of the Company and the Stock Exchange. The remuneration committee meets at least once a year. During the year ended 31 December 2018, 1 meeting are held by the remuneration committee and all the committee member attended the meeting to approve the annual bonus payable to executive Directors for the financial year 2017 and the monthly salary of executive Directors during the year.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision B.1.5 of the corporate governance code ("CG Code"), the Board has resolved that the senior management of the Company comprise only the Executive Directors of the Company. Please refer to note 12 to the consolidated financial statements for details of the remuneration payable to the Directors.

COMPANY SECRETARY

The company secretary's biography is set out in the section under "Directors and Key Personnel Profiles" of this annual report. During the year ended 31 December 2018, the company secretary has taken no less than 15 hours of professional training to update his skills and knowledge.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems over the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts, ensure compliance with regulations and regulate the handling and dissemination of inside information of the Group.

For the year ended 31 December 2018, the Board has, through the audit committee with the Group's internal audit team and the assistance of the management, conducted a review of the Group's internal control and risk management system, including without limitation to financial control, operational control, and compliance control. The Board assesses the effectiveness of internal controls by considering reviews performed by the audit committee, executive management and auditors.

The Board is of the view that the internal control and risk management systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITOR'S REMUNERATION

Total auditor's remuneration for the financial year 2018 in relation to statutory audit work of the Group amounted to HK$1,183,000 of which a sum of HK$1,040,000 was paid to HLM CPA Limited.

DIVIDEND POLICY

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy (including but not limited to the Group's financial results, cash flow position, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans), dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

CORPORATE GOVERNANCE REPORT

CONVENING OF EXTRAORDINARY GENERAL MEETINGS ON REQUISITION BY SHAREHOLDERS

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("EGM") of the Company. Two or more shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for an EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

Shareholders who wish to move a resolution at general meetings may follow the procedures set out in the preceding paragraph.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

Lee's Pharmaceutical Holdings Limited
1/F, Building 20E, Phase 3
Hong Kong Science Park, Shatin, Hong Kong
Telephone: (852) 2314 1282
Fax: (852) 2314 1708
Email: investor@leespharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there was no significant change in the Company's constitutional documents, and these documents are published on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: info@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 55 to 176, which comprise the consolidated statement of financial position as at 31 December 2018, and consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("**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, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Revenue recognition
(refer to note 5 to the consolidated financial statements)
The Group's revenue amounted to HK$1,138 million for the year ended 31 December 2018. Sales of goods are recognised as revenue when goods are delivered and titles have been passed.

We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue.

Our response
Our main procedures in relation to revenue recognition included:

- Obtaining evidence regarding the transfer of effective control of ownership.

- Testing the key internal controls over revenue recognition, and assessing whether the accounting policy related to revenue recognition was applied appropriately and consistently throughout the year.

- On a sample basis, making selections from sales records and delivery records, and tracing to their contracts, delivery orders and customer acknowledge of receipts, and paying special attention to samples before and after the end of the reporting period to assess whether the relevant revenue was recognised in the correct period.

Based on our procedures described, we found that the amount and timing of the revenue recorded were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Valuation of retirement benefits on defined benefit plan
(refer to note 40 to the consolidated financial statements)

The Group entered into service contracts with the executive directors to provide certain retirement benefits. There is judgement in determining valuation of the retirement benefits as recorded at the end of the reporting period. The valuation is based on a number of assumptions including discount rate, growth rate of salary and life expectancy.

Our response

Our main procedures in relation to the valuation of the retirement benefits on defined benefit plan included:

– Assessing the independence and competence of the independent external valuer appointed by the Group to calculate the fair value of the retirement benefits.

– Assessing the accuracy and relevance of the input data provided by management to the independent external valuer by challenging and corroborating the market data and information from similar transactions from independent sources.

– Evaluating appropriateness of the methodology and assumptions used by independent external valuer.

– Testing mathematical accuracy of the underlying valuation.

We found the methodology and key assumptions to be reasonable.

Intangible assets recognition and impairment assessment
(refer to note 18 to the consolidated financial statements)

As at 31 December 2018, the Group reported intangible assets of HK$587 million, of which HK$416 million were capitalised development expenditure and HK$171 million were license fees.

Development expenditure mainly comprised development of pharmaceutical 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 requires significant management judgement and there is measurement uncertainty at inception and throughout the lives of the individual projects.

Management is required to assess at the end of each reporting period whether any indicator of impairment exists, which requires significant management judgement and assumptions with reference to the ability to use or sell the products, its future market or economic development.

INDEPENDENT AUDITOR'S REPORT

Our response

Our main procedures in relation to the recognition of intangible assets included:

– Gaining an understanding of the business process undertaken by management to assess the appropriate accounting treatment for each project.

– Assessing the recognition and eligibility criteria for intangible assets by challenging the key assumptions used or estimates made in capitalising the cost.

– Testing on a sample basis the expenditure being capitalised against source documents and signed contracts.

– Assessing the ownership of license fees.

Our main procedures in relation to the impairment assessment of intangible assets included:

– Assessing management's determination of the impairment based on our understanding of the nature of the Group's business.

– Assessing whether there are any indicators of impairment by understanding the business, rationale for the developing products.

– Discussing with and interviewing the responsible staff and managers on the progress and future prospects on respective development projects.

– Selecting products with significant development cost and request for independent valuation to be done to substantiate their carrying amounts.

Based on our procedures described, we found the recognition and impairment assessment on intangible assets to be reasonable.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment of goodwill
(refer to notes 20 and 21 to the consolidated financial statements)
Management is required to assess at the end of each reporting period whether there is any indicator that goodwill may be impaired. If any such indicator exists, the management shall estimate the recoverable amount of the asset.

Our response
Our main procedures in relation to the impairment assessment of goodwill included:

– Assessing management's determination of the Group's cash-generating units based on our understanding of the nature of the business and the economic environment in which the cash-generating units operate.

– Based on our knowledge of the business and industry, challenging the reasonableness of the underlying key assumptions and data used in the cash flow forecasts (including revenue growth rate, operating profit, and discount rate used).

Based on our procedures described, we found the estimations of management in relation to goodwill are supported by plausible evidence.

Fair value measurement of unlisted investments held as financial assets at fair value through other comprehensive income
(refer to note 23 to the consolidated financial statements)
The Group held several unlisted investments designated on a combination of market observable inputs and valuation techniques. The Group's fair value measurement of the financial assets arising from the unobservable inputs used in determining the fair value of the unlisted investments was grouped under level 3 of fair value hierarchy.

As at 31 December 2018, the Group held several unlisted investments which were measured at fair value amounted to HK$115,763,000, representing 3.85% of the Group's total assets as at 31 December 2018. These unlisted investments had significant unobservable inputs in the valuation, and hence were categorised within level 3 of fair value hierarchy.

The valuations of these unlisted investments are conducted by an independent qualified valuer. The appropriateness of the valuation is dependent on determination of different valuation techniques and certain key assumptions. With different valuation techniques and assumptions applied, the valuation result can vary significantly.

As the unlisted investments are considered significant due to the size of the balance and the inherent judgement involved in determining the fair value measurement. It is considered as a key audit matter.

The fair value was determined using the market approach. The determination of fair value measurement requires the management to exercise their judgement to ensure the appropriateness of the estimates and assumption.

INDEPENDENT AUDITOR'S REPORT

Our response

Our procedures in relation to management's fair value measurement of unlisted investments included:

– Evaluating the independent professional valuer's competence, capabilities and objectivity;

– Focusing on the valuation methodologies and assumptions of unlisted fund investments that were classified as level 3 in the fair value hierarchy and involving our valuation specialists in evaluating and assessing:

  – the valuation techniques through comparison with the valuation techniques that are commonly used in the market;

  – the validation of observable inputs using external market data; and

  – the reasonableness of management's assumptions such as a discount or a premium for quality of properties held by the funds;

– Checking the accuracy and reasonableness of the input data provided by management to the independent professional valuer; and;

– Review sensitivity analysis in consideration of the potential impact of reasonably possible upside or downside changes in these key assumptions.

Based on our procedures described, we found the impairment assessment on unlisted investments adopted by management to be reasonable.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

HLM CPA Limited
Certified Public Accountants

Chan Lap Chi
Practising Certificate Number: P04084

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	1,137,626	1,008,522
Cost of sales		(391,255)	(326,118)
Gross profit		746,371	682,404
Other income	8	52,069	31,756
Other gains and losses, net	9	239,156	20,753
Selling and distribution expenses		(221,740)	(214,150)
Administrative expenses		(188,926)	(157,186)
Net provision for impairment loss on financial assets		(6,823)	(1,692)
Research and development expenses		(153,171)	(85,057)
Profit from operations	10	466,936	276,828
Finance costs	11	(4,710)	(4,256)
Share of results of associates		(15,842)	(14,944)
Profit before taxation		446,384	257,628
Taxation	14	(56,621)	(54,689)
Profit for the year		389,763	202,939
Attributable to:			
Owners of the Company		418,269	232,559
Non-controlling interests		(28,506)	(29,620)
		389,763	202,939
		HK cents	HK cents
Earnings per share			
Basic	16	70.67	39.38
Diluted	16	70.28	39.26

The notes on pages 63 to 176 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	389,763	202,939
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(48,269)	66,005
Fair value changes of available-for-sale financial assets	–	(17,705)
Reclassification of other reserves upon deemed disposal of a subsidiary	–	(19,576)
Reclassification of exchange reserve upon deemed disposal of a subsidiary	–	(94)
Reclassification of other reserves upon deemed disposal of an associate	428	–
Share of other comprehensive income of associates	(1,287)	859
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes of financial assets at fair value through other comprehensive income	71,138	–
Other comprehensive income for the year, net of tax	22,010	29,489
Total comprehensive income for the year	411,773	232,428
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	433,130	261,170
Non-controlling interests	(21,357)	(28,742)
	411,773	232,428

The notes on pages 63 to 176 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment	17	608,639	565,662
Intangible assets	18	587,049	448,638
Lease premium for land	19	132,024	142,520
Goodwill	20	3,900	3,900
Interests in associates	21	27,623	87,363
Available-for-sale financial assets	23	–	203,123
Financial assets at fair value through profit or loss	22	36,362	–
Financial assets at fair value through other comprehensive income	23	606,415	–
		2,002,012	1,451,206
Current Assets			
Lease premium for land	19	2,913	3,077
Inventories	25	211,673	160,637
Trade receivables	26	149,495	85,801
Other receivables, deposits and prepayments	27	98,639	101,320
Convertible instrument	29	–	3,165
Advance to associates	30	38,713	24,639
Loan receivables	28	26,990	–
Tax recoverable		–	11,532
Held-to-maturity financial assets	24	–	5,826
Pledged bank deposits	31	46,524	27,915
Time deposits	31	207,298	175,416
Cash and bank balances	31	222,296	273,990
		1,004,541	873,318
Current Liabilities			
Trade payables	32	66,079	26,148
Other payables and accruals	33	447,757	285,591
Bank and other borrowings	34	129,234	99,004
Obligations under finance leases	35	858	485
Tax payables		32,897	19,857
		676,825	431,085

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Net Current Assets		327,716	442,233
Total Assets less Current Liabilities		2,329,728	1,893,439
Capital and Reserves			
Share capital	37	29,601	29,547
Reserves	38	2,180,942	1,774,799
Equity Attributable to the Owners of the Company		2,210,543	1,804,346
Non-controlling interests	39	27,526	(7,414)
Total Equity		2,238,069	1,796,932
Non-current Liabilities			
Deferred tax liabilities	36	27,895	39,981
Retirement benefits	40	62,982	56,010
Obligations under finance leases	35	782	516
		91,659	96,507
		2,329,728	1,893,439

The notes on pages 63 to 176 form part of these consolidated financial statements.

