聯康集團
Uni-Bio Science

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

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

2018
Annual Report

* For identification purposes only

ACCELERATED GROWTH

AGILE

INTERNATIONAL EXECUTION

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

BUILDING ON A STRONG FOUNDATION

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

OUR MISSION

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

OUR VISION

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

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

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OUR COMMITMENT OF QUALITY

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

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

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

Currently, the Group has two new prescription drugs that have completed all clinical trials – rExendin-4 ("Uni-E4") and rhPTH 1-34 ("Uni-PTH").

- **Uni-E4 is targeted at the Type 2 diabetic patient population, especially those who are overweight.**
- **Uni-PTH is a treatment for osteoporosis in postmenopausal women (submitted and accepted for review by the CFDA in April 2015).**

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


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WE ARE DEDICATED TO IMPROVING THE QUALITY OF LIFE OF PATIENTS THROUGH INNOVATIVE TREATMENTS

Key Financial Highlights

	Note	Year ended 31 December	
		2018	2017
Revenue (HK$'000)		**135,258**	156,477
Gross profit (HK$'000)		**117,601**	133,628
R&D costs (HK$'000)		**(44,174)**	(42,519)
Loss before taxation (excluding the impairment of assets)		**(120,433)**	(76,637)
Adjusted LBITDA (HK$'000)	1	**(98,431)**	(45,396)
Gross profit margin (%)		**86.9%**	85.4%
R&D costs to revenue (%)		**32.7%**	27.2%

		As at 31 December	
		2018	2017
Cash ratio (times)	2	**0.98**	2.66
Current ratio (times)	3	**2.64**	4.51
Trade payables turnover days (days)	4	**80**	111
Trade receivables turnover days (days)	5	**115**	106
Inventory turnover days (days)	6	**331**	212
Debt-to-equity ratio (%)	7	**20.2%**	13.7%
Total assets turnover (%)	8	**55.8%**	40.1%

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R&D COSTS TO REVENUE

32.7%

^

REVENUE

135,258

(HK$'000)

^

GROSS PROFIT MARGIN

86.9%

Notes for key ratios:

1 Adjusted LBITDA:
Loss before taxation minus interest expense, impairment loss, depreciation of property, plant and equipment, amortization of intangible assets and prepaid lease payments

2 Cash ratio:
Bank balances and cash/current liabilities

3 Current ratio:
Current assets/current liabilities

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

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

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

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

8 Total assets turnover:
Total revenue/total assets

LEADING GENUINE INNOVATION

CHAIRMAN'S STATEMENT

Chairman's Statement

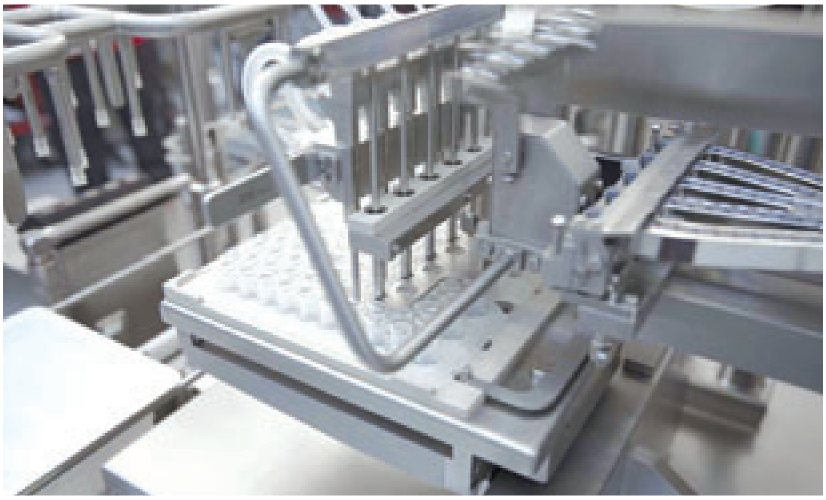
FINANCIAL FIGURES BASED ON REPORTABLE SEGMENT FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2018

	Year ended 31 December		
	2018 **HK$'000**	2017 HK$'000	Change
Revenue from sales of in-house pharmaceutical products	**135,258**	156,477	–13.6%
Cost of sales	**(17,657)**	(22,849)	–22.7%
Gross profit	**117,601**	133,628	–12.0%
Other gains and losses	**(1,703)**	(2,330)	-26.9%
Selling and distribution expenses	**(115,989)**	(76,446)	51.7%
General and administrative and other expenses	**(22,976)**	(23,540)	–2.4%
Operating income from marketed biological and chemical pharmaceutical products	**(23,067)**	31,312	–173.7%
Other income & other loss	**8,470**	5,057	67.5%
Expenses incurred for pipeline products and future projects	**(65,124)**	(68,218)	–4.5%
Other administration expenses	**(30,873)**	(40,454)	-23.7%
Finance costs	**(247)**	(177)	39.5%
Equity-settled share based payment expenses	**(8,550)**	(6,864)	24.6%
Loss before impairment losses and others	**(119,391)**	(79,344)	50.5%
Change in fair value of investment properties	**(1,042)**	2,707	–138.5%
Impairment losses on intangible assets	**(14,400)**	(167,705)	–91.4%
Impairment losses on property, plant and equipment	**(3,600)**	(33,955)	–89.4%
Loss before taxation	**(138,433)**	(278,297)	–50.3%

KINGSLEY LEUNG
(Chairman)

Dear esteemed shareholders, employees, and key stakeholders,

I am pleased to announce the annual results of 2018. This year is another rollercoaster year in the world of biopharmaceuticals. The level of reforms has certainly been some of the largest in the modern biopharmaceutical industry. Firstly we start with some positive changes, the introduction of the Chapter 18A: Biotech Listing Companies is the biggest reform in the history of the HKEX. The appearance of this channel for pre-revenue biotechnology companies to list in Hong Kong has definitely perked the interest of many investors both domestically and internationally. Even though the aftermarket reaction is mixed for a number of companies who took advantage of this opportunity, I am generally very encouraged by the current increasing trend of pre-revenue companies looking to list in Hong Kong. Increasing numbers of investors are starting to learn more about our industry and a number of financial institutions have issued specialised research coverage on biotech. Overall, I strongly feel that increasing numbers of sophisticated investors will only bring more value to Uni-Bio, since one of the most difficult barriers for investors previously was giving our innovative pipeline a fair valuation it deserves.



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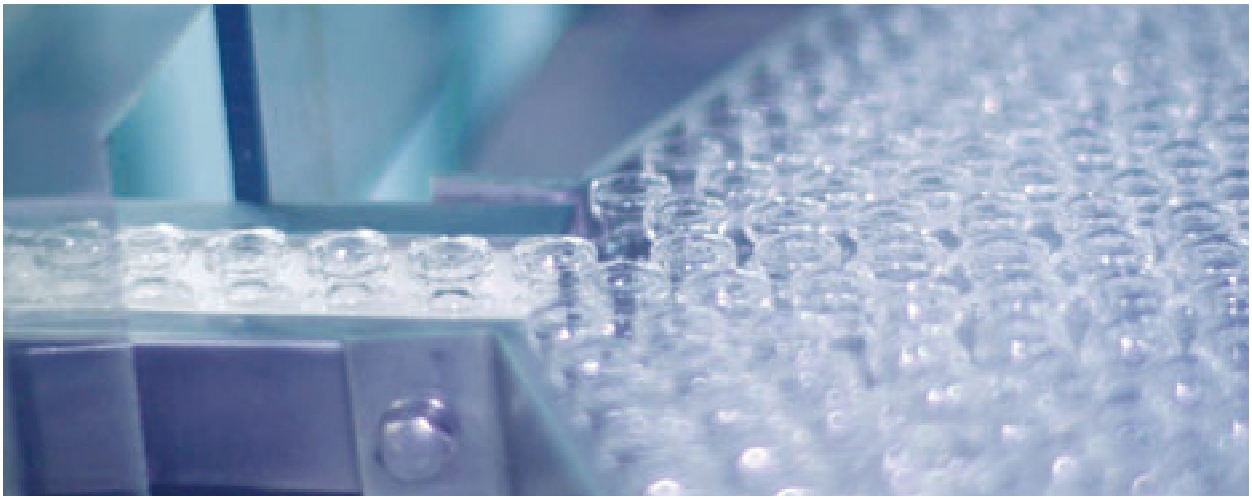
Cartridge pre-filled Syringe production line