The consolidated financial statements on pages 55 to 176 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to the owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	29,547	724,868	9,200	15,368	41,407	(30,421)	(31,809)	1,046,186	1,804,346	(7,414)	1,796,932
Employee share option benefits	–	–	–	4,996	–	–	–	–	4,996	–	4,996
Exercise of share options	54	6,903	–	(1,582)	–	–	–	–	5,375	–	5,375
Share of share-based compensation reserve of a subsidiary	–	–	–	22	–	–	–	–	22	18	40
Share of reserve of an associate	–	–	–	–	57	–	–	–	57	–	57
Share option lapsed in an associate	–	–	–	–	(3)	–	–	3	–	–	–
Share option lapsed in a subsidiary	–	–	–	(143)	–	–	–	143	–	–	–
Gain on partial disposal of interests in a subsidiary	–	–	–	–	24,185	–	–	–	24,185	(4,024)	20,161
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	60,303	60,303
Profit (loss) for the year	–	–	–	–	–	–	–	418,269	418,269	(28,506)	389,763
Other comprehensive (expense) income for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(48,427)	–	(48,427)	158	(48,269)
– Share of other comprehensive income of associates	–	–	–	–	(1,287)	–	–	–	(1,287)	–	(1,287)
– Reclassification of other reserves upon deemed disposal of an associate *(Note 21)*	–	–	–	–	428	–	–	–	428	–	428
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	64,147	–	–	64,147	6,991	71,138
Total comprehensive (expense) income for the year	–	–	–	–	(859)	64,147	(48,427)	418,269	433,130	(21,357)	411,773
2017 final dividend paid	–	–	–	–	–	–	–	(41,439)	(41,439)	–	(41,439)
2018 interim dividend paid	–	–	–	–	–	–	–	(20,129)	(20,129)	–	(20,129)
At 31 December 2018	29,601	731,771	9,200	18,661	64,787	33,726	(80,236)	1,403,033	2,210,543	27,526	2,238,069

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to the Owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716
Employee share option benefits	–	–	–	4,440	–	–	–	–	4,440	–	4,440
Exercise of share options	44	3,714	–	(766)	–	–	–	–	2,992	–	2,992
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	17	40
Share of reserve of associates	–	–	–	–	56	–	–	–	56	–	56
Share options lapsed in associate	–	–	–	–	(110)	–	–	110	–	–	–
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(12,577)	(12,577)
Gain on partial disposal of interests in a subsidiary	–	–	–	–	666	–	–	–	666	(666)	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	1,564	1,564
Profit (loss) for the year	–	–	–	–	–	–	–	232,559	232,559	(29,620)	202,939
Other comprehensive (expense) income for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	65,127	–	65,127	878	66,005
– Fair value changes of available-for-sale financial assets	–	–	–	–	–	(17,705)	–	–	(17,705)	–	(17,705)
– Reclassification of other reserves upon deemed disposal of a subsidiary	–	–	–	–	(19,576)	–	–	–	(19,576)	–	(19,576)
– Reclassification of exchange reserve upon deemed disposal of a subsidiary	–	–	–	–	–	–	(94)	–	(94)	–	(94)
– Share of other comprehensive income of associates	–	–	–	–	859	–	–	–	859	–	859
Total comprehensive income (expense) for the year	–	–	–	–	(18,717)	(17,705)	65,033	232,559	261,170	(28,742)	232,428
2016 final dividend paid	–	–	–	–	–	–	–	(46,635)	(46,635)	–	(46,635)
2017 interim dividend paid	–	–	–	–	–	–	–	(20,092)	(20,092)	–	(20,092)
At 31 December 2017	29,547	724,868	9,200	15,368	41,407	(30,421)	(31,809)	1,046,186	1,804,346	(7,414)	1,796,932

The notes on pages 63 to 176 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before taxation		446,384	257,628
Adjustments for:			
Amortisation of intangible assets	18	9,390	13,394
Amortisation of lease premium for land	19	3,028	2,962
Depreciation of property, plant and equipment	17	55,687	44,714
Fair value gain in financial assets at fair value through profit or loss, net	9	(29,152)	–
Foreign exchange loss (gain), net	9	8,634	(12,538)
Gain on deemed disposal of a subsidiary	9	–	(58,066)
Gain on deemed disposal of associates	9	(216,392)	–
Gain on disposal of intangible assets	9	(3,805)	–
Interest expenses	11	4,161	3,857
Interest income from bank and pledged deposits	8	(6,895)	(6,496)
Interest income from convertible instrument and loan receivables	8	(1,482)	–
Interest income from guaranteed investments measured at amortised cost	8	(112)	–
Interest from advance to associates	8	(1,339)	(803)
Interest from held-to-maturity financial assets	8	–	(167)
Impairment of intangible assets	9	1,365	52,326
Loss on disposal of property, plant and equipment	9	9	340
Provision for slow moving stock		697	1,597
Rewards to employees in the form of listed shares	23	10,667	–
Provision for retirement benefits	40	6,972	13,995
Share-based payments	41	5,036	4,480
Share of results of associates		15,842	14,944
Write-off of other receivables	27	6,979	1,551
(Reversal) provision for allowance for bad and doubtful debts	26	(156)	141
Write-off of expired stock		3,912	330
Write-off of property, plant and equipment	9	185	–
Operating cash flows before movements in working capital		319,615	334,189
Increase in inventories		(66,768)	(16,855)
(Increase) decrease in trade receivables		(75,578)	7,340
(Increase) decrease in other receivables, deposits and prepayments		(8,506)	3,471
Increase in pledged deposits		(18,609)	(1,235)
Increase (decrease) in trade payables		40,133	(16,181)
Increase in other payables		176,373	102,400
Cash from operations		366,660	413,129
Interest paid		(4,160)	(3,857)
Income tax refund		52	48
Income tax paid		(41,302)	(43,637)
Net cash generated from operating activities		321,250	365,683

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Investing activities			
Additions of financial assets at fair value through other comprehensive income/available-for-sale financial assets	23	(31,150)	(93,050)
Additions of development cost and license fee		(175,737)	(130,308)
Advancement to associates		(44,751)	–
Acquisition of financial assets at fair value through profit or loss		(5,913)	–
Capital contribution from non-controlling interests		60,303	1,564
(Increase) decrease in time deposits with initial terms of over three months		(164,155)	111,593
Increase in convertible instrument		(3,724)	(3,165)
Total interest received		8,310	6,496
Increase in loans receivables		(47,765)	–
Net cash outflow from deemed disposal of a subsidiary		–	(3,137)
Purchase of plant and equipment	17	(71,912)	(28,682)
Payment for construction in progress	17	(58,199)	(108,482)
Proceed from disposal of property, plant and equipment		774	140
Proceeds from disposal of intangible assets		11,631	–
Proceeds from redemption of held-to-maturity financial assets		5,938	–
Proceeds from partial disposal of subsidiary		20,161	–
Repayment from associates		4,989	5,512
Repayment from loan receivables		1,241	–
Net cash used in investing activities		(489,959)	(241,519)
Financing activities			
New loans raised	44	101,750	70,486
Repayment of loans	44	(71,332)	(78,503)
Proceed from obligations under finance leases	44	1,427	–
Repayment of obligations under finance leases	44	(788)	(467)
Net proceeds from issue of ordinary shares upon exercise of share options		5,375	2,992
Dividend paid	15	(61,568)	(66,727)
Net cash used in financing activities		(25,136)	(72,219)
Net (decrease) increase in cash and cash equivalents		(193,845)	51,945
Cash and cash equivalents at 1 January		396,144	347,967
Effect of foreign exchange rate changes		19,997	(3,768)
Cash and cash equivalents at 31 December		222,296	396,144
Analysis of cash and cash equivalents			
Cash and bank balances		222,296	273,990
Time deposits		207,298	175,416
		429,594	449,406
Less: Time deposits with maturity over three months		(207,298)	(53,262)
		222,296	396,144

The notes on pages 63 to 176 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development of, manufacturing of and sales and marketing of pharmaceutical products.

The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied, for the first time, the following new and amendments to Hong Kong Accounting Standards ("HKASs") and HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014 – 2016 Cycle except Amendments to HKFRS 12

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirement for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets classified as available-for-sale *(Note a)*	203,123	(203,123)	–
Financial assets classified as held-to-maturity *(Note b)*	5,826	(5,826)	–
Financial assets measured at fair value through other comprehensive income ("FVTOCI") (non-recycling)			
Equity instruments *(Note a (i))*	–	201,826	201,826
Financial assets measured at amortised cost *(Note b)*	608,262	5,826	614,088
Financial assets designated at fair value through profit or loss ("FVTPL") *(Note c)*	3,165	(3,165)	–
Financial assets measured at FVTPL *(Note a (ii))*	–	4,462	4,462
	820,376	–	820,376

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(i) Classification and measurement

(a) Available-for-sale ("AFS") financial assets

(i) From AFS equity instruments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sales. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$201,826,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI, of which HK$112,580,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. There was no difference between the previous carrying amount and the revised carrying amount for the unquoted equity investments at 1 January 2018.

(ii) From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's investments in unlisted warrants of HK$1,297,000 were reclassified from available-for-sale financial assets to financial assets at FVTPL. There was no difference between the previous carrying amount and the revised carrying amount for the unlisted warrants at 1 January 2018.

(b) Held-to-maturity financial assets

Guaranteed investments previously classified as held-to-maturity financial assets are reclassified and measured at amortised cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amounts and the revised carrying amount at 1 January 2018.

(c) Financial assets designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible instrument and the portfolio of financial assets which is management and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the convertible instrument of HK$3,165,000 was reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9. The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(ii) Impairment under ECL model

The Group has trade receivables for sales of products that are subject to the new ECL model under HKFRS 9, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the 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 life time ECLs model is immaterial.

Other financial assets at amortised cost of the Group include loan receivables, advance to associates, cash and cash equivalent, deposits and other receivables (excluding prepayments and other items which were not financial instruments). Applying the ECLs model, no additional impairment for these financial instruments as at 1 January 2018 is recognised as there is no material additional impairment measured under the ECLs model.

For further details on the Group's accounting policy for accounting for credit losses, see accounting policy for financial instruments in Note 3.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

(ii) Impairment under ECL model *(continued)*

Significant increase in credit risk (continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

– Manufacturing and sales of self-developed pharmaceutical products

– Trading of licensed-in pharmaceutical products

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Summary of effects arising from initial application of HKFRS 15

The application on HKFRS 15 has no material impact on the Group's retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amount under HKFRS 15 at 1 January 2018
	HK$'000	HK$'000	HK$'000
Current liabilities			
Prepayment from customers (presented under other payables)	147,334	(147,334)	–
Contract liabilities (presented under other payables)	–	147,334	147,334

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers goods or service to the customer.

As a result, other than certain reclassifications of contract liabilities, the adoption of HKFRS 15 did not result in any impact to the financial statements as the timing of revenue recognition on sales of products is not changed.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKASs and HKFRSs in issue but not yet effective

The Group has not applied the following new and amendments to HKASs and HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted
2 Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted
4 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted
5 Effective for annual periods beginning on or after a date to be determined

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 was issued in May 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

The Group has already commenced an assessment of the impact of this new HKFRS but is not yet in a position to state whether this new HKFRS would have a material impact on its results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. Gain or loss on derecognition is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interests in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if these interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indicator that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance 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.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the Group applies the practical expedient in HKFRS 15 of not adjusting the transaction price for the effects of any significant financing component.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Further details of the Group's revenue and other income recognition policies are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) *(continued)*

Manufacturing of proprietary products and trading of licensed-in products

Revenue from Manufacturing of proprietary products and trading of licensed-in products are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product and accepted by the customers. No right of return by customers is allowed based on either contractual terms or in business practices. Revenue is thus recognised when the products are delivered to the customers and the customers accepted the products. There is generally only one performance obligation and the consideration include no variable amount. Invoices are usually payable ranging between 30 and 120 days.

Other income

Services is recognised at the point in time when control of the asset is transferred to the customer, generally on services have been rendered to customers. Invoices for above services are generally issued on completion of services rendered.

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

Contract balances

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) *(continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the obligations under finance leases so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessee (continued)

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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

Goodwill and fair value adjustments on identifiable assets acquired on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

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

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

Retirement benefits

Defined contribution plan

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,500 per month for each employee.

The pension schemes covering all the Group's employees in the People's Republic of China (the "PRC") and Taiwan are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

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

Defined benefit plan

For defined retirement benefits plan, the cost of providing benefits is determined by the valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating directors.

The retirement benefit recognised in the consolidated statement of financial position represents the cost of providing benefits, based on the valuation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short-term employee benefits

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 41 to the consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax (continued)

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Buildings	5% – 20%
Leasehold improvement	20% – 33%
Plant and machinery	20% – 33%
Office and laboratory equipment and electronic equipment	20% – 33%
Motor vehicles	10% – 33%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Intangible assets

License fee (intangible assets acquired separately)

License fees are consideration paid for the license contracts and are carried at cost less accumulated amortisation and accumulated impairment losses. License fees with finite useful lives are amortised from the date they are ready for intended use over the remaining license period. The license period ranges from 3 to 10 years, with certain licenses contain renewal clause.