Secondly, the second biggest change in the industry is the introduction of 4+7 centralised procurement. As a bid for the government to contain the nation's drug spending, they introduced a centralised procurement mechanism in 11 pilot cities where the government awards bulk-procurement to the drug manufacturers with lowest pricing. This has resulted in a vicious price war leading to some drugs reduced as much of 80% of its price. Unfortunately, these types of reforms will only continue and negative pricing pressure will persist for many years to come. Luckily for Uni-Bio these negative pricing pressure are focused on heavily used generic products, thus none of the Group's drug portfolio has been affected. Even in the near future, most of the Group's current and future growth products are biologics and will not be included in the centralised procurement mechanism. However, our chemical generic portfolio will be at risk, but our original strategy of developing relatively niche products with limited competitors and strong market access positions mean we may be spared by large-scale price wars, even if these products are to be included in the procurement scheme.

As the Company is looking to benefit more from the government's push to support innovative drugs, I regretfully announce that for the first time in five years, the Group's sales has shrunk versus the previous year. On a positive note, we have experienced some strong volume and sales growth in our biological products but this was not good enough to offset the market lost in the chemical drug business. Specifically, Pinup® experienced "price dumping" activity by our competitors. A number of competitors are starting to lower their prices significantly for Voriconazole because they choose not to initiate Bioequivalence ("**BE**") study and attempt to occupy as much market share as possible before new Bioequivalence-ready Voriconazole enters the market. Hence, the Group has made it a strategic priority to accelerate the progress of BE studies, looking to complete all BE related work within 2019 for Pinup®. At the same time, to better commercialise the product, the Group entered into a national promotion deal with Loymed, a leading Contract Sales Organization within the Hematology space. Loymed is the perfect partner for our Pinup® as they have extensive experience selling anti-infective products for the last decade. I am confident that the combination of a successful BE and partnership with Loymed will quickly help Pinup® regain market share.

On a more positive note, the Group has seen encouraging progress in our pipeline products in 2018. We announced three important progress across our portfolio, which should bring catalyst to the company in the near term. Firstly, we submitted new drug applications ("**NDA**") of our 1st generation Uni-PTH product to the National Medical Products Administration ("**NMPA**", previously named "**CFDA**"). Secondly, we received positive feedback from the Center for Drug Evaluation ("**CDE**") on an accelerated path of developing our 2nd generation Uni-E4 product.



Also, we submitted Abbreviated New Drug Application for our Acarbose generic in the end of the year. In the manufacturing side, we put in place a new, state-of-the-art manufacturing line to support the commercialisation of 2nd generation Uni-E4 and Uni-PTH. With any excess capacity, the Group can dabble in Contract Manufacturing Organization ("**CMO**") business, which will maximise our return-on-investment. On the corporate development end, the Group completed an important disposal that will provide the group with non-dilutive financing to further fund working capital and improve our cost structure for the years to come.

There are many other key achievements which I do not intend to highlight further here. Albeit the weak sales results, the Group has moved the needle forward across all parts of our value chain. During my 5 years of time in the Company, we have completely emerged to a different organization. We are stronger, more mature, more focused and much more ready for change. We still face many challenges to come, but our style is to tackle these head on. As I highlighted in the Group's annual dinner, the compounding effect of improvements every day, ever so small, will mean big changes by the end of the year. By embracing our four core values of "Caring", "Leading", "Focus" and "Responsibility", we will continue to improve on a daily basis till we reach our vision of becoming a respectable biopharmaceutical company.

I am particularly excited for the coming two years with the company, I strongly believe the fruit of our labours will start to ripen. Especially with increasing reforms to support biotech and the announcement of more positive changes within the Great Bay Area, Uni-Bio is poised to grow even faster. On that note, I would like to thank our investors, employees, customers, suppliers and other key stakeholders for their relentless support in 2018. I look forward to continuing our journey together in the year of the Pig.

ACCELERATED GROWTH

INTERNATIONAL EXECUTION

Management Discussion and Analysis

Management Discussion and Analysis

MARKET REVIEW

Looking back to China's healthcare sector in 2018, a series of government regulations have come into force and exerted substantial impacts on various market players, especially pharmaceutical companies that manufacture generic drugs and have research and development ("**R&D**") input on innovative drugs. Specifically, reforms such as institutional restructuring and stringent quality control have added downward pressure to pricing, tendering and bioequivalence ("**BE**") study, while also encouraging other NDA. The Two-invoice System, meanwhile, continued to reshape the market at different levels of medical institutions, resulting in a short-term price decline among pharmaceutical companies such as Uni-Bio, as sales channels became increasingly transparent and efficient. In April 2018, Opinions of the General Office of the State Council on Reforming and Improving Policies on the Guaranteed Supply and Use of Generic Drugs ("**the Opinions**") was published, with the aim of accelerating quality advancement and therapeutic effect consistency assessment of generic drugs. And in late December 2019, there was also the announcement on relaxing timeline for enterprises to obtain the BE approval for manufacturing and selling generic drugs in the China market. The aforementioned policies have greatly benefited the Group's generic drugs which were under BE study, including Pinup®, Bokangtai, and Acarbose.

With regards to innovative drugs, since the reform of China's drug review and approval system, a communication mechanism between applicants and review agencies was established in order to accelerate the R&D process and reduce the time to market. In 2018, CDE of NMPA received a total of 7,395 applications for new drugs registration, showing a notable increase of 53.7% on a year-on-year ("**YoY**") basis. Supported by the favourable policies and efficient application procedure, the original drugs market has enjoyed a boom, thus bringing tremendous opportunities and momentum to the Group's product pipeline, for example, Uni-PTH and Uni-E4. Furthermore, as the 2018 edition of National Essential Drugs List included more drugs targeting chronic diseases, the Group's diabetes-oriented Bokangtai, Acarbose and Uni-E4 were drawing growing attention from the market, and would be viewed as the Group's significant growth drivers in the future.

BUSINESS REVIEW

Uni-Bio Science – A Fully Integrated Biopharmaceutical Company

Uni-Bio is a biopharmaceutical company focusing on diabetes and related metabolic disorders, dermatology and ophthalmology. From R&D, production, manufacturing, to sales and distribution of biopharmaceutical and chemical drugs, the Group has established a fully integrated business platform serving the entire value chain. As of 31 December 2018, the Group has launched 4 products into the market, namely GeneTime®, GeneSoft®, Pinup® and Bokangtai.

KEY ACCOMPLISHMENTS IN 2018

For the twelve months ended 31 December 2018 (the "**Year**"), the Group continued with its development strategy of investing more resources into R&D and restructuring, while expanding the sales capacity for its biologic drugs, notably GeneTime® and GeneSoft®. These investments have begun to bear fruit during the Year, as sales order received per hospital has a substantial increase, the extended coverage into tier-3 hospitals, primary healthcare centres, and community hospitals has greatly fueled the revenue growth of the Group.

In addition, since the strategic cooperation with China Resources Zizhu Pharmaceutical Co., Ltd. ("**CR Zizhu**"), who solely represents the Group for the distribution of GeneSoft®, revenue generated from the product has increased significantly over the Year, as the Group was able to benefit from the introduction of GeneSoft® to CR Zizhu's existing domestic hospital network. The Group believes that the cooperation will continue to expand GeneSoft®'s market presence, which in return, should be able to generate a healthy, recurring cash flow in the future.

Disposal of all the economic rights relating to the land parcel located in Shenzhen and Dongguan R&D Platform to Streamline Business Operations

During the Year, the Group strategically entered into an agreement for disposal of all the economic rights relating to the land parcel located in Shenzhen, the People's Republic of China ("**PRC**") registered under the name of ShenZhen Watsin Genetech Limited* ("**WTGL**"), an indirect wholly-owned subsidiary of the Company. The transaction had subsequently been approved at an extraordinary general meeting of the Company held on 25 February 2019.

In addition, during the Year, the Group strategically offloaded its chemistry, manufacturing, and controls ("**CMC**") platform and related facilities in Dongguan and transformed it to an independently operating entity, so as to optimise asset allocation and focus more on the clinical trials of pipeline products. Upon the completion of its sold-off, the Group is delighted to see positive results and milestones' reaching of 2018 R&D progressing so far.

As the Group has been moving to become an expert in endocrinology along with advancing its ophthalmology and dermatology capabilities, it is of the view of the Group that such disposal will enable the Group to streamline its business operations, rationalise its asset composition and to focus on its core business, which are developing manufacturing and distribution of Innovative biological pharmaceutical products. The Group believes that such strategic move will enhance the scope of focus and allow more room for developing our strengths.

Collaboration with Beijing Baiao to Focus on Advancing the Endocrinology Business

With a heavy focus on endocrinology, the Group is actively pursuing opportunities in diabetes treatment. Acarbose, effective for the treatment of Type 2 diabetes and is eligible for healthcare reimbursement as it has been included in the National Reimbursement Drug List ("**NRDL**") Class A, has provided the Group with the perfect vehicle to tap into the market.

With an estimated market value of as high as US$3.2 billion, the Group is pleased that during the Year, Beijing Genetech Pharmaceutical Co., Limited ("**Beijing Genetech Pharm**"), a wholly-owned subsidiary of the Company, has entered into a strategic cooperation with Beijing Baiao Pharmaceutical Co., Ltd. ("**Beijing Baiao Pharmaceutical**") to co-explore the market potentials and promote the adoption of Acarbose tablet products. According to the agreement, Beijing Baiao Pharmaceutical will invest in order to acquire the interests in the products, and be entitled to future marketing revenue. This paved a solid foundation for the future development of Acarbose, as the two parties will leverage their respective R&D capabilities in the biopharmaceutical field and push for its success.

At current status, the Group has completed the BE study of Acarbose tablet and is in the view that BE results are robust. The abbreviated new drug application together with related BE study results were submitted and accepted by the NMPA in December 2018. The Group is confident that it will obtain the manufacturing licence and officially launch Acarbose tablet to the market within the year of 2019.

On the other hand, the Group's self-developed biologic drug, Recombinant Exendin-4 Injection ("**2nd Generation Uni-E4**"), has been accepted by the CDE of NMPA for Phase III clinical trial during the Year. As a class of anti-diabetic treatments called GLP-1 agonists, and a non-insulin treatment candidate that stimulates the incretin pathway, Uni-E4 has been shown to be effective and well-accepted in treatment of Type 2 diabetes, and is one of the only classes causing weight loss, lower risk of hypoglycaemia and increasing β-cell regeneration. It is also effective in controlling postprandial glucose on the premise of non-occurrence of pre-meal hypoglycaemia, suitable for Asian patients who prefer lower dosage and are subject to postprandial glucose elevation.

The Group aims to become an expert in the biopharmaceutical industry with a strong product pipeline in endocrinology, particularly in diabetes treatment. To achieve that, the Group has continued to make progress during the Year, through collaborations with various parties and by actively pursuing human bioequivalence for Acarbose tablets and Mitiglinide tablets. By taking advantage of the Group's strong commercial platforms and distribution channels, it is believed that the three diabetes drugs will rapidly enter the hospital network considering their competitive efficacy and reasonable pricing.

Uni-PTH Marching towards Official Launch

Effective in treating osteoporosis and bone pain, increasing bone density, and reducing the risk of bone fracture, Uni-PTH (parathyroid hormone 1-34 analogue) belongs to the Class VII prescription new biologic drug. As it is currently the only anabolic agent effective in improving bone density and reducing chances of vertebral and extra vertebrae fractures, it has substantial market potential with an estimated market value of approximately RMB15.5 billion. Given that the aging population continues to expand, together with the improving knowledge in bone health, the Group is taking proactive actions in order to capture the needs from the ever-expanding potential patients, by progressing on the launch timetable of the powder formulation of Uni-PTH and actively preparing for its NMPA's on-site inspection. The Group strives to become the second company to launch such product in China.

The Chinese market is facing a rapidly expanding base of aging population. According to *Xinhua Net – Population Estimation: Population of China will reach 1.45 billion by 2030*, it is estimated that over 25% of China's population will be over the age of 60 in 2030. To capture the vast opportunities presented, the Group is delighted to see progress in our product – rhPTH (recombinant parathyroid hormone 1-34). Moreover, the Group has planned a development package including its 2nd generation of injection and oral dosage Form as the 3rd generation product, which will be driving force in long run to the group's Biological pipeline.

Harness Complementary Strengths with Loymed Pharma for Pinup® Channel Expansion

During the Year, Pinup® (commonly known as voriconazole tablets) successfully tapped into the Guizhou, Xinjiang, Shaanxi and Hainan market and expanded its coverage to 26 provinces. Adding to such achievement, the Group also entered into a cooperation agreement for Pinup® National Promotion Project (the "**Agreement**") with Shanghai Loymed Pharma Technology Co., Ltd. (上海信忠醫藥科技有限公司) ("**Loymed Pharma**"). Under the Agreement, Loymed Pharma was granted the exclusive agency right to market, promote, distribute and sell the contract product in the PRC. Upon signing the Agreement, Loymed Pharma will pay the Group by instalments in the manner of Milestone Payments as the consideration for the transactions. Leveraging Loymed Pharma's self-operated sales teams that currently targeting over 500 2A or above hospitals in China, which has enjoyed an over 30% sales growth for many consecutive years, along with its strong expert network. The Group believes that partnering with Loymed Pharma, which is equipped with experience sales teams in hematologic tumor and oncology medicines, strong experts network, satisfactory operating basis and powerful sales channels. it will continue to expand the market coverage of Pinup® in order to fully realize its market potential. At the same time, the cooperation benefits the Group by reducing the selling and distribution expenses, thus allowing the Group to focus on its core competencies, namely endocrinology, ophthalmology and dermatology.

Commencement of 3-in-1 CMO Services to Fully Harness Asset Values

In June 2016, the Marketing Authorization Holder ("**MAH**") Trial Scheme promulgated by the State Council of the PRC confirmed the separation of launching and manufacturing authorization for drugs. After the revision, pharmaceutical institutions with R&D capacities, or even individuals, could apply for authorization and collaborate with pharmaceutical companies for production, thus encouraging companies to focus on R&D and innovation.

To take full advantage of the Scheme, the Group intended to fully utilize its production capacities in order to realize its asset values. At the year end of 2018, the Group set up two state-of-the-art aseptic production lines for injection-form drugs, namely the lyophilized powder injection line and cartridge/pre-filled syringe line to support the development of the 2nd Generation Uni-PTH and Uni-E4 products, and currently the production lines are also put into operation of CMO services aside from its original use. In addition to the above two new production lines and the existing oral tablets production line, the Group has launched the 3-in-1 CMO customizing services solution, which could collaborate strategically with client base on the distinctiveness of R&D of new drugs and the respective production process, hence to offer quality and efficient CMO production services. Through such move, the Group intends to unleash the existing asset values to expand revenue sources, and to fully utilize its production capabilities and further enhance overall competitiveness.