License fees with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

Both the period and method of amortisation are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Development cost (internally-generated intangible assets – research and development expenditure)

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

An internally-generated intangible asset arising from development of licensed-in products or from the development phase of internal projects is recognised if, and only if, all of the following have been demonstrated:

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation commences when the development of products completes. Amortisation of development cost of internal projects is over the estimated useful life of 5 years, while amortisation of development cost of licensed-in products is on the same basis as license fees.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indicator that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

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

Inventories

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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, whose existence 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

(ii) Financial assets as at FVTOCI

Subsequent changes in the carrying amounts for financial assets classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these financial assets are recognised in OCI and accumulated under the heading of Investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these financial assets. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these financial assets had been measured at amortised cost. When these financial assets are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in profit or loss.

(iv) Financial assets as at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

This category contains investments in life insurance policies. The Group accounts for the investments at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables (excluding prepayments and other items which were not financial instruments), deposits, loan receivables, advance to associates, pledged bank deposits, time deposits and cash and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(i) Significant increase in credit risk *(continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(i) Significant increase in credit risk *(continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers default has occurred when a financial asset is more than 365 days pass due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables (excluding prepayment and other items which were not financial instruments), deposits, loan receivables, advance to associates, pledged bank deposits, time deposits and cash and bank balances;

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for financial assets at FVTOCI the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity financial assets, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Financial assets at FVTPL *(continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 43 to the consolidated financial statements.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below). Gain or losses are recognised in profit or loss when the held-to-maturity financial assets are derecognised, impaired, or amortised.

AFS financial assets

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

AFS financial assets *(continued)*

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividend on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, advance to associates, other receivables, deposits, time deposits, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in equity.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets (continued)

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability and is included in the "other gains and losses, net" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at amortised cost

Other financial liabilities (including trade payables, other payables (excluding receipt in advance and other tax payable), obligations under license contracts, retirement benefits, bank and other borrowings and obligations under finance leases) are subsequently measured at amortised cost using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract issued by the Group is initially measured at their fair values and, if not designated as at FVTPL, is subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition/non-substantial modification of financial liabilities

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

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Derecognition/non-substantial modification of financial liabilities (continued)

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and time deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) 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);

(ii) the entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) the entity is a joint venture of a third entity and the Group is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make 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 the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held-to-maturity investments

The directors of the Company have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. As at 31 December 2018, there is no held-to-maturity financial assets (31 December 2017: HK$5,826,000). Details of these assets are set out in Note 24.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2018, the carrying amount of goodwill is HK$3,900,000 (net of impairment loss of HK$Nil) (31 December 2017: HK$3,900,000, net of the impairment loss of HK$Nil). Details of the recoverable amount calculation are disclosed in Note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Determination of impairment loss event and estimated impairment of trade receivables

Under HKFRS 9

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past-due status of debtors as groupings of various debtors on this basis demonstrate similar loss patterns with shared credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of trade receivables is HK$149,495,000, net of allowance for doubtful debts of HK$381,000.

Under HKAS 39

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is HK$85,801,000, net of allowance for doubtful debts of HK$561,000.

Fair value measurements and valuation process held as financial assets at fair value through profit or loss and fair value through other comprehensive income

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Certain of the fair values are determined by independent professional valuers. Such valuation was based on certain assumptions subject to uncertainty and might materially differ from the actual results.

In making the estimation, consideration has been given to assumptions that are mainly based on market condition existing at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

The unlisted equity investments held as fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI") have been valued based on binomial model, income approach and market-based valuation technique. As at 31 December 2018, the Group classified as FVTPL amounts to HK$32,477,000 in Level 2 and FVTOCI amounts to HK$115,763,000 in Level 3. Further details are included in Note 43 to the consolidated financial statements.

Estimated impairment of intangible assets

Being part of the principal activities, the Group acquired certain license fees and capitalised development cost relating to the development of pharmaceutical products, since these costs meet the recognition criteria of HKAS 38. The Group reviews the carrying amount of all intangible assets held at the end of the reporting period and HK$1,365,000 (2017: HK$52,326,000) impairment was considered necessary for these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Share-based payments

The Group recognises share-based payments expense on options granted. Share-based payments expense is based on the estimated fair value of each option at its grant date, the estimation of which requires the directors to make assumptions about future volatility of the Group's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a materially different fair value. The fair value of the share options granted during the year was estimated at HK$$6,322,000 (2017: HK$10,096,000) and the amount associated with share-based payments for the year ended 31 December 2018 is HK$5,036,000 (2017: HK$4,480,000).

Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deprecation

The Group's net carrying amount of property, plant and equipment as at 31 December 2018 was approximately HK$608,639,000 (31 December 2017: approximately HK$565,662,000). The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 33% per annum, commencing from the date the assets is placed into productive use. The estimated useful lives and dates that the Group places the assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the assets.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers during the year.

6. SEGMENT INFORMATION

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Proprietary products	–	Manufacturing and sales of self-developed pharmaceutical products
Licensed-in products	–	Trading of licensed-in pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results

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

	Proprietary products		Licensed-in products		Consolidated	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Segment revenue	519,557	464,120	618,069	544,402	1,137,626	1,008,522
Segment operating results	250,533	227,439	157,706	167,279	408,239	394,718
Research and development expenses	(7,699)	(20,326)	(145,472)	(64,731)	(153,171)	(85,057)
Impairment of intangible assets	–	–	(1,365)	(52,326)	(1,365)	(52,326)
Gain on deemed disposal of a subsidiary	–	–	–	58,066	–	58,066
Segment results	242,834	207,113	10,869	108,288	253,703	315,401
Gain on deemed disposal of associates					216,392	–
Unallocated income					40,725	7,299
Unallocated expenses					(43,884)	(45,872)
Profit from operations					466,936	276,828
Finance costs					(4,710)	(4,256)
Profit before share of results of associates					462,226	272,572
Share of results of associates					(15,842)	(14,944)
Profit before taxation					446,384	257,628
Taxation					(56,621)	(54,689)
Profit for the year					389,763	202,939

Segment revenue and results

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2017: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, transactions with associates, fair value changes of financial assets at FVTPL, interest income, finance costs, share of results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Proprietary products		Licensed-in products		Consolidated	
	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	457,940	358,678	1,852,998	1,232,755	2,310,938	1,591,433
Unallocated assets					695,615	733,091
Total assets					3,006,553	2,324,524
Segment liabilities	194,306	135,039	321,170	177,701	515,476	312,740
Unallocated liabilities					253,008	214,852
Total liabilities					768,484	527,592

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

- all assets are allocated to operating segments other than interests in associates, part of lease premium for land and financial assets at fair value through profit or loss, advance to associates, loan receivables, tax recoverable, pledged deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary products; and

- all liabilities are allocated to operating segments other than bank and other borrowings, tax payables, deferred tax liabilities, and retirement benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. SEGMENT INFORMATION *(continued)*

Other segment information (included in the measure of segment profit or loss or regularly provided to the chief operating decision maker)

	Proprietary products		Licensed-in products		Consolidated	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Depreciation of property, plant and equipment	30,685	27,186	25,002	17,528	55,687	44,714
Amortisation of intangible assets	–	–	9,390	13,394	9,390	13,394
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	127,489	59,756	178,359	207,716	305,848	267,472
Impairment of intangible assets	–	–	1,365	52,326	1,365	52,326

Geographical information

During the years ended 31 December 2018 and 2017, more than 90% of the Group's revenue was derived from activities conducted in the PRC, no geographical information on revenue is presented. The Group's assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong and others		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Total assets	2,017,209	1,549,776	989,344	774,748	3,006,553	2,324,524
Total liabilities	343,340	248,085	425,144	279,507	768,484	527,592

7. INFORMATION ABOUT MAJOR CUSTOMERS

For both the years ended 31 December 2018 and 2017, no single customer accounted for 10% or more of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income from:		
Bank and pledged deposits	6,895	6,496
Guaranteed investments measured at amortised cost	112	–
Held-to-maturity financial assets	–	167
Advance to associates	1,339	803
Convertible instrument and loan receivables	1,482	–
Total interest income	9,828	7,466
Government development grants	20,925	11,574
Development upfront service income	–	7,870
Research and development income	18,957	–
Sales of research materials	70	1,862
Sundry income	2,289	2,984
	52,069	31,756

The Group received the development grants from the local government as recognition of the Group's performance and development of high-technology pharmaceutical products.

9. OTHER GAINS AND LOSSES, NET

	Note	2018 HK$'000	2017 HK$'000
Compensation on termination of product license		–	2,815
Gain on disposal of intangible assets		3,805	–
Gain on deemed disposal of associates	21	216,392	–
Gain on deemed disposal of a subsidiary		–	58,066
Impairment of intangible assets		(1,365)	(52,326)
Loss on disposal of property, plant and equipment		(9)	(340)
Fair value gain in financial assets at fair value through profit or loss, net		29,152	–
Write-off of property, plant and equipment		(185)	–
Foreign exchange (loss) gain, net		(8,634)	12,538
		239,156	20,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Depreciation of property, plant and equipment	55,687	44,714
Amortisation of intangible assets (included in cost of sales)	9,390	13,394
Total depreciation and amortisation	65,077	58,108
Auditors' remuneration	1,183	1,033
Staff costs	225,370	195,796
Share-based payments	5,036	4,480
Research and development costs	153,171	85,057
Operating lease payments in respect of rented premises	8,431	10,256
Cost of inventories charged to profit or loss	371,244	303,544

11. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on:		
Bank and other borrowings	4,099	3,811
Finance leases	62	46
Total interest expenses for financial liabilities not classified as FVTPL	4,161	3,857
Bank charges	549	399
	4,710	4,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Discretionary bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefit HK$'000	Equity-settled share option expense HK$'000	2018 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	3,881	3,626	18	7,525	1,502	906	9,933
Leelalertsuphakun Wanee	–	4,184	3,910	18	8,112	4,127	839	13,078
Li Xiaoyi (CEO)	–	5,779	5,400	18	11,197	1,343	725	13,265
Non-executive Director								
Simon Miles Ball	144	–	–	–	144	–	–	144
Independent Non-executive Directors								
Chan Yau Ching, Bob	144	–	–	–	144	–	–	144
Lam Yat Cheong	144	–	–	–	144	–	–	144
Tsim Wah Keung, Karl	144	–	–	–	144	–	–	144
Total	576	13,844	12,936	54	27,410	6,972	2,470	36,852

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Discretionary bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefit HK$'000	Equity-settled share option expense HK$'000	2017 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	5,651	989	18	6,658	6,152	686	13,496
Leelalertsuphakun Wanee	–	6,289	1,066	18	7,373	4,713	620	12,706
Li Xiaoyi (CEO)	–	8,687	1,472	18	10,177	3,130	506	13,813
Non-executive Directors								
Marco Maria Brughera *(Note i)*	96	–	–	–	96	–	–	96
Simon Miles Ball *(Note ii)*	–	–	–	–	–	–	–	–
Independent Non-executive Directors								
Chan Yau Ching, Bob	144	–	–	–	144	–	–	144
Lam Yat Cheong	144	–	–	–	144	–	–	144
Tsim Wah Keung, Karl	144	–	–	–	144	–	–	144
Total	528	20,627	3,527	54	24,736	13,995	1,812	40,543

Notes:

i. Resigned with effect from 29 December 2017.

ii. Appointed with effect from 29 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

Certain executive directors of the Company are entitled to bonus payments which are determined based on a percentage of the Group's profit after tax for the year.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share options scheme are set out in Note 41 to the consolidated financial statements.

Transactions, arrangements or contracts in which directors of the Company have material interests

No transactions, arrangements and contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

Loans, quasi-loans and other dealings in favour of directors

No loans, quasi-loans and other dealings in favour of directors of the Company or body corporate controlled by such directors, or entities connected with such directors, subsisted at the end of the year or at any time during the year (2017: Nil).

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2017: three) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	4,234	3,891
Employer's contributions to retirement benefit schemes	36	36
Equity-settled share option expense	843	700
	5,113	4,627

13. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	2018 Number of employees	2017 Number of employees
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	1
	2	2

During the year, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 41 to the consolidated financial statements.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. TAXATION

	2018 HK$'000	2017 HK$'000
Current tax		
Hong Kong Profits Tax	43,694	4,741
PRC Enterprise Income Tax	25,326	35,255
	69,020	39,996
(Over) under provision in prior years		
Hong Kong Profits Tax	(2,298)	3,191
PRC Enterprise Income Tax	(285)	(1,004)
	(2,583)	2,187
Deferred tax		
Origination and reversal of temporary differences	(9,816)	12,506
	56,621	54,689

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. TAXATION *(continued)*

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries range from 15% to 25% (2017: 15% to 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	446,384	257,628
Notional tax at the rates applicable to results in regions concern	72,629	41,975
Tax effect of share of results of associates	2,614	2,466
Tax effect of expenses not deductible for tax purpose	12,981	6,172
Tax effect of income not taxable for tax purpose	(46,858)	(11,332)
(Over) under provision in prior years	(2,583)	2,187
Tax effect on temporary differences not recognised	(131)	(1,785)
Tax effect of tax losses not recognised	24,412	17,961
Tax effect of PRC preferential tax allowance	(7,051)	(5,645)
Tax at other jurisdictions	608	2,690
Tax charge for the year	56,621	54,689

As at 31 December 2018, the Group has estimated unused tax losses of approximately HK$223 million (2017: HK$151 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 interim – HK$0.034 (2017: 2017 interim dividend HK$0.034) per share	20,129	20,092
2017 final – HK$0.070 (2017: 2016 final dividend HK$0.079) per share	41,439	46,635
	61,568	66,727

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2018 of HK8.4 cents per share (2017: final dividend in respect of the year ended 31 December 2017 of HK7.0 cents per share), in an aggregate amount of approximately HK$49,730,000 (2017: HK$41,439,000) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting ("AGM"), and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2018.

16. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Earnings:		
Net profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	418,269	232,559

	2018 Share (s) '000	2017 Share (s) '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	591,841	590,505
Effect of dilutive potential ordinary shares:		
Options	3,313	1,824
Weighted average number of ordinary shares for the purposes of diluted earnings per share	595,154	592,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment and electronic equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2017	192,584	17,345	69,664	41,887	10,483	200,079	532,042
Exchange rate adjustments	17,192	1,232	6,482	3,142	575	17,020	45,643
Reclassification	2	–	270	(272)	–	–	–
Additions	138	1,953	8,207	16,294	2,090	108,482	137,164
Transfer in (out)	37,022	327	14,337	2,585	–	(54,271)	–
Disposals	(315)	–	(302)	(190)	(736)	(471)	(2,014)
Deemed disposal of a subsidiary	–	(66)	–	(1,065)	–	–	(1,131)
At 31 December 2017 and 1 January 2018	246,623	20,791	98,658	62,381	12,412	270,839	711,704
Exchange rate adjustments	(14,638)	(923)	(7,743)	(4,291)	(417)	(11,063)	(39,075)
Reclassification	–	–	(96)	96	–	–	–
Additions	–	6,467	33,820	29,354	2,271	58,199	130,111
Transfer in (out)	39,940	–	46,627	20,791	–	(107,358)	–
Disposals	–	–	(11,062)	–	(163)	–	(11,225)
Write-off	–	(1,093)	(194)	(3,667)	(466)	(35)	(5,455)
At 31 December 2018	271,925	25,242	160,010	104,664	13,637	210,582	786,060
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	20,738	5,427	35,123	26,995	6,667	–	94,950
Exchange rate adjustments	2,268	332	3,499	1,922	446	–	8,467
Reclassification	2	–	91	(93)	–	–	–
Charge for the year	15,006	3,648	16,296	8,334	1,430	–	44,714
Eliminated upon disposal	(306)	–	(302)	(190)	(736)	–	(1,534)
Deemed disposal of a subsidiary	–	(50)	–	(505)	–	–	(555)
At 31 December 2017 and 1 January 2018	37,708	9,357	54,707	36,463	7,807	–	146,042
Exchange rate adjustments	(2,649)	(473)	(3,235)	(1,908)	(331)	–	(8,596)
Reclassification	–	–	(9)	9	–	–	–
Charge for the year	16,914	4,690	18,976	13,686	1,421	–	55,687
Eliminated upon disposal	–	–	(10,280)	–	(162)	–	(10,442)
Eliminated upon write-off	–	(1,023)	(156)	(3,625)	(466)	–	(5,270)
At 31 December 2018	51,973	12,551	60,003	44,625	8,269	–	177,421
CARRYING AMOUNTS							
At 31 December 2018	219,952	12,691	100,007	60,039	5,368	210,582	608,639
At 31 December 2017	208,915	11,434	43,951	25,918	4,605	270,839	565,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The buildings are situated in the PRC under medium-term leases.

The net carrying amount of motor vehicles of HK$5,368,000 (31 December 2017: HK$4,605,000) includes an amount of HK$3,090,000 (31 December 2017: HK$1,652,000) in respect of assets held under finance leases.

18. INTANGIBLE ASSETS

	License fees HK$'000	**Development cost** HK$'000	**Total** HK$'000
COST			
At 1 January 2017	173,618	295,782	469,400
Exchange rate adjustments	3,783	19,106	22,889
Additions	30,760	99,548	130,308
Impairment	(2,628)	(49,698)	(52,326)
Deemed disposal of a subsidiary	(1,396)	(58,434)	(59,830)
At 31 December 2017 and 1 January 2018	204,137	306,304	510,441
Exchange rate adjustments	(3,417)	(15,946)	(19,363)
Additions	38,731	137,006	175,737
Disposal	(7,754)	(72)	(7,826)
Impairment	(1,037)	(895)	(1,932)
At 31 December 2018	230,660	426,397	657,057
AMORTISATION			
At 1 January 2017	37,720	9,827	47,547
Exchange rate adjustments	–	862	862
Charge for the year	12,836	558	13,394
At 31 December 2017 and 1 January 2018	50,556	11,247	61,803
Exchange rate adjustments	–	(618)	(618)
Charge for the year	8,880	510	9,390
Eliminated upon impairment	–	(567)	(567)
At 31 December 2018	59,436	10,572	70,008
CARRYING AMOUNTS			
At 31 December 2018	171,224	415,825	587,049
At 31 December 2017	153,581	295,057	448,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. LEASE PREMIUM FOR LAND

	2018 HK$'000	2017 HK$'000
Carrying amounts at 1 January	145,597	137,427
Exchange rate adjustments	(7,632)	11,132
	137,965	148,559
Amortisation for the year	(3,028)	(2,962)
Carrying amounts at 31 December	134,937	145,597
Current portion of non-current assets	(2,913)	(3,077)
Non-current portion	132,024	142,520

The leasehold land is held under medium-term lease and situated in the PRC.

20. GOODWILL

	2018 HK$'000	2017 HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

The goodwill tested for impairment is allocated to the cash-generating unit that constitutes Proprietary Products Business. The recoverable amount of proprietary products unit is determined based on a value in use calculated and represented by the management using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% per annum (2017: 10% per annum).

The value calculated by using the discount rate is higher than the carrying amount of the cash-generating unit; accordingly, the management of the Group determined that there is no impairment of the goodwill.

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FOR THE YEAR ENDED 31 DECEMBER 2018

21. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	2018 HK$'000	2017 HK$'000
Cost of investment, unlisted	93,445	145,780
Share of post-acquisition loss and other comprehensive income, net of dividends received	(65,990)	(58,531)
Share of associates' reserves	168	114
	27,623	87,363

Details of the Group's associates at the end of the reporting period are as follow:

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2018	2017	2018	2017	
Powder Pharmaceuticals Incorporated ("PPI") *(Note a)*	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Development, manufacture and sale of pharmaceutical products
RIT Biotech (Holding) Company Limited ("RIT") *(Note b)*	British Virgin Islands/ Hong Kong	24.12%	33.33%	24.12%	33.33%	Operating a central pharmacy for compounding radiopharmaceuticals
CVie Therapeutics Limited ("CVie Taiwan")	Taiwan/Taiwan	– *(Note c)*	49.58%	– *(Note c)*	49.58%	Development of pharmaceutical products

Notes:

a. PPI has a wholly-owned subsidiary, Powder Pharmaceuticals (HK) Co., Limited, which is incorporated in Hong Kong and engaged in developing, manufacturing and trading of pharmaceutical products.

b. RIT has a wholly-owned subsidiary, RIT Biotech Company Limited, which is incorporated in Hong Kong and engaged in operating a central pharmacy for compounding radiopharmaceuticals.

c. The interests in CVie Taiwan were deemed disposed during year 2018 and ceased to be the Group's associate. Details are disclosed in Note 21 (iii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

21. INTERESTS IN ASSOCIATES *(continued)*

(i) Summarised financial information of material associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

	PPI		RIT		CVie Taiwan	
	31 December		31 December		31 December	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Current assets	6,332	9,383	22,848	10,692	N/A	4,873
Non-current assets	26,707	29,668	7,637	7,605	N/A	140,374
Current liabilities	41,304	23,107	2,959	2,591	N/A	41,731
Non-current liabilities	–	–	859	4,200	N/A	–

	PPI		RIT		CVie Taiwan	
	31 December		31 December			
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	1 January 2018 to 21 December 2018 HK$'000	1 January 2017 to 31 December 2017 HK$'000
Revenue	212	322	2,693	25	1,800	–
Loss from operations	(24,235)	(25,818)	(7,830)	(5,345)	(9,553)	(8,530)
Loss for the year/(period)	(24,375)	(26,638)	(8,154)	(5,395)	(10,344)	(8,290)
Other comprehensive (expense)/income	–	–	–	–	(2,596)	1,733
Total comprehensive expense for the year/period	(24,375)	(26,638)	(8,154)	(5,395)	(12,940)	(6,557)
Dividend received during the year/period	–	–	–	–	–	–

21. INTERESTS IN ASSOCIATES *(continued)*

(i) Summarised financial information of material associates *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associates in the consolidated financial statements:

	PPI 31 December		RIT 31 December		CVie Taiwan 31 December	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Net (liabilities) assets	(8,265)	15,944	26,667	11,506	N/A	103,516
Proportion of the Group's ownership interests	33.92%	33.92%	24.12%	33.33%	N/A	49.58%
Goodwill	23,995	23,995	–	–		–
Carrying amount of the Group's interests in	21,191	29,402	6,432	6,640	N/A	51,321

As at 31 December 2017, there was outstanding capital premium in RIT though shares were fully issued pursuant to the underlying agreement, and the carrying amount of the Group's interests in RIT as at 31 December 2017 cannot be directly calculated by multiplying its net assets value with the proportion of the Group's ownership interests. The outstanding capital premium was fully paid as at 31 December 2018.

(ii) Deemed disposal of interests in RIT

During the year, RIT issued new shares to other shareholders and key staff, resulting in a dilution of the Group's equity interest in RIT from 33.33% to 27.56% in July 2018 and further to 24.12% in November 2018. In spite of the dilution, because of the premium of the new shares issued, the Group's share of net assets in RIT increased and resulted in a gain on deemed disposal of interests in RIT of approximately HK$2,238,000 in aggregate and the gain was recognised in the consolidated statement of profit or loss during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

21. INTERESTS IN ASSOCIATES *(continued)*

(iii) Deemed disposal of interests in CVie Taiwan

On 21 December 2018, an indirect non-wholly owned subsidiary of the Company entered into a merger agreement (the "Merger Agreement") with Windtree Therapeutic Inc., ("WTI") and a wholly owned subsidiary of WTI. Pursuant to the Merger Agreement, the Group disposed its interests in CVie Taiwan by converting into WTI's common stock, and CVie Taiwan ceased to be the Group's associate. The fair value of WTI's shares received is approximately US$33,465,000 (approximately HK$259,487,000). The transaction has resulted in a gain on deemed disposal recognised in profit or loss, calculated as follow.

	21 December 2018 HK$'000
Net assets of CVie Taiwan	90,571
Proportion of the Group's ownership interest in CVie Taiwan disposed of	49.58%
Group's ownership interests in CVie Taiwan being disposed of	(44,905)
Consideration received in the form of listed shares *(Note 23)*	259,487
Release of other reserves attributable to CVie Taiwan	(428)
Gain on deemed disposal	214,154

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Investments in life insurance policies *(Note a)*	3,588	–
Unlisted warrants *(Note b)*	32,774	–
	36,362	–

Notes:

a. It refers to the life insurance policies with an insurance company to insure executive directors of the Company. Under the policy, the beneficiary and the policy holder is the Company. The Group is required to pay an one-off premium payment. The Group can terminate the policy at any time and receive cash based on the cash value of the policy at the date of withdrawal ("Cash Value"), which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 15th policy year.

At the reporting end date, the fair value of investments in life insurance policies are determined by reference to the cash value as provided by the insurance company.

b. The unlisted warrants issued in 2017 was reclassified to financial assets at fair value through profit or loss of HK$1,297,000 at 1 January 2018 after the adoption of HKFRS 9 as detailed in Note 2. The unlisted warrants are issued by WTI in 2017 and 2018, and are measured at fair value of approximately HK$1,507,000 and HK$31,267,000 respectively, as disclosed in Note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

Details of the Group's financial assets at fair value through other comprehensive income/available-for-sale financial assets are as follows:

	2018 HK$'000	2017 HK$'000
Equity securities listed outside Hong Kong *(Note a, b)*	490,652	87,067
Unlisted equity securities *(Note a, c)*	44,491	48,850
Unlisted partnership investment *(Note a, d)*	71,272	65,909
Unlisted warrants *(Note e)*	–	1,297
	606,415	203,123

Notes:

a. These investments were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income at 1 January 2018 upon adoption of HKFRS 9 as detailed in Note 2.

b. The fair values of listed securities are based on quoted market closing prices available on the relevant exchanges as at the end of the reporting period. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

c. The above unlisted equity investments represent investments in unlisted equity securities issued by private entities (2017: private and public entity) incorporated in Switzerland and the United States of America. Unlisted equity investments issued by private entity are measured at fair value with reference to the quoted market closing price of the underlying listed securities. Unlisted equity investments issued by private entities are measured at fair value and was categorised within level 3 of the fair value hierarchy and mentioned in Note 43.

d. The above unlisted investment represents partnership interest in a private funds. The fair value of the financial assets are measured at fair value and was categorised within level 3 of the fair value hierarchy and mentioned in Note 43.

e. The unlisted warrants are issued by a public entity incorporated in the United States of America and the investment is measured at fair value. The investment was reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss at 1 January 2018 upon adoption of HKFRS 9 as detailed in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

a) Financial assets at fair value through other comprehensive income

As at 31 December 2018, the movement of financial assets at fair value through other comprehensive income with following details:

	Notes	HK$'000
At 1 January 2017, as originally presented		–
Reclassified from AFS to financial asset at FVTOCI		201,826
Balance at 1 January 2018, as restated		201,826
Addition		31,150
Converted form loan receivables *(Note a)*		46,524
Converted form convertible instrument	29	6,957
Proceed of deemed disposal of an associate	21	259,487
Rewards to employees in the form of listed shares		(10,667)
Fair value gains on revaluation recognised, net		71,138
At 31 December 2018		606,415

Note a: On 21 December 2018, Windtree Therapeutics Inc. ("WTI") entered into a Securities Purchase Agreement and a Registration Rights Agreement with a wholly owned subsidiary of the Company, whereby converted US$6 million (approximately HK$46,524,000) of existing debt.

b) Available-for-sale financial assets

As at 31 December 2017, the movement of available-for-sale financial assets with following details:

	HK$'000
At 1 January 2017	127,778
Addition	93,050
Fair value losses on revaluation recognised, net	(17,705)
At 31 December 2017	203,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

24. HELD-TO-MATURITY FINANCIAL ASSETS

Details of the Group's held-to-maturity financial assets are as follows:

	2018 HK$'000	2017 HK$'000
Unlisted investments	–	5,826

The investment was reclassified to financial assets measured at amortised cost of HK$5,826,000 at 1 January 2018 after the adoption of HKFRS 9 as detailed in Note 2.

The investments referred to the guaranteed investments with carrying effective interest rate at 3.28% (2017: 3.28%) per annum. The investment was matured in August 2018.

25. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	16,224	9,963
Work-in-progress	35,811	23,313
Finished goods	159,638	127,361
	211,673	160,637

No inventories are carried at net realisable value at 31 December 2018 (2017: Nil).

26. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	149,876	86,362
Less: Allowances for bad and doubtful debts	(381)	(561)
	149,495	85,801

The credit period on sales of goods is 30 – 120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

26. TRADE RECEIVABLES *(continued)*

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates, and net of allowance for bad and doubtful debts at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0 – 30 days	79,663	41,782
31 – 120 days	51,751	41,234
121 – 180 days	7,872	2,544
181 – 365 days	10,206	223
Over 365 days and under 3 years	3	18
	149,495	85,801

The fair value of the Group's trade receivables at 31 December 2018 and 2017 approximates to their corresponding carrying amount.

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for bad and doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Aging analysis of receivables that are past due but not impaired

	2018 HK$'000	2017 HK$'000
Overdue by:		
1 – 180 days	57,621	26,321
181 – 365 days	23	130
	57,644	26,451

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FOR THE YEAR ENDED 31 DECEMBER 2018

26. TRADE RECEIVABLES *(continued)*

Movement in allowance for bad and doubtful debts

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	561	384
Exchange rate adjustments	(24)	36
(Reversal) provision for allowance for bad and doubtful debts	(156)	141
Balance at the end of the year	381	561

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Aging analysis of receivables that are past due and impaired

	2018 HK$'000	2017 HK$'000
Overdue by:		
181 – 365 days	23	130
Over 365 days and under 3 years	358	431
	381	561

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Utilities and rental deposits	3,786	3,258
Prepayment for plant and equipment and services	33,939	23,773
Prepaid other tax	10,889	35,333
Research and development material and services	36,454	11,208
Others *(Note)*	13,571	27,748
	98,639	101,320

Note: Others includes deposit for purchase and receivables from other debtors.

During the reporting period, there is HK$6,979,000 provision for impairment loss on other receivable recognised in profit or loss (2017: HK$1,551,000).

28. LOAN RECEIVABLES

	2018 HK$'000	2017 HK$'000
Unsecured, fixed-rate loan receivables	26,990	–
	26,990	–

As at 31 December 2018, the carrying amount of loan receivables amounts HK$26,990,000 (2017: HK$Nil) which bore interest rate of 4% (2017: Nil) per annum and are recoverable within one year.

29. CONVERTIBLE INSTRUMENT

The amount represents the six convertible loans issued by an unlisted overseas company ("Issuer") which consisted of principal in aggregate amount of CHF858,832 (approximately HK$6,889,000) at interest rate of 1% per annum. Pursuant to the convertible loan agreement, the outstanding convertible loan amount could be converted into common shares of the Issuer at CHF16. The Issuer is a biotechnology company. On 25 November 2018, the convertible loans of CHF867,248 (approximately HK$6,957,000) are fully converted into common shares.

30. ADVANCE TO ASSOCIATES

As at 31 December 2018, the amount due from an associate with carrying amount of HK$38,713,000 (2017: HK$20,414,000) which bore interest rate of 4% (2017: 4%) per annum and are repayable within one year. The amount due from an associate with carrying amount of HK$Nil (2017: HK$4,225,000) which is interest-free and has no fixed term of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

31. PLEDGED BANK DEPOSITS/TIME DEPOSITS/CASH AND BANK BALANCES

As at 31 December 2018, pledged bank deposits represent the Group's security given to a bank for the facilities granted to CVie Taiwan which ceased to be Group's associate since 21 December 2018 and WTI. The pledged deposits would be released within one year and therefore are classified as current assets (2017: Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to an associate).

Bank balances carry interest at market rates which are in range of 0.01% to 0.50% (2017: 0.01% to 0.50%) per annum. Time deposits carry interest rates in the range of 1.89% to 2.10% (2017: 0.78% to 1.82%) per annum. Pledged bank deposits carry interest rate in the range of 0.40% to 3.08% (2017: 1.91%) per annum.

32. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2018 and 2017 approximates to their corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2018 and 2017:

	2018 HK$'000	2017 HK$'000
0–90 days	44,609	26,090
91–180 days	21,213	–
181–365 days	115	–
Over 365 days	142	58
	66,079	26,148

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Contract liabilities *(Note a)*	214,944	–
Prepayment from customers	–	147,334
Sales guarantee deposits	88,941	35,228
Other payables for plant and equipment and services	64,707	43,475
Other tax payables	4,002	14,441
Obligations under license contract	8,292	4,441
Accrued staff salaries and welfare	25,019	19,901
Others *(Note b)*	41,852	20,771
	447,757	285,591

Notes:

a. The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. As a result of initial application of HKFRS 15, contract liabilities, including receipts in advance from customers, as at 31 December 2018 are separately presented under other payables (see Note 2).

b. Others includes payable to other creditors, accrued expenses and advances from other creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank borrowings classified as current liabilities *(Note a)*	127,483	99,004
Unsecured other borrowings classified as current liabilities *(Note b)*	1,751	–
	129,234	99,004
Carrying amount of the borrowings are repayable: *(Note c)*		
Within one year	45,529	58,291
More than one year but not exceeding two years	26,337	23,027
More than two years but not exceeding five years	57,368	17,686
	129,234	99,004

Notes:

a. As all the bank borrowings include a clause that gives the lenders the unconditional right to call the borrowings at any time ("Repayment on Demand Clause"), according to HK – Int 5 which requires the classification of whole borrowings containing the Repayment on Demand Clause as current liabilities, all the borrowings were classified as current liabilities.

b. The unsecured loan is borrowing from non-controlling interest of an indirect non wholly-owned subsidiary of the Company which bore interest rate of 4% per annum and are repayable within one year.

c. The table is based on the agreed repayment schedule provided by banks and agreed terms with non-controlling interests.

The ranges of effective interest rate on the Group's bank and other borrowings are as follows:

	2018	2017
Bank and other borrowings	2.88%–4.79%	2.05%–4.79%

The Group's bank and other borrowings are denominated in the following currencies:

	Hong Kong Dollars HK$'000	**Renminbi** HK$'000
As at 31 December 2018	129,234	–
As at 31 December 2017	87,022	11,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

35. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The lease term ranges from three to five years (2017: five years). Interest rate underlying the obligations under finance leases ranges from 3.72% to 3.79% (2017: 3.72%) per annum. At the end of the lease term, the Group has an option to purchase the motor vehicles. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Amounts payable under finance leases:				
Within one year	904	514	858	485
In the second to fifth year inclusive	801	529	782	516
	1,705	1,043	1,640	1,001
Less: Future finance charges	(65)	(42)	N/A	N/A
Present value of lease obligations	1,640	1,001	1,640	1,001
Less: Amount due for settlement within 12 months (shown under current liabilities)			(858)	(485)
Amounts due for settlement after 12 months			782	516

Obligations under finance leases are denominated in Hong Kong Dollars, which is also the functional currency of the relevant group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

36. DEFERRED TAXATION

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax (assets) liabilities

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Tax on unrealised profit HK$'000	Total HK$'000
At 1 January 2017	406	32,096	(7,212)	25,290
Exchange difference	–	2,185	–	2,185
Charge (credit) to profit or loss	131	12,538	(163)	12,506
At 31 December 2017 and 1 January 2018	537	46,819	(7,375)	39,981
Exchange difference	–	(2,270)	–	(2,270)
Charge (credit) to profit or loss	524	2,316	(12,656)	(9,816)
At 31 December 2018	1,061	46,865	(20,031)	27,895

For the purpose of presentation in the consolidated statement of financial position, deferred tax assets and liabilities have been offset and shown under deferred tax liabilities.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits earned by the PRC subsidiaries amounting to HK$571 million (2017: HK$528 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. SHARE CAPITAL

	Number of shares		Share capital	
	2018	2017	2018	2017
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	590,943,343	590,051,343	29,547	29,503
Exercise of share options (Note a)	1,086,000	892,000	54	44
At end of the year	592,029,343	590,943,343	29,601	29,547

During the year ended 31 December 2018, the movement in the Company's share capital is as follows:

(a) A total of 1,086,000 new shares were issued upon exercise of 1,086,000 share options under the Company's share option schemes (Note 41) at an aggregate consideration of HK$5,375,000 (net of issuance cost) of which HK$54,000 was credited to share capital and the remaining balance of HK$5,321,000 was credited to the share premium account. In addition, an amount attributable to the related share options of HK$1,582,000 has been transferred from share-based compensation reserve to the share premium account.

38. RESERVES

Share premium

Share premium represents the difference between the nominal value and the issuing value of the shares.

Merger difference

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group's reorganisation prior to the listing of the Company's shares in 2002.

Share-based compensation reserve

The share-based compensation reserve comprises the fair value of share options granted which are not yet exercised.

Other reserves

Other reserves represent (i) the difference between the consideration and the carrying amount of the net assets attributable to the reduction of, or additions of, interests in subsidiaries being disposed to, or acquired from, non-controlling interest; and (ii) share of associates' reserve.

Investments revaluation reserve

Investments revaluation reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed or impaired.

Exchange reserve

Exchange reserve relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss upon the disposal of the foreign subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

39. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries HK$'000	Share-based compensation reserve of subsidiaries HK$'000	Total HK$'000
At 1 January 2017	32,923	67	32,990
Capital contribution from non-controlling interests	1,564	–	1,564
Share of loss for the year	(29,620)	–	(29,620)
Share of other comprehensive income for the year			
– Exchange difference on translation of financial statements of overseas subsidiaries	878	–	878
Share of employee share options benefit	–	17	17
Additional non-controlling interests arising from partial disposal of interests in a subsidiary	(666)	–	(666)
Deemed disposal of a subsidiary	(12,577)	–	(12,577)
At 31 December 2017 and at 1 January 2018	(7,498)	84	(7,414)
Capital contribution from non-controlling interests	60,303	–	60,303
Share of loss for the year	(28,506)	–	(28,506)
Share of other comprehensive income for the year			
– Exchange difference on translation of financial statements of overseas subsidiaries	158	–	158
– Fair value changes of financial assets at fair value through other comprehensive income	6,991	–	6,991
Share of employee share options benefit	–	18	18
Share options lapsed	102	(102)	–
Additional non-controlling interests arising from partial disposal of interests in a subsidiary	(4,024)	–	(4,024)
At 31 December 2018	27,526	–	27,526

39. NON-CONTROLLING INTERESTS *(continued)*

The non-controlling interests represent of 43.74% (31 December 2017: 43.74%), 35% (31 December 2017: 35%) and 26% (31 December 2017: Nil) equity interests held by third parties in CVie Therapeutics Company Limited, China Oncology Focus Limited and LPH Investments Limited respectively.