R&D and Pipeline Progress

During the Year, the Group continued to invest on the research and development of the innovative and proprietary products with high potential to deliver significant commercial value to its business. It has identified three therapeutic areas to focus on for enriching product portfolio, namely, endocrinology, ophthalmology and dermatology. As a result, the Group was progressing smoothly on below new patent drugs:

Products/ Components	Indication	Pre-clinical	Phase 1	Phase 2	Phase 3	Pre-registration	Marketed
Metabolic							
Uni-PTH (powder)	Osteoporosis	✓	✓	✓	✓	✓	
Uni-PTH (liquid)	Osteoporosis	✓	CTE	CTE	CTE		
Uni-E4 (powder)	Type 2 Diabetes	✓	✓	✓	✓		
Uni-E4 (liquid)	Type 2 Diabetes	✓	CTE	CTE	CTE		

* CTE, abbreviated form of clinical trial exemption, refers to the authorization to administer an investigational agent to patients or volunteer subjects under specified conditions of a particular research study in a clinical setting. Upon approval, new drug can be exempted from Phase I/II/III clinical trial.

Product	Indication	Status	Remarks
Endocrinology			
Acarbose	Type 2 Diabetes	Acarbose has finished bioequivalence study and submitted new drug application	Co-developed with Beijing Baiao Pharmaceutical
Mitiglinide	Type 2 Diabetes	Mitiglinide is currently undergoing bioequivalence study	Co-developed with Jiangsu Hansoh Pharmaceutical Group Co., Ltd.
Infectious Disease			
Pinup®	Fungal infection	Pinup® is currently undergoing efficiency and quality consistency assessment/ bioequivalence study	

Uni-PTH

Uni-PTH is an injection form of recombinant human parathyroid hormone, a biosimilar of Forteo (Teriparatide), which is used to treat osteoporosis. It is more effective in managing pain in bones when compared with peers and is the only class of anabolic agent to actively increases bone mass density at present. The PRC is ranked as the fifth largest market in the world with an estimated market size reaching approximately RMB15.5 billion. With the increasing aging population and enhancing awareness on bone health, it is expected that the market size will continue to grow. At current stage, Uni-PTH has been accepted for review by NMPA approval and the Group is optimistic about the official launch of the product within the year of 2019, aiming to be the 2nd of such products to launch in the PRC.

Meanwhile, through constructive communication with CDE, both sides came to a conclusion that the clinical trial of the liquid form of Uni-PTH is to be exempted, thus, it will proceed into BE study in the near term.

Uni-E4

Uni-E4, an innovative biologic drug self-developed by the Group, is a class of anti-diabetic treatments called GLP-1 agonists, and a non-insulin treatment candidate that stimulates the incretin pathway. It is the world's first biological GLP-1 preparation. The Group released the positive phase III results of 1st generation Uni-E4 on 3 August 2015. The new liquid formulation was the 2nd generation Uni-E4 developed since early 2017. As a new liquid formulation, its active ingredient is Exendin-4 biologic molecule which is compatible with safe and efficient injection pens for multiple uses without reconstitution. The Uni-E4 liquid formulation is intended for patients to self-administer on a twice-daily injection basis. It is effective in controlling postprandial glucose on the premise of non-occurrence of pre-meal hypoglycemia, suitable for Asian patients who prefer lower dosage and are subject to postprandial glucose elevation.

In November 2018, the application for Phase III clinical trial of 2nd Generation Uni-E4 was accepted by CDE, NMPA. If the review is successful and the clinical trial proceeds, Uni-E4 is expected to launch into the market as early as 2022.

Acarbose tablet

Acarbose tablet (under the product name of 博舒泰® Boshutai) is an oral anti-diabetic drug. It is used to treat Type 2 diabetes and is reimbursed under the National Reimbursement Drug List. It targets patients with pre-diabetes condition who need to be treated early, and those with post prandial hyperglycemia under control. Suitable for Asians' carbohydrate-rich diet, Acarbose is targeted to incredibly large market of USD3.2 billion. At present, Acarbose tablet has limited competitors in the PRC and the main manufacturers are Bayer, Huadong Pharmaceutical Co.,Ltd and Luye Pharma Group.

For now, the Group completed the BE study of Acarbose tablet and is in the view that BE results are robust. The Group is taking the lead on the research progress among other ongoing projects of the same category and it is expected that the Group could be in the first batch of manufacturers to obtain the manufacturing approvals. The application for new drug registration and related BE study results were submitted and accepted by the NMPA in December 2018. Therefore, the development of Acarbose is 3 months ahead of original schedule, with the expected official launch time within the year of 2019.

BE study of Pinup®

Pinup® is a major drug for the treatment of severe fungal infections. As the first-tier treatment recommended by clinical guidelines, it is widely used for immunocompromised patients subject to oncology, hematology, Respiratory, ICUs, etc. According to IMS statistics, the market size for China's anti-fungal medicine in 2017 amounted to RMB4.9 billion, of which Voriconazole accounted for the biggest share of approximately 50%. The oral form of Voriconazole accounted for 35% of the Voriconazole sale, with a CAGR as high as 20% between 2012 and 2017. The market size of the orally-administered drug has been increasing markedly as policies on the use of injection form Voriconazole and a ceiling on the percentage of drug sales in hospitals implemented.

Currently, Pinup® is in the midst of conducting the BE study and is expected to be approved by 2020. Together with the cooperation with Loymed Pharma, the Group is fully prepared to take advantages of the immense market potential and seize the opportunities to level up sales in the coming future by securing this approval.

BE study of Bokangtai

Currently, the Group is collaborating with Jiangsu Hansoh Pharmaceutical Group Co., Ltd. to jointly conduct the BE study on Bokangtai. The preparation work was commenced and the BE online registration will be submitted in the second half of 2019. Approval is expected to be obtained in 2020, which will further enhance the competitiveness of Bokangtai in the Mitiglinide market.

RESULTS OVERVIEW

For the Year under Review, the Group recorded a turnover of HK$135.3 million, representing a decrease of 13.6% year-on-year. The decrease was mainly attributable to a weaker sales situation for one of the Group's marketed drugs, namely Pinup®. The product faced keener price competitions across the marketplace where other market players lowered the product price, hence the sales was temporarily affected. However, sales of Pinup® had begun to pick up towards the end of the Year, thanks to its increased coverage to Guizhou, Xinjiang, Shaanxi and Hainan provinces and making the total provincial coverage to 26. The Group believes that Pinup® will enjoy a much better leverage after obtaining the BE approval, which was anticipated in 2020. Given that the Group's major competitors who are engaged with price war in the market have not conducted BE study, obtaining the approval will allow the Group to enjoy numerous policy benefits during tendering and purchasing, thus it will further enhance the brand image and market advantage of the product. Also, the cooperation with Loymed Pharma will open up new sales channels and give rise to the revenue growth generated from Pinup®.

Cost of sales for the Year also decreased by 22.7% from HK$22.8 million in 2017 to HK$17.7 million in 2018. During the Year, gross profit was at HK$117.6 million, representing a decrease of approximately 12.0% from HK$133.6 million in 2017, mainly driven by the reduction in revenue. On the contrary, gross profit margin improved slightly from 85.4% in 2017 to 86.9% in 2018, led mainly by the increase of overall unit sales price of GeneTime®. Alongside our efforts for restructuring and re-organizing our sales team in order to achieve greater efficiency, the Group also expanded the number of sales team members. Hence the sales and distribution cost recorded an increase over the Year.