Partial disposal of interests in a subsidiary

In April 2018, the Company sold 26 shares in LPH Investments Limited ("LPH Investments") to an independent third party at consideration of US$2,600,000 (approximately HK$20,161,000). After the disposal of shares, the Group's shareholding in LPH Investments reduced by 26% to 74%. As the Group retained control over LPH Investments, the Group recognised a gain on partial disposal of interests in LPH Investments of HK$24,185,000 in the equity attributable to the owners of the Company, and a decrease in non-controlling interests of HK$4,024,000 during the reporting period.

40. RETIREMENT BENEFITS

Defined contribution plan

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme with maximum amount of HK$1,500 (2017: HK$1,500) per month for each employee, which contribution is matched by employees.

The total cost recognised in profit or loss of HK$728,000 (2017: HK$727,000) represents contributions payable to the Scheme by the Group in respect of the current accounting period. As at 31 December 2018, contributions of HK$Nil (2017: HK$68,000) due in respect of the reporting period had not been paid over to the Scheme.

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

Defined benefit plan

Retirement benefit scheme represents the retirement benefits provided to the executive directors of the Company.

Each of the executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Group for certain years.

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FOR THE YEAR ENDED 31 DECEMBER 2018

40. RETIREMENT BENEFITS *(continued)*

Defined benefit plan *(continued)*

The carrying value of the retirement benefits represents the cost of providing benefits determined by valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating employees. The fair value of the retirement benefits at 31 December 2018 was valued by Peak Vision Appraisal Limited, an independent professional valuer not connected to the Group. The valuation was carried out on a fair value basis. The term "fair value" is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of retirement benefits was accrued in the consolidated financial statements but the retirement benefit scheme was not established up to the date of this report. Thus, no actuarial gain or loss will be considered.

During the year, the total cost recognised in profit or loss of HK$6,972,000 represented provision for retirement benefits (2017: HK$13,995,000).

41. SHARE OPTION SCHEMES

The Company

The Company's share option scheme (the "2002 Share Option Scheme") and new share option scheme (the "New Share Option Scheme") were adopted on 26 June 2002, and 10 May 2012 respectively for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Share Options Scheme and the New Share Option Scheme was 15,627,000 shares (2017: 15,345,000 shares) representing 2.6% (2017: 2.6%) of the shares of the Company in issue at that date.

For the 2002 Share Option Scheme, the total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the shares of the Company ("Shares") in issue at the time of listing, without prior approval from the Company's shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

For the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the AGM, unless the Company obtains an approval from the shareholders in general meeting to refresh such 10% in accordance with the Listing Rules. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating such 10%. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes must not exceed 30% of the Shares in issue from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

Details of the Company's share option schemes during the current year are summarised as follow:

Date of grant	Outstanding at 01.01.2018	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2018	Exercise period	Exercise price per share
Category I:							
Directors							
30.12.2013	876,000	–	–	–	876,000	30.06.2014-29.12.2023	HK$7.300
31.03.2015	1,338,000	–	–	–	1,338,000	30.09.2015-30.03.2025	HK$11.200
31.03.2016	1,761,000	–	–	–	1,761,000	30.09.2017-30.03.2026	HK$5.754
31.04.2017	1,770,000	–	–	–	1,770,000	13.10.2017-12.04.2027	HK$7.548
13.04.2018	–	1,368,000	–	–	1,368,000	13.10.2018-12.04.2028	HK$11.216
Category II:							
Employees							
12.01.2010	240,000	–	–	–	240,000	12.07.2010-11.01.2020	HK$2.200
20.12.2010	300,000	–	(300,000)	–	–	20.06.2011-19.12.2020	HK$3.750
08.10.2012	4,136,000	–	(636,000)	–	3,500,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	300,000	–	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	2,024,000	–	(150,000)	–	1,874,000	30.12.2014-29.12.2023	HK$7.300
07.10.2014	600,000	–	–	–	600,000	30.06.2015-06.10.2024	HK$10.340
07.10.2014	750,000	–	–	–	750,000	03.10.2015-06.10.2024	HK$10.340
03.10.2017	1,250,000	–	–	–	1,250,000	03.10.2018-02.10.2027	HK$6.190
	15,345,000	1,368,000	(1,086,000)	–	15,627,000		
Exercisable at the end of the year					13,943,000		
Weighted average exercise price	HK$6.865	HK$11,216	HK$4.970	–	HK$7.378		

The weighted average share price on which the options were exercised in current year is HK$12.59.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Details of the Company's share option schemes during the prior year are summarised as follow:

Date of grant	Outstanding at 01.01.2017	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2017	Exercise period	Exercise price per share
Category I:							
Directors							
30.12.2013	876,000	–	–	–	876,000	30.06.2014-29.12.2023	HK$7.300
31.03.2015	1,338,000	–	–	–	1,338,000	30.09.2015-30.03.2025	HK$11.200
31.03.2016	1,761,000	–	–	–	1,761,000	30.09.2017-30.03.2026	HK$5.754
31.04.2017	–	1,770,000	–	–	1,770,000	13.10.2017-12.04.2027	HK$7.548
Category II:							
Employees							
02.01.2008	320,000	–	(320,000)	–	–	02.07.2008-01.01.2018	HK$0.492
12.01.2010	240,000	–	–	–	240,000	12.07.2010-11.01.2020	HK$2.200
20.12.2010	300,000	–	–	–	300,000	20.06.2011-19.12.2020	HK$3.750
08.10.2012	4,708,000	–	(572,000)	–	4,136,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	300,000	–	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	2,024,000	–	–	–	2,024,000	30.12.2014-29.12.2023	HK$7.300
07.10.2014	600,000	–	–	–	600,000	30.06.2015-06.10.2024	HK$10.340
07.10.2014	750,000	–	–	–	750,000	03.10.2015-06.10.2024	HK$10.340
03.10.2017	–	1,250,000	–	–	1,250,000	03.10.2018-02.10.2027	HK$6.190
	13,217,000	3,020,000	(892,000)	–	15,345,000		
Exercisable at the end of the year					13,210,000		
Weighted average exercise price	HK$6.602	HK$6.986	HK$3.380	–	HK$6.865		

The weighted average share price on which the options were exercised in prior year was HK$6.50.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		Exercise price per share HK$
02.01.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008–01.01.2018	0.492
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009–01.01.2018	
12.01.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010–11.01.2020	2.200
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011–11.01.2020	
20.12.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011–19.12.2020	3.750
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012–19.12.2020	
08.10.2012	(i)	259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013 – 07.10.2022	4.996
	(ii)	259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014 – 07.10.2022	
	(iii)	1,160,000 options exercisable during the period from 08.10.2013–07.10.2022	
	(iv)	2,230,000 options exercisable during the period from 08.10.2014–07.10.2022	
	(v)	2,650,000 options exercisable during the period from 08.10.2015–07.10.2022	
05.04.2013	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 05.10.2013–04.04.2023	5.620
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 05.07.2014–04.04.2023	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		Exercise price per share HK$
30.12.2013	(i)	1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 30.06.2014 – 29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 30.03.2015 – 29.12.2023	7.300
	(ii)	669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023	
	(iii)	669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023	
	(iv)	702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023.	
07.10.2014	(i)	600,000 options: 50% will be exercisable during the period from 30.06.2015 to 06.10.2024; and 50% will be exercisable during the period from 30.06.2016 to 06.10.2024	10.340
	(ii)	250,000 options will be exercisable during the period from 03.10.2015 to 06.10.2024	
	(iii)	250,000 options will be exercisable during the period from 03.10.2016 to 06.10.2024	
	(iv)	250,000 options will be exercisable during the period from 03.10.2017 to 06.10.2024	
31.03.2015	(i)	669,000 options will be exercisable during the period from 30.09.2015 to 30.03.2025	11.200
	(ii)	669,000 options will be exercisable during the period from 30.06.2016 to 30.03.2025	
31.03.2016	(i)	880,500 options will be exercisable during the period from 30.09.2016 to 30.03.2026	5.754
	(ii)	880,500 options will be exercisable during the period from 30.06.2017 to 30.03.2026	

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period	Exercise price per share HK$
13.04.2017	(i) 885,000 options will be exercisable during the period from 13.10.2017 to 12.04.2027 (ii) 885,000 options will be exercisable during the period from 13.07.2018 to 12.04.2027	7.548
03.10.2017	(i) 250,000 options will be exercisable during the period from 03.10.2018 to 02.10.2027 (ii) 250,000 options will be exercisable during the period from 03.10.2019 to 02.10.2027 (iii) 250,000 options will be exercisable during the period from 03.10.2020 to 02.10.2027 (iv) 500,000 options will be exercisable during the period from 03.10.2021 to 02.10.2027	6.190
13.04.2018	(i) 684,000 options will be exercisable during the period from 13.10.2018 to 12.04.2028 (ii) 684,000 options will be exercisable during the period from 13.07.2019 to 12.04.2028	11.216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The following table summarised movements in the Company's share options during the year:

	Outstanding at 01.01.2018	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2018
Directors					
Lee Siu Fong	2,161,000	456,000	–	–	2,617,000
Leelalertsuphakun Wanee	1,961,000	456,000	–	–	2,417,000
Li Xiaoyi	1,623,000	456,000	–	–	2,079,000
Directors' total	5,745,000	1,368,000	–	–	7,113,000
Employees	9,600,000	–	(1,086,000)	–	8,514,000
Grand total	15,345,000	1,368,000	(1,086,000)	–	15,627,000

The Company issues equity-settled share options to certain employees and consultants. Equity-settled share options are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually become vested and adjusted for the effect of non-market-based vesting conditions.

The fair value of the total options granted during the year measured as at the date of grant on 13 April 2018 is HK$6,322,000.

The following significant assumptions were used to derive the fair value using the Binomial Model:

1. exercise price HK$11.216;

2. expected volatility 40.24%;

3. the options life is 10 years;

4. annualised dividend yield of 1.031%; and

5. the risk free rate of 1.978%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The fair value of the share options granted during the year was valued by Messrs. Peak Vision Appraisal Limited, independent professional valuers not connected to the Group. The valuation was derived by the Binomial Model taking into account the terms and conditions upon which the options were granted.

The Subsidiary – CVie Therapeutics Company Limited

A subsidiary of the Company, CVie Therapeutics Company Limited ("CVie"), also operates a share option scheme (the "CVie's Scheme"). The CVie's Scheme was adopted pursuant to a resolution on 5 November 2012 for the primary purpose of providing incentives to eligible employees of CVie. The share option was granted on 30 November 2012 and will expire on 30 November 2022. Under the CVie's Scheme, the board of directors of CVie may grant options to eligible employees and eligible grantees.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was Nil (2017: 440,000), representing Nil (2017: 3.26%) of the shares of CVie in issue at that date. The total number of shares in respect of which options may be granted under the CVie's Scheme shall not exceed 500,000 shares of CVie. The overall limit on the number of shares of CVie which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CVie scheme and any other share option schemes of CVie must not exceed 30% of the shares of CVie in issue from time to time, without prior approval from the shareholders of CVie. All of the option was lapsed during the year due to management decision.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of CVie, and will not be less than the fair value of each share of CVie on the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Details of the CVie's Scheme during the current year are summarised as follows:

Date of grant	Outstanding at 01.01.2018	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2018	Exercise period	Exercise price per share
Tranche 1							
30.11.2012	133,000	–	–	(133,000)	–	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	(267,000)	–	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	(40,000)	–	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	(440,000)	–		
Exercisable at the end of the year					–		
Weighted average exercise price	HK$1.628	–	–	HK$1.628	–		

41. SHARE OPTION SCHEMES *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Details of the CVie's Scheme during the prior year are summarised as follows:

Date of grant	Outstanding at 01.01.2017	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2017	Exercise period	Exercise price per share
Tranche 1							
30.11.2012	133,000	–	–	–	133,000	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	–	267,000	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	–	40,000	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	–	440,000		
Exercisable at the end of the year					40,000		
Weighted average exercise price	HK$1.628	–	–	–	HK$1.628		

Notes:

a. Upon the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

b. One year after the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

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FOR THE YEAR ENDED 31 DECEMBER 2018

41. SHARE OPTION SCHEMES *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Particulars of share options:

Date of Grant	Exercise period		Exercise price per share HK$
Tranche 1 30.11.2012	(i)	133,000 options will be exercisable upon the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 2 30.11.2012	(i)	267,000 options will be exercisable one year after the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 3 30.11.2012	(i)	40,000 options will be exercisable during the period 01.12.2014-30.11.2022	1.628

The Group has recognised an expense of HK$5,036,000 for the year ended 31 December 2018 (2017: HK$4,480,000) in relation to share options granted by the Company and CVie.

42. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt (which includes borrowings and obligations under finance leases net of cash and cash equivalents) and equity attributable to the owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

Gearing ratio

The gearing ratio at end of the reporting period was as follows:

	2018 HK$'000	2017 HK$'000
Debt *(Note 1)*	130,874	100,005
Cash and cash equivalents	(222,296)	(396,144)
Net debt	(91,422)	(296,139)
Equity *(Note 2)*	2,210,543	1,804,346
Net debt to equity ratio	N/A	N/A

Notes:

1. Debts are defined as bank and other borrowings and obligations under finance leases as described in Notes 34 and 35.

2. Equity includes all capital and reserves attributable to the owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at fair value through profit or loss	36,362	–
Held-to-maturity financial assets	–	5,826
Loans and receivables (including cash and cash equivalents)	700,984	608,262
Financial assets at fair value through other comprehensive income	606,415	–
Available-for-sale financial assets	–	203,123
– At cost	–	112,580
– At fair value	–	90,543
Convertible instrument designated at FVTPL	–	3,165
	1,343,761	820,376
Financial liabilities		
Amortised cost	484,040	305,979

Financial risk management objectives

The Group's corporate treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk, and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks and may use derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade derivative financial instruments for speculative purposes.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. FINANCIAL INSTRUMENTS *(continued)*

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group may enter into foreign currency forward contracts to hedge the exchange rate risk arising on foreign currency purchase.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
Renminbi ("RMB")	497,309	387,800	144,412	134,103
United States Dollars ("US$")	109,669	122,077	68,486	14,118
Euro ("EUR")	523	2,649	50,854	33,138
Pound Sterling ("GBP")	3	356	–	–
New Taiwan Dollars ("NTD")	256	–	–	–
Japanese Yen ("JPY")	1,398	4,833	8,047	–
Swiss Franc ("CHF")	–	3,165	–	–
	609,158	520,880	271,799	181,359

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase in the relevant foreign currencies against HK$. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or equity whereas a number in bracket indicates a decrease in profit or equity. For a 5% (2017: 5%) decrease in the relevant foreign currencies against HK$, there would be an equal and opposite impact on the profit or equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Foreign currency sensitivity analysis (continued)

	Profit or loss		Other comprehensive income	
	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
RMB	2,153	(2,945)	15,492	15,629
US$	2,059	5,398	–	–
EUR	(2,517)	(1,524)	–	–
GBP	–	18	–	–
NTD	–	–	13	–
JPY	(332)	242	–	–
CHF	–	158	–	–
	1,363	1,347	15,505	15,629

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure periodically.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease variable-rate bank and other borrowings is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow rate risk from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's pre-tax profit for the year ended 31 December 2018 would decrease/increase by HK$646,000 (2017: decrease/increase by HK$495,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Other price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities and unlisted equity securities and financial instrument for which the underlying assets are listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in biopharmaceutical industry sectors quoted in NASDAQ Stock Market and OTC Stock Market.

Other price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If the price of the equity instruments had been 5% (2017: 5%) higher/lower, other comprehensive income for the year ended 31 December 2018 would increase/decrease by HK$24,533,000 (2017: increase/decrease by HK$4,541,000) as a result of the changes in fair value of available-for-sale financial assets.

Credit risk management

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties is the carrying amount of each financial asset as stated in the consolidated statement of financial position.

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

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by single counterparty. Ongoing credit evaluation is performed on the financial condition of receivables.

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

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank and other borrowings with a Repayment on Demand Clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate	On demand or less than 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018					
Non-derivative financial liabilities					
Trade and other payables	–	290,184	–	290,184	290,184
Obligations under finance leases	3.72–3.79	904	801	1,705	1,640
Bank and other borrowings *(Note 1)*	2.88–4.79	140,309	–	140,309	129,234
Retirement benefit	5.21–6.10	–	248,120	248,120	62,982
		431,397	248,921	680,318	484,040
At 31 December 2017					
Non-derivative financial liabilities					
Trade and other payables	–	149,964	–	149,964	149,964
Obligations under finance leases	3.72	514	529	1,043	1,001
Bank and other borrowings *(Note 1)*	2.05–4.79	100,426	–	100,426	99,004
Retirement benefit	4.55–5.61	–	250,804	250,804	56,010
		250,904	251,333	502,237	305,979

Note:

1. Bank and other borrowings with a Repayment on Demand Clause are included in the "on demand or less than 1 year" time band in the above maturity analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments

Some of the Group's financial asset and financial liability are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial asset and financial liability are determined (in particular, the valuation technique(s) and inputs used).

Financial asset/ Financial liability	Fair value as at 31.12.2018	Fair value as at 31.12.2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Financial assets at fair value through profit or loss	Investments in life insurance policies HK$3,588,000	N/A	Level 2	Based on the lowest level of input.	N/A
Financial assets at fair value through other comprehensive income	Listed overseas equity securities HK$490,652,000	N/A	Level 1	Quoted bid prices in an active market.	N/A
Financial assets at fair value through other comprehensive income	Unlisted equity securities HK$44,491,000	N/A	Level 3	Income approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the specific industries, ranging from 3% to 20%. Discount rate, taking into account of weighted average cost of capital (WACC) determined using a Capital Asset Pricing Model of 16.67%. Increase in growth rate or decrease in discount rate would result in an increase in the fair value measurement, and vice versa.
				Market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities, a group of asset and liabilities.	Price- To-Book ratio ("PB ratio") taking into account of comparing similar industrial's market, ranging from 0.79 to 7.2. Discount of lack of marketability ("DLOM"), taking into account of discount between public market and market for privately held stock of 20%. Decrease in PB ratio and DLOM would result in an increase in the fair value measurement, and vice versa.
Financial assets at fair value through other comprehensive income	Unlisted partnership investment HK$71,272,000	N/A	Level 3	Based on the net asset value with reference to the prices of underlying investment portfolio quoted by fund administrator	The fair values estimated with reference to the latest private/market transaction.
Financial assets at fair value through profit or loss	Unlisted warrants HK$32,774,000	N/A	Level 2	Binomial Model was used by applying a discrete time-step lattice model of the varying price over time of the underlying financial instrument which based on current stock price in active market, the exercise price, time to expiration and risk free rate.	N/A

43. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments *(continued)*

Financial asset/ Financial liability	Fair value as at 31.12.2018	Fair value as at 31.12.2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Available-for-sale financial asset – Equity securities	N/A	Listed overseas equity securities HK$87,067,000	Level 1	Quoted bid prices in an active market.	N/A
Available-for-sale financial asset – Equity securities	N/A	Unlisted equity securities with underlying listed overseas equity securities HK$2,179,000	Level 1	Quoted bid prices in an active market.	N/A
Available-for-sale financial asset – Warrants	N/A	Unlisted assets HK$1,297,000	Level 2	Binomial Model was used by applying a discrete time-step lattice model of the varying price over time of the underlying financial instrument.	N/A
Convertible instrument	N/A	Assets HK$3,165,000	Level 3	Partial differential equations, specially the Crank-Nicolson finite-difference method, was used by applying discount rate, volatility levels and underlying stock price.	Stock price of CHF34.80 estimated by discounted cash flows method. Increase in stock price would result in an increase in the fair value measurement, and vice versa.
Retirement benefits	Liabilities HK$62,982,000	Liabilities HK$56,010,000	Level 3	Discounted cash flows method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the retirement benefit, period till the year of retirement.	Annualised historical growth rate of 4.2%. An increase in annualised historical growth rate would result in an increase in the fair value measurement, and vice versa. Discount rate determined by the Hong Kong Interest Rate Swap Curve, adjusted by county risk premium and option adjusted spread, ranging from 5.21% to 6.1%. An increase in discount rate would result in a decrease in the fair value measurement, and vice versa.

There were no transfers between Levels 1 and 2 in the current year.

The directors consider that the amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

43. FINANCIAL INSTRUMENTS *(continued)*

Reconciliation of Level 3 fair value measurements

	FVTOCI– Unlisted equity securities HK$'000	FVTOCI – Unlisted partnership investment HK$'000	Convertible instrument HK$'000	Retirement benefits HK$'000
Year ended 31 December 2018				
Opening balance	–	–	3,165	56,010
Reclassification under HKFRS 9	46,671	65,909	–	–
Additions	–	10,990	3,724	–
Conversion of common shares	6,957	–	(6,957)	–
Contribution recognised in profit or loss	–	–	–	6,972
Fair value change of financial assets at FVTOCI	(9,137)	(5,627)	–	–
Interest income	–	–	68	–
Closing balance	44,491	71,272	–	62,982
Year ended 31 December 2017				
Opening balance	–	–	–	42,015
Additions	–	–	3,165	–
Contribution recognised in profit or loss	–	–	–	13,995
Closing balance	–	–	3,165	56,010

For the year included in profit or loss, HK$6,972,000 related to retirement benefit is recognised in administrative expense. Fair value change of financial assets at fair value through other comprehensive income amounting to HK$14,764,000 is included in investment revaluation reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank and other borrowings HK$'000 Note 34	Obligations under finance leases HK$'000 Note 35
At 1 January 2017	133,578	1,468
Changes from financing cash flows:		
New loans raised	70,486	–
Repayment of loans	(78,503)	–
Repayment of obligations under finance leases	–	(467)
Exchange rate adjustments	2,984	–
Other changes:		
Deemed disposal of a subsidiary	(29,541)	–
At 31 December 2017 and 1 January 2018	99,004	1,001
Changes from financing cash flows:		
New loans raised	101,750	–
Proceeds from obligations under finance leases	–	1,427
Repayment of loans	(71,332)	–
Repayment of obligations under finance leases	–	(788)
Other changes:		
Interest payable	4,161	–
Interest paid	(4,160)	–
Exchange rate adjustments	(189)	–
At 31 December 2018	129,234	1,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

45. OPERATING LEASES

	2018 HK$'000	2017 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	8,431	10,256

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	6,877	8,033
More than one year but not exceeding five years	5,081	5,051
	11,958	13,084

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 1 to 3 years (2017: 1 to 5 years). The Group does not have options to purchase the leased asset at the expiry of the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

46. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital commitments contracted for:		
Investment in financial assets at fair value through other comprehensive income/available-for-sale financial assets	27,780	16,552
Intangible assets – license fee and development cost	77,629	76,760
Property, plant and equipment	114,233	38,427
	219,642	131,739
Authorised and not contracted for:		
Intangible assets – license fee and development cost	–	28,653

47. PLEDGED OF ASSETS

At 31 December 2018, the Group has pledged bank deposits of HK$38,770,000 to secure banking facilities granted to CVie Taiwan which ceased to be the Group's associate since 21 December 2018 and HK$7,754,000 to secure bank deposits to WTI (2017: HK$27,915,000 pledged bank deposits to secure general banking facilities granted to an associate of the Group under arrangement).

In addition, the Group's obligations under finance leases are secured by the lessor's title to the motor vehicles, which have a carrying amount of HK$3,090,000 (2017: HK$1,652,000).

48. CONTINGENT LIABILITIES

Financial guarantee to associates

As at 31 December 2018, the Group had contingent liabilities amounting to HK$8,000,000 (2017: HK$55,340,000) in respect of financial guarantees given to banks for the banking facilities granted to associates. Total HK$$8,000,000 has been remained unutilised by the associate.

Financial guarantee to CVie Taiwan

As at 31 December 2018, the Group had contingent liabilities amounting to NTD180,000,000 (approximately HK$46,080,000) in respect of financial guarantees given to banks for the banking facilities granted to CVie Taiwan. NTD138,000,000 (approximately HK$35,328,000) has been utilised by CVie Taiwan and NTD42,000,000 (approximately HK$10,752,000) has been remained unutilised.