In 2018, the Group recorded a loss of HK$138.6 million with a basic loss per share of HK$2.24 cents for the Year.

Marketed drugs sales

Among the marketed drugs, the Group is delighted to see an increased revenue contribution from our biologic drugs, namely GeneTime® and GeneSoft®. These two products have seen growth both in their average selling price and sales volume during the Year, reflecting the products have begun to capture market demand and proved that the Group has executed appropriate strategies to market the products, whether by way of deepening our robust R&D or collaborating with renowned distributors in the PRC. The following sets forth the performance of the Group's four marketed drugs over the Year.

GeneTime®

GeneTime®, one of the Group's core products, is a prescription biological drug for wound healing. Its effect in healing ranges from mere burns and dermatology to obstetrics and plastic surgery. During the Year, revenue generated from GeneTime® totaled at HK$72.5 million, representing an increase of 9.2% from approximately HK$66.4 million in 2017, mainly due to the increase in the number of orders from existing hospital network. In which, our 15ml GeneTime® was particularly favored by the market and its unit selling price enjoyed a solid uptick during the Year.

In addition, in February 2018, the General Administration of Sport of China ("**GASC**") issued the "Announcement of List of Stimulants for 2018", which adversely affected the sales of GeneTime®. Hospitals and clients in many provinces uphold its order placing of our product, exerting a negative impact on our revenue. Through concerted effort and communication with multiple government bodies, it was proved that GeneTime® is free from any stimulant as listed in the announcement and such rectification has been endorsed by relevant government departments later in June. GeneTime® has since recorded rebound in sales.

GeneSoft®

GeneSoft®, mainly used for the treatment of corneal ulcer in the field of ophthalmology, has recorded a gratifying revenue increase from approximately HK$20.9 million to HK$31.3 million, representing a surging 49.4%. The growth was mainly attributable to our strategic cooperation with CR Zizhu, who has the sole distribution and promotion rights of GeneSoft® to market and introduce GeneSoft® into its existing domestic hospital network. Leveraging on the vast network of CR Zizhu, revenue from this product witnessed a considerable uptick, meaning that such strategic move has come to fruition and reflected on the Group's revenue in over the Year.

Pinup®

Tailored to treat severe fungal infection, the Group's self-developed proprietary chemical pharmaceutical product Pinup® (Voriconazole tablets) has recorded a decrease in revenue during the Year. Revenue weakened 57% from approximately HK$68.2 million to approximately HK$29.3 million in 2018. The decrease was mainly attributable to keener competition landscape where other market player executed price cut to obtain market share. However, Pinup® is a product with good economic potential, we are optimistic for the approval of BE study expected in 2020, which would significantly increase the competitiveness and brand recognition of the product, hence driving up the sales in the future. With the great efforts made by our self-owned team, the Group has expanded coverage of such product to Guizhou province in the first half of 2018, and further from that the Group welcomed another successful bids from Xinjiang, Shaanxi and Hainan provinces, laying a solid foundation to capture growth in the future.

Moreover, the Group entered into a Cooperation Agreement for Pinup® National Promotion Project with Loymed Pharma during the Year. As the holder of the registration certificate of the contract product Pinup®, the Group granted Loymed Pharma the exclusive agency right, which permits Loymed Pharma to exclusively market, promote, distribute and sell the contract product in the PRC.

Bokangtai

The Group's newly launched product Bokangtai (Mitiglinide tablets) concentrates on the treatment of Type 2 diabetes. Bokangtai has entered its second year since launch and the Group has been investing more resources to expand its sales channels, aiming to increase its market penetration for managing chronic diabetes. As a result, this product has received welcoming feedback since launch, the revenue for the Year was approximately HK$2.2 million, representing a major increase of 124.8% from HK$1.0 million in 2017. During the Year, Bokangtai added ten more provinces into its distribution network, namely Shandong, Guangxi, Xinjiang, Qinghai, Ningxia, Hainan, Sichuan, Guizhou, Yunnan and Guangdong. At present, the provincial coverage of Bokangtai is totaled to 16 . The Group believes that revenue contribution from the product will continue to grow.

FINANCIAL PERFORMANCE REVIEW

Revenue

Sales Developments

The Group secured a relatively stable sales development as RMB exchange rate against Hong Kong Dollar maintained relatively stable during the Year. For the Year ended 31 December 2018, the Group recorded a turnover of approximately HK$135.3 million, representing a decrease of approximately 13.6% YoY.

Proprietary Biological Pharmaceutical Products

The Group's proprietary biological pharmaceutical products include GeneTime® (EGF spray indicated for wound healing) and GeneSoft® (EGF-derivative eye drop indicated for corneal damage and post-operative healing). During the Year, proprietary biological pharmaceutical products achieved HK$103.7 million of sales, representing a significant uptick of approximately 18.9% compared to last year. Proprietary biological pharmaceutical products represented approximately 76.7% of total sales for the Year.

Proprietary Chemical Pharmaceutical Products

The Group's proprietary chemical pharmaceutical product includes Pinup® (voriconazole tablet to treat severe fungal infections) and Bokangtai (Mitiglinide tablets that launched last year pinpointing Type 2 diabetes treatment). The segment achieved a turnover of HK$31.5 million in 2018, in which the sales generated from Bokangtai showed dramatic growth as market maturing. During the year of 2018, Bokangtai contributed HK$2.2 million to the Group's total revenue, representing a substantial increase of approximately 124.8%. Since Pinup® is still undergoing the consistency evaluation and the evaluation is expected to finish by 2020, we expect sales to rebound after obtaining NMPA approval.

Gross Profit and Gross Profit Margin

Gross Profit for the Year was approximately HK$117.6 million, representing a decrease of 12.0% as compared with approximately HK$133.6 million for 2017. Gross profit margin increased from 85.4% in 2017 by 1.5% to 86.9%. The increment in gross profit margin was mainly led by the increase of overall unit sales price of GeneTime® 15ml. In addition, the Group is converting some of its sales channels to direct sales, and by selling through the Group's in-house team, products can be marketed at a higher average selling price, which also contributed to the increase in gross profit margin.

Selling and Distribution Expenses

Selling and distribution expenses have witnesses a major increase during the Year, from approximately HK$76.4 million in 2017 to approximately HK$116.0 million in 2018. During the Year, the Group has continued to expand its sales team by increasing direct sales personnel and through restructuring and re-organization. The Group's goal is to further enlarge its direct sales channel, build solid rapport with more hospitals and adapt to the "two-invoice" system. Thus, the expansion of sales force incurred a proportionate increase in staff salary. In addition, significant marketing expenses were invested on the promotion and advertising of Bokangtai, the new product that launched in 2017. The result is favourable with Bokangtai successfully entered into ten new provinces. Although the selling and distribution expenses saw significant surge in the Year, the Group believes that all the marketing and sales channel restructuring efforts would yield fruitful results over ramp-up period and laying a solid distribution foundation for the Group to prosper.

R&D Costs

Research and development costs for 2018 was approximately HK$44.2 million, representing a small uptick of 3.9% from HK$42.5 million for 2017. R&D costs proportionate to revenue increase from 27.2% for 2017 to 32.7% for the Year. We have initiated and carried on with multiple R&D projects during the Year, including the NDA of Uni-E4 and Uni-PTH, and the BE study of Acarbose and Pinup®. This year the Group maintained a healthy level of R&D expenses, partly because Beijing Baiao Pharmaceutical shared the increased

R&D input with the Group on Acarbose. Riding on last year's development of liquid formulations in an effort to increase the competitive advantages of our products, we continued to invest resources into these areas this year. R&D expenses may experience fluctuations if calculated on a year-on-year basis as drugs development, research and development enter different phases at different time, but the Group always exercise stringent cost control to make sure resources are invested appropriately and adequately. The Group will stick to build on its strategy to focus on endocrinology in the future.

General and Administrative Expenses

Against the backdrop of sales channel restructuring and sales platform building, General and Administrative ("**G&A**") expenses still saw a decrease during the Year. G&A decreased from HK$89.7 million in 2017 to HK$74.8 million in 2018, representing a decline of 16.6%. Such decrease was mainly attributable to the decrease in legal and professional fees as well as Stringent cost control with effective operational streamlining (i.e. new IT communication tools which reduce the frequency of travelling and bring green strategies into the workplace to create a healthy and sustainable environmentally friendly office. For example discourage unnecessary printing, "paperless" document filling system, adjust lighting and cooling system.

Other Income

Other income for the Year was approximately HK$7.4 million, representing an increase of 46.9% compared to HK$5.1 million for last year. Other income represents income from non-core businesses, such as leasing and interest received from bank deposit, and a one-off government grant for developing our product. During the Year, the Group received government funding and tax exemptions to support the R&D and commercialization of the Group's projects amounted to HK$3.3 million (2017: HK$1.3 million). These supports represent an important recognition from the government on the research and innovation capability of the Group.

Total Loss

Total loss (exclude impairment losses on intangible assets and property, plant and equipment) widen by 55.3% from approximately HK$77.6 million last year to approximately HK$120.6 million for the Year. The increase in loss was mainly caused by two reasons. Firstly, we have seen mounting pressure on the pricing of Pinup®, hence the Group has been optimizing its salesforce since last year in an effort to achieve maximum sales efficiency. The sales team has been expanding rapidly, and the distribution channels have also expanded significantly leading to a higher cost in the short term. By the time the Group secure the threshold of drug consistency evaluation, which should be by 2020, more resources will be deployed on marketing and distributing Pinup®. This should bring promising revenue in the near future. Furthermore, given that the Group has been restructuring the salesforce, enlarging direct sales channels, expanding and increasing sales and marketing expenses on the promotion and advertising of Bokangtai, therefore, selling and distribution expenses saw substantial increment. The Group is confident that the investment into building a sales platform should begin to payoff with more hospitals are secured. We have also seen repercussions resulting from an isolated incident.

PROSPECT

Outlook

For healthcare and medical companies, 2018 has been truly a year of two halves. The stable macro-economic momentum and strong market sentiment from 2017 was carried forwarded towards early 2018, but the market dynamics has drastically changed in the second half of 2018. Due to the Centralized Drug Procurement in "4+7 Cities", overall sentiment for the healthcare sector deteriorated as the issue of drug tendering price has re-entered into the discussion. However, the Group believes that the trial region of the Centralized Drug Procurement remains small, and it will take time for the policy to be implemented nationwide. In addition, a large part of the drug price cut will be focused on generic drugs under the government's guidance, so we foresee that even our Group's chemical drugs are affected, the impact will be small considering our revenue mix.

Despite the fact that the key marketed drugs of the Group are not included in the drug list of Centralized Drug Procurement, the Group will continue to closely monitor any changes in regulation in order to navigate the ever-changing political and commercial landscape.

Looking forward to 2019, in the face of rising pressure on tendering price cut, as well as the escalating trade tension between the United States and China, the Group remains in the view that innovation, business diversification and efficient resource allocation could promise stability despite regulatory pressure and political risks. The expanding aging population, along with the increasing health awareness of people, should also lay a foundation for pharmaceutical companies with expertise in specific diseases to thrive.

Diabetes has become increasingly prevailing during the past decade. According to the International Diabetes Federation, there was a total of 425 million adults with diabetes worldwide last year. It is predicted that the population of diabetes patients will grow further in the next 30 years. By 2045, the number of diabetic patients is expected to reach 629 million worldwide, within which PRC is expected to be accounted for approximately 48% of the population. Under such favourable factors, the Group is of the belief that market sentiment over healthcare sector will recover in the near future, and hence creating to a stable development environment for the Group.

A Rising Innovation Star

Leverage the promising diabetes market in the PRC, the Group, as a fully integrated biopharmaceutical company focusing on diabetes and related metabolic disorders, dermatological regeneration and ophthalmological healing, will continue to follow the corporate culture of "Leading Genuine Innovation" and "心創造，新醫藥" by pursuing ground-breaking innovations that provides patients with better curing options.

Due to the great potential of GLP-1 agonist and alpha-glucosidase inhibitors, a number of Chinese pharmaceutical companies have proactively commenced R&D on relating projects. Among them, the Group remains as the rising star.

On 20 November 2018, the application for Phase III clinical trial of 2nd Generation Uni-E4 submitted by the Group has been accepted by NMPA. Subject to a successful review and clinical trial, Uni-E4 is expected to be launched into the market by as early as 2022, which will become the world's first marketed biological GLP-1 preparation.

In addition, on 4 January 2019, the BE study on Acarbose tablets jointly developed by the Group and Beijing Baiao Pharmaceutical Co., Ltd. has been formally accepted by the NMPA with the reference numbers of CYHS1900008 国 and CYHS1900007 国, corresponding to the oral tablets under two specifications of 50mg and 100mg for this submission respectively. The management is optimistic about an official launch of the product in 2019. Meanwhile, the Group is also looking towards forming strategic partnerships with regards to API production for Acarbose and other generic products to optimize cost structure.

Stepping into CMO Business

In the PRC, the development of a new biotherapeutic is very capital-intensive and the establishment of GMP grade manufacturing facilities requires tremendous investment in terms of time, capital and technology. These resources are what early-stage biologics developers lack, which in return, creating the demand for contract manufacturing services. In light of this market development, the Group has proactively invested into the CMO business, capturing new business opportunities along the value chain.

The Group has been planning to introduce two state-of-the-art aseptic production lines for injection-form drugs, namely the lyophilized powder injection line and cartridge/pre-filled syringe line. The Group is in the view that the new CMO business will be able to generate stable cash flow and a satisfactory profit margin. The Group will plan its pricing strategy accordingly, in order to maximize the return from the investments on these high quality assets.

Looking ahead, the Group will continue to monitor the progress of our applications closely. With the aim to compete with other industry players, the Group will adopt the external innovation model through R&D partnerships and in-licensing projects to maximize its innovation capabilities. The Group will also continue to optimize its commercial platform through distribution channel expansion, as well as recruiting additional experienced sales and marketing employees. In the meantime, the Group will keep a keen eye on business opportunities in the CMO sector in order to expand revenue stream so as to deliver a fruitful return to its shareholders.