In the opinion of the directors of the Company, the fair value of the financial guarantee contracts of the Group is insignificant at initial recognition and the directors of the Company has considered the probability of default is remote. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

48. CONTINGENT LIABILITIES *(continued)*

Contingent liabilities arising from the disposal of CVie Taiwan

In connection with the disposal of CVie Taiwan as disclosed in Note 21(iii), the Company is liable, for a period of twelve months from the disposal ("Merger Closing Date"), to indemnify the holders of the issued and outstanding shares of common stock of WTI as of the date prior the Merger Closing Date (other than the group entities within the Group) (the "Indemnitees") for any loss, liability, damage or expenses, including reasonable attorney's fees and expenses incurred by WTI in connection with or, as a result of, any material inaccuracy in any representation or warranty made by an indirect non-wholly owned subsidiary of the Company in the Merger Agreement.

The Company shall have no obligation to indemnify the Indemnitees unless and until the total amount of all losses exceeds US$500,000 in the aggregate, in which event the Company shall only be obligated to indemnify the Indemnitees for losses in excess of US$500,000. The liability of the Company under such indemnification shall be limited to the distribution of 984,000 share of common stocks of WTI. As at 31 December 2018, the directors of the Company have taken into account all relevant facts and circumstances available in relations to the indemnification and consider no provision for impairments is necessary in respect thereof.

49. RELATED PARTIES TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties. In the opinion of the directors, the following transactions arose in the ordinary course of the Group's business:

(a) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018 HK$'000	2017 HK$'000
Short-term benefits	27,356	24,682
Share-based payments	2,470	1,812
Retirement benefits and other post-employment benefits	7,026	14,049
– Defined contribution plan	54	54
– Retirement benefits	6,972	13,995
	36,852	40,543

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. RELATED PARTIES TRANSACTIONS *(continued)*

(b) Transaction with associates

	2018 HK$'000	2017 HK$'000
Interest income	1,339	803
Sales of goods	2,606	–
Purchase of goods	57	–
Service income	11,972	–

(c) Issue of subsidiary's shares to Perfect Concept Holdings Limited ("Perfect Concept")

China Oncology Focus Limited ("COFL"), on a pro rata basis, issued 38,500 shares to Perfect Concept. Dr. Li Xiaoyi, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the majority of the beneficial owners of Perfect Concept and Perfect Concept is considered as a related party to the Group. Total consideration received for the issue of shares is US$7,777,000 (approximately HK$60,303,000).

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 90% of the equity interest in Perfect Concept and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's International is a shareholder of COFL and at the same time, Perfect Concept, is also a shareholder of COFL. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COFL, and therefore, the issue of COFL's shares to Perfect Concept constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

(d) Donation to Lee's Pharmaceutical - Kanya Lee Scholarship Limited ("Kanya Lee Scholarship")

During the year, total HK$1,269,000 (2017: HK$1,300,000) was donated to Kanya Lee Scholarship. Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

1. General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2018 are set out as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly		Indirectly		Principal activities
				2018	2017	2018	2017	
Lee's Pharmaceutical International Limited	British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Investment holding
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Limited* *(Note 1)*	PRC	Paid-up capital	US$2,000,000	–	–	100%	100%	Manufactures and sale of pharmaceutical products
China Oncology Focus Limited	British Virgin Islands	Ordinary	US$173,000 (2017: US$63,000)	–	–	65%	65%	Development of oncology products
Zhaoke Pharmaceutical (Guangzhou) Limited* *(Note 1)*	PRC	Paid-up capital	US$16,000,000	–	–	100%	100%	Trading of pharmaceutical products
China Cardiovascular Focus Limited	British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding
Guangzhou Zhaoke Lian Fa Pharmaceutical Limited* *(Note 1)*	PRC	Paid-up capital	US$1,000,000	–	–	100%	100%	Trading of pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

1. General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2018	2017	2018	2017	
CVie Therapeutics Company Limited	Cayman Islands	Ordinary	US$135,000	–	–	56.26%	56.26%	Development and trading of pharmaceutical products
CVie Therapeutics (HK) Limited	Hong Kong	Ordinary	HK$500,000	–	–	56.26%	56.26%	Not yet commenced business
Guangzhou Zhao Kang Hospital Co. Ltd* *(Note 1)*	PRC	Paid-up capital	US$19,000,000	–	–	100%	100%	Hospital and medical care
Zhao Kang Medical Investment Limited	Cayman Islands	Ordinary	US$1,000	–	–	100%	100%	Investment holding
Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited* *(Note 1)*	PRC	Paid-up capital	US$5,307,000	–	–	100%	100%	Development and manufacturing of ophthalmology products
Zhaoke (Guangzhou) Oncology Pharmaceutical Limited* *(Note 1)*	PRC	Paid-up capital	US$600,000 (2017: US$100,000)	–	–	65%	65%	Development of oncology products
Zhao Kang Medical HK Limited	Hong Kong	Ordinary	HK$10,000	–	–	100%	100%	Not yet commenced business
China Ophthalmology Focus Limited	British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding
Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited	Hong Kong	Ordinary	HK$10,000	–	–	100%	100%	Development of ophthalmology products

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

1. General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly		Indirectly		Principal activities
				2018	2017	2018	2017	
Zhaoke (Hong Kong) Oncology Pharmaceutical Limited	Hong Kong	Ordinary	HK$10,000	–	–	65%	65%	Development of ophthalmology products
LPH Investments Limited	Cayman Islands	Ordinary	US$100 (2017: US$1)	74%	100%	–	–	Investment holding
LPH II Investments Limited	Cayman Islands	Ordinary	US$100	100%	–	–	–	Investment holding *(Note 2)*
Zhaoke Lian Fa (Guangzhou)_ Biotechnology Limited* *(Note 1)*	PRC	Paid-up capital	RMB500,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke Lian Fa (Guangzhou)_ Logistics Limited* *(Note 1)*	PRC	Paid-up capital	RMB500,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke Lian Fa (Guangzhou)_ Business Services Limited* *(Note 1)*	PRC	Paid-up capital	RMB500,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Lee's Pharmaceutical Taiwan Limited* *(Note 1)*	Taiwan	Ordinary	NTD1,000,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Lee's Pharm Genomics Lab Limited	Hong Kong	Ordinary	HK$1	–	–	100%	–	Not yet commenced business *(Note 2)*

* *For identification purpose only*

Notes:

1. These are wholly foreign owned enterprises.

2. These companies were incorporated in current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

2. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below show details of non-wholly owned subsidiary of the Group that has material non-controlling interests at the end of the current year:

Name of subsidiaries	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2018 %	2017 %	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
CVie Therapeutics Company Limited *(Note 1)*	Cayman Islands	43.74%	43.74%	(7)	(26,231)	(5,149)	(5,160)
China Oncology Focus Limited *(Note 1)*	British Virgin Islands	35.00%	35.00%	(28,493)	(2,317)	29,715	(2,254)

Note 1: Include its wholly-owned subsidiary(ies).

Summarised financial information in respect of Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

CVie Therapeutics Company Limited and its subsidiary

	2018 HK$'000	2017 HK$'000
Current assets	13,918	34,363
Non-current assets	88	9,443
Current liabilities	21,213	50,417
Non-current liabilities	2	2
Capital deficiency to the owners of the Company	(4,056)	(3,720)
Non-controlling interests	(3,153)	(2,893)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

2. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CVie Therapeutics Company Limited and its subsidiary (continued)

	Year ended 2018 HK$'000	Year ended 2017 HK$'000
Revenue	32,764	44,197
Expenses	(33,399)	(106,321)
Loss for the year	(635)	(62,124)
Loss attributable to the owners of the Company	(357)	(34,951)
Loss attributable to the non-controlling interests	(278)	(27,173)
Loss for the year	(635)	(62,124)
Other comprehensive expense attributable to the owners of the Company	–	–
Other comprehensive expense attributable to non-controlling interests	–	–
Other comprehensive expense for the year	–	–
Total comprehensive expense attributable to the owners of the Company	(357)	(34,951)
Total comprehensive expense attributable to non-controlling interests	(278)	(27,173)
Total comprehensive expense for the year	(635)	(62,124)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

2. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CVie Therapeutics Company Limited and its subsidiary (continued)

	Year ended 2018 HK$'000	Year ended 2017 HK$'000
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(10,675)	(11,987)
Net cash inflow from investing activities	11,638	226
Net cash (outflow) inflow from financing activities	(662)	11,631
Net cash inflow (outflow)	301	(130)

China Oncology Focus Limited and its subsidiaries

	2018 HK$'000	2017 HK$'000
Current assets	7,999	7,842
Non-current assets	141,422	10,461
Current liabilities	62,617	22,840
Non-current liabilities	–	–
Equity (capital deficiency) attributable to the owners of the Company	56,423	(2,949)
Non-controlling interests	30,381	(1,588)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

2. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

China Oncology Focus Limited and its subsidiaries (continued)

	Year ended 2018 HK$'000	Year ended 2017 HK$'000
Revenue	595	9,616
Expenses	(82,003)	(16,237)
Loss for the year	(81,408)	(6,621)
Loss attributable to the owners of the Company	(52,915)	(4,304)
Loss attributable to the non-controlling interests	(28,493)	(2,317)
Loss for the year	(81,408)	(6,621)
Other comprehensive income attributable to the owners of the Company	296	–
Other comprehensive income attributable to non-controlling interests	159	–
Other comprehensive income for the year	455	–
Total comprehensive expense attributable to the owners of the Company	(52,619)	(4,304)
Total comprehensive expense attributable to non-controlling interests	(28,334)	(2,317)
Total comprehensive expense for the year	(80,953)	(6,621)

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FOR THE YEAR ENDED 31 DECEMBER 2018

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

2. Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

China Oncology Focus Limited and its subsidiaries (continued)

	Year ended 2018 HK$'000	Year ended 2017 HK$'000
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(20,700)	(12,568)
Net cash outflow from investing activities	(130,957)	(1,121)
Net cash inflow from financing activities	157,294	14,466
Net cash inflow	5,637	777

3. Change in ownership interests in a subsidiary

During the year, the Group disposed 26% its interest in LPH Investments Limited ("LPH Investments"), reducing its continuing interest to 74%. The proceeds on disposal of HK$20,161,000 were received in cash. An amount of HK$20,161,000 (being the proportionate share of the carrying amount of the net assets of LPH Investments) has been transferred to non-controlling interests with corresponding amount to other reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current Assets		
Interests in subsidiaries	636,010	629,893
Investment in an associate	10,000	10,000
Financial assets at fair value through profit or loss	5,095	–
Financial assets at fair value through other comprehensive income	125,801	–
Available-for-sale financial assets	–	127,842
	776,906	767,735
Current Assets		
Other receivables, deposits and prepayments	2,772	2,621
Convertible instrument	–	3,165
Tax recoverable	–	52
Held-to-maturity financial assets	–	5,826
Pledged bank deposits	46,524	27,915
Time deposits	–	20,000
Cash and bank balances	27,300	4,482
	76,596	64,061
Current Liability		
Other payables	17,830	5,622
Net Current Assets	58,766	58,439
Total Assets less Current Liability	835,672	826,174
Capital and Reserves		
Share capital	29,601	29,547
Reserves	743,089	740,617
	772,690	770,164
Non-current Liability		
Retirement benefits	62,982	56,010
	835,672	826,174

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Share premium	Merger difference	Share-based compensation reserve	Investments revaluation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	724,868	9,200	15,247	(28,164)	19,466	740,617
Employee share option benefits	–	–	4,996	–	–	4,996
Exercise of share options	6,903	–	(1,582)	–	–	5,321
Profit for the year	–	–	–	–	72,412	72,412
Other comprehensive expense for the year						
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	(18,689)	–	(18,689)
Total comprehensive (expense) income for the year	–	–	–	(18,689)	72,412	53,723
2017 final dividend paid	–	–	–	–	(41,439)	(41,439)
2018 interim dividend paid	–	–	–	–	(20,129)	(20,129)
At 31 December 2018	731,771	9,200	18,661	(46,853)	30,310	743,089
At 1 January 2017	721,154	9,200	11,573	(12,716)	49,848	779,059
Employee share option benefits	–	–	4,440	–	–	4,440
Exercise of share options	3,714	–	(766)	–	–	2,948
Profit for the year	–	–	–	–	36,345	36,345
Other comprehensive expense for the year						
– Fair value changes of available-for-sale financial assets	–	–	–	(15,448)	–	(15,448)
Total comprehensive (expense) income for the year	–	–	–	(15,448)	36,345	20,897
2016 final dividend paid	–	–	–	–	(46,635)	(46,635)
2017 interim dividend paid	–	–	–	–	(20,092)	(20,092)
At 31 December 2017	724,868	9,200	15,247	(28,164)	19,466	740,617

52. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.