Discloseable and Connected Transactions

During the year ended 31 December 2018, the Group has entered into the following non-exempt connected transaction which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

On 16 November 2018, certain members of the Group entered into, among other things, the following agreements: (1) Uni-Bio Science Healthcare Limited ("**Vendor A**"), an indirect wholly-owned subsidiary of the Company, as vendor and Greater Bay (R&D) Capital Limited ("**Purchaser A**"), a company incorporated in BVI with limited liability, as purchaser entered into a sale and purchase agreement ("**Figures Up SP Agreement**") in relation to the disposal of all the issued shares of Figures Up Trading Limited ("**Figures Up**"), a company incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company, at a consideration of RMB40,000,000 (equivalent to approximately HK$45,024,000) ("**Figures Up Disposal**"); and (2) Zethanel Properties Limited ("**Vendor B**"), an indirect wholly-owned subsidiary of the Company, as vendor and Greater Bay Capital Limited ("**Purchaser B**"), a company incorporated in BVI with limited liability, as purchaser entered into a sale and purchase agreement ("**WTGL SP Agreement**") in relation to the disposal of (a) all the economic rights relating to the land use rights of a land parcel ("**WTGL Land**") located at Nanshan district, Shenzhen, the PRC registered under the name of 深圳市華生元基因工程發展有限公司 (Shenzhen Watsin Genetech Limited*) ("**WTGL**"), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company, and property rights of the buildings constructed on the WTGL Land (together, the "**WTGL Land and Property Rights**"); and (b) all the equity interest in a company ("**WTGL B**") to be established and separated from WTGL pursuant to a proposed split-off (分立) to be undertaken by WTGL whereby the assets and liabilities will be taken up by two entities, namely, the surviving WTGL and WTGL B separately and thereafter the titles of the land use rights of the WTGL Land and property rights of the buildings constructed on the WTGL Land will be transferred to WTGL B, at an aggregate consideration of RMB60,000,000 (equivalent to approximately HK$67,536,000), and various transactions contemplated under the Figures Up SP Agreement and the WTGL SP Agreement ("**Transactions Arrangements**"). For further details of the Transaction Arrangements please refer to the announcement of the Company dated 16 November 2018 and the circular of the Company dated 8 February 2019. Each of Purchaser A and Purchaser B, each a company incorporated in BVI with limited liability, is owned by the same group of shareholders in identical shareholdings, in which: (1) the mother of Mr. Kingsley Leung, an executive Director and chairman of the Board, is an indirect 60% shareholder of each of Purchaser A and Purchaser B; (2) Mr. Chen Dawei, an executive Director, is an indirect 10% shareholder of each of Purchaser A and Purchaser B; (3) Vital Vigour Limited, a substantial shareholder of the Company, is an associate of an indirect 15% shareholder of each of Purchaser A and Purchaser B; and (4) each of Mr. Kingsley Leung, Mr. Chen Dawei, the mother of Mr. Kingsley Leung and a brother of Mr. Kingsley Leung is a director of each of Purchaser A and Purchaser B. Accordingly, each of Purchaser A and Purchaser B is an associate of Mr. Kingsley Leung and each of Purchaser A and Purchaser B is a connected person of the Company under the Listing Rules and that the Transaction Arrangements and the transactions contemplated thereunder constitute a connected transaction under Chapter 14A of the Listing Rules.

At an extraordinary general meeting of the Company held on 25 February 2019, the resolution to approve the Transaction Arrangements and the transactions contemplated thereunder was passed by the independent shareholders of the Company by way of a poll. Completion of each of the Figures Up Disposal and the disposal of the WTGL Land and Property Rights under the WTGL SP Agreement took place on 25 March 2019.

Liquidity and Financial Resources

As at 31 December 2018, the Group's bank deposits, bank balances and cash amounted to approximately HK$38,786,000. The Group had total assets of approximately HK$258,916,000 (as at 31 December 2017: HK$390,189,000), and current assets of approximately HK$102,531,000 (as at 31 December 2017: HK$205,822,000), while current liabilities were at HK$39,479,000 as at 31 December 2018 (as at 31 December 2017: HK$45,628,000). The total liabilities to total assets ratio is 15.7% (as at 31 December 2017: 12.1%). The Group's major interest and operations are in the PRC. The Group also contracts with suppliers for goods and services that are denominated in Renminbi ("**RMB**"). The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and RMB is managed within a narrow range.

The gearing ratio (calculated as total debt (total bank borrowings) divided by total equity) was 6.7% as at 31 December 2018 (as at 31 December 2017: Nil).

As disclosed in the 2017 annual report, the Company had completed the issue and allotment of subscription of 1,027,480,000 ordinary shares on 20 September 2017 which generated net proceeds of approximately HK$141.5 million. The net proceeds were intended to be was mainly used for in-licensing new products for the PRC market, R&D activities for pipeline products and general working capital for existing business.

As at 31 December 2018, the Company has utilized approximately HK$102.7 million of such net proceeds as intended, and the net proceeds which remained unutilized amounted to approximately HK$38.8 million. After careful consideration and detailed evaluation of the Group's recent business operations and in order to cope with requirements and project development schedule of the Group's pipeline products, the Board had resolved to reallocate the use of all of the remaining balance of the net proceeds for R&D expenses over the Group's pipeline products. The Board considers that the change in the use of such net proceeds would meet the needs of the Group more efficiently and enhance the flexibility of the Group and is in the interests of the Company and its shareholders as a whole.

Pledge of Assets and Contingent Liabilities

As of 31 December 2018, the Group secured its bank loans through a charge over leasehold buildings with net book value of HK$5.4 million (31 December 2017: Nil).

Employment and Remuneration Policy

As of 31 December 2018, the Group employed 366 staff, including 90 staff in the PRC R&D department, 97 staff in the PRC production department, 125 staff in the PRC commercial office and 12 staff in the Hong Kong headquarters. In addition to the full-time employees in the PRC sales offices, the Group has 167 regional distributors. The Group has adopted a competitive remuneration package for its employees to attract and retain top talent. Promotion and salary increments are assessed based on performance. Share options may also be granted to staff with reference to the individual's performance.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Kingsley LEUNG, aged 32, has been appointed as an executive director since 28 February 2014 and appointed as the chairman ("**Chairman**") of the Board with effect from 13 January 2017. Mr. Leung joined the Company on 8 July 2013 as Business Development Manager. Mr. Leung graduated with honours with a bachelor's degree in Biochemistry from Imperial College London in July 2008 and obtained a master's degree in Pharmacology from the University of Oxford in September 2009. Mr. Leung is currently a Chartered Financial Analyst and a member of The Hong Kong Society of Financial Analysts. He also holds a Professional Diploma in Corporate Governance and Directorship and is an associate member of the Hong Kong Institute of Directors. He is currently admitted to Tsinghua-INSEAD Executive MBA Programme. Mr. Leung has extensive experience in investment banking and business development in the biotechnology industry.

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

Mr. CHEN Dawei, aged 49, obtained an Executive Master's Degree in Business Administration (major in China-America Finance) from Peking University and a Master's Degree in Business Administration from the National University of Singapore. Mr. Chen has over 20 years of experience in enterprise management, capital market and merger and acquisition. He had been the chairman, chief executive officer, executive director and vice-chairman of China Everbright Water Limited (formerly known as HanKore Environment Tech Group Limited) from May 2011 to February 2016, the shares of which are listed on the Main Board of the Singapore Exchange Limited and the sole water business platform of China Everbright Group Ltd. He is currently the executive partner of a Chinese equity investment fund and the chairman of a Singapore capital management company.

Mr. ZHAO Zhi Gang, aged 59, has been appointed as an independent non-executive director of the Company with effect from 1 April 2014 and re-designated as an executive director of the Company and chief executive officer of the Company with effect from 8 April 2019. Mr. Zhao holds a bachelor's degree in Economics from the Peking University and a master's degree in Professional Accounting from the University of Hartford, Connecticut, United States of America ("**U.S.**"). Mr. Zhao is a U.S. certified public accountant and a fellow of the American Institute of Certified Public Accounts. Mr. Zhao has over 20 years of experience in corporate finance and audit practice with various publicly listed companies and Pricewaterhouse Coopers in the U.S. and in China.

Mr. Zhao was the CFO of JMU Limited, whose shares are listed on the NASDAQ Stock Exchange ("**NASDAQ**") from 2014 to 2018. Previously, Mr. Zhao was also the CFO of Borqs Beijing Limited from 2012 to 2014, the CFO of Kingmed Center for Clinical Laboratories from 2011 to 2012, the CFO of Simcere Pharmaceutical Group (whose shares was listed on the New York Stock Exchange) from 2006 to 2011. Prior to that, Mr. Zhao was the CFO of Sun New Media Group Limited, a NASDAQ-listed company, from 2005 to 2006. Before that, Mr. Zhao had also held senior financial positions with several publicly listed companies in the U.S. and was an investment consultant with Beijing International Trust and Investment Company.

NON-EXECUTIVE DIRECTOR

Mr. Yau Kwok Wing Tony, aged 44, obtained a Bachelor of Arts in Accountancy from the Hong Kong Polytechnic University with first class honors in November 1996. Mr. Yau is a certified public accountant (CPA) of the Hong Kong Institute of Certified public Accountants.

Mr. Yau has over 20 years of experience in management, capital market and investment banking. Mr. Yau is currently the chief executive officer of Futec International Holdings Limited and HeungKong Financial Group Limited, each an affiliate of Vital Vigour Limited, a substantial shareholder of the Company holding approximately 17.67% of the issued shares of the Company as at the date of this report. Futec International Holdings Limited and HeungKong Financial Group Limited are members of HeungKong Group, a conglomerate with foothold in the Greater China region with business segments ranging from financial, real estate, healthcare, trade logistics, education, etc.. Prior to that, Mr. Yau was a managing director of Global Investment Banking of Deutsche Bank, a company principally engaged in investment banking, from May 2006 to January 2017. From August 2000 to May 2006, Mr. Yau was the vice president of the investment banking department of BNP Paribas Capital (Asia Pacific) Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Kai Ming, aged 53, was appointed as independent non-executive director of the Company with effect from 1 April 2016. Mr. Chow has more than 26 years of experience in financial management, auditing and tax planning in accounting firm. He holds a Master Degree in Business Administration from Heriot-Watt University and he is a fellow member of Hong Kong Institute of Certified Public Accountants – Practising since 1994. He is also a fellow member of the Association of Chartered Certified Accountants since 1997, the Taxation Institute of Hong Kong since 1999 and certified Tax Advisor since 2010.

Mr. REN Qimin, aged 63, was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 15 November 2017.

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

Mr. Ma Qingshan ("**Mr. Ma**"), aged 39, obtained a double Bachelor's Degree in Finance and E-commerce from the Peking University, PRC in July 2002. Mr. Ma is qualified as a Certified Financial Analyst (CFA).

Mr. Ma has over 16 years of extensive experience in management and consultation. He once served as consulting director of KPMG Advisory (China) Limited and Accenture (China) Co., Ltd. and a partner of Beijing Yucheng Hengsheng Management Consultating Co., Ltd. (北京譽誠恒盛管理諮詢有限公司). He has also provided management consulting services for fifteen Fortune 500 companies and a number of listed companies and fast-growing enterprises. He has extensive experience in company strategic planning, business modelling and control modelling, digitalization and internet transformation, post-merger integration, enterprise performance management, enterprise investment management, business process optimization and global business development. Mr. Ma is an independent non-executive director of China Hanking Holdings Limited since March 2016, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code 3788).

SENIOR MANAGEMENT

Mr. XUE Wei, Winston, aged 48, is the General Manager of Uni-Bio Science Healthcare (Beijing) Co., Ltd (Commercial platform of Uni-Bio). He has more than 20 years' experience in executive position in both MNCs and Domestic Pharmaceutical companies, including GM or heading marketing, sales division and business unites (i.e. Bayer Fresenius Kabi). During his tenure, he was responsible for the successful launch of several key products, generating billions of Hong Kong dollars in annual revenue, creating one of the best performing business units in the whole industry. Before joining Uni-Bio, Mr. Xue was the Vice President of the Health Insurance Sector of Fosun International Limited and the General Manager of StarE Health. Mr. Xue has graduated from Peking University majoring in Pharmacy and holds an MBA from Tsinghua University. He has served as a practicing hospital pharmacist before entering the commercial sector.

Mr. CHAN Shun Tai, Edward, aged 58, is the Head of Business Development of Uni-Bio Science Healthcare Limited, a wholly-owned subsidiary of the Company. Mr. Chan is a professional pharmacist and has obtained his Pharmacist licenses in Canada and Hong Kong since 1985 and 1987 respectively. Mr. Chan has over 25 years of extensive sales and marketing experience in the pharmaceutical industry. Before joining the Company on 5 March 2012, he was the Director of New Business Development of Xian-Janssen Pharmaceutical Ltd and a General Manager of Jacobson Medical Limited.

Dr. WEN Ya Lei, Jacky, aged 58, is the General Manager of Beijing Genetech Pharmaceutical Co., Ltd. Dr. Wen has more than 30 years of extensive experience in biotechnology and the development of GMP and GLP facilities, as well as developing new drugs and clinical research projects. Dr. Wen graduated from the South China University of Technologies.

Dr. WANG Yong Gang, aged 45, is the Deputy General Manager of Dongguan Taili Biotech Co., Ltd. Dr. Wang has over 20 years of management experience in the development of genetic engineering drugs in large pharmaceutical companies. Dr. Wang graduated from East China University of Science and Technology.

Ms. LUO Chang Qing, aged 56, is the Deputy General manager of Shenzhen Watsin Genetech Ltd. Ms. Luo has over 30 years of experience in finance, accounting and management. She graduated from the Hunan Radio & TV University.

Ms. LIU Yan, Emily, aged 46, is the Head of Medical of Uni-Bio Science Healthcare Limited. Ms. Liu holds a bachelor's degree (with honours) in Clinical Medicine from Hebei University of Medical Science and obtained a master's degree in Neurology from the Capital University of Medical Science in July 1999. Ms. Liu is a medical practitioner and has been working in Beijing Tongren Hospital for 10 years. She also has more than 7 years of medical experiences in multinational pharmaceutical companies like Pfizer and GE Healthcare.

Ms. YAU Suk Yan, aged 37, is the Financial Controller and Company Secretary of the Company. Ms. Yau graduated with a bachelor's degree in Accountancy from Hong Kong Polytechnic University and she is a fellow member of the Hong Kong Institute of Certified Public Accountants. She has over 13 years financial management, company secretarial practicing, accounting and auditing experience in Hong Kong listed companies and international accounting firm.

Corporate Governance Report

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

The Directors are of the opinion that the Company has complied with all the code provisions set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on Stock Exchange ("**Listing Rules**") for the year ended 31 December 2018.

THE BOARD OF DIRECTORS

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

Non-executive Directors

(1) Ms. LAU Chau In was appointed for a term of 3 years commencing from 15 November 2017 and resigned on 8 April 2019.
(2) Mr. YAU Kwok Wing Tony was appointed for a term of 3 years commencing from 8 April 2019.

Independent non-executive Directors

(1) Mr. ZHAO Zhi Gang was appointed for a term of 3 years commencing from 1 April 2017 and was re-designated to an executive Director from 8 April 2019.
(2) Mr. CHOW Kai Ming was appointed for a term of 3 years commencing from 1 April 2016.
(3) Mr. Ren Qimin was appointed for a term of 3 years commencing from 15 November 2017.
(4) Mr. MA Qingshan was appointed for a term of 3 years commencing from 8 April 2019.

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

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

Under the code provision A.2.1 there is a segregation of duties between the Chairman's responsibility for leadership and management of the Board and the Group's strategies, and the responsibility of the Chief Executive Officer is to develop business objectives and budgets and to implement the Group's strategies. Such division of responsibilities helps to reinforce their accountability and independence. Upon the resignation of Mr. LIU Guoyao as an executive Director and the Chief Executive Officer on 28 February 2014, the duties of the Chief Executive Officer have been temporarily shared by another executive Director and key executives, except the Chairman, until a suitable successor is appointed. The Board considers that the vesting of the roles of Chief Executive Officer to the other executive Director and key executives in the aforementioned arrangement will not impair the balance of power and authority within the Board as all major decisions are made in consultation with members of the Board. With effect from 8 April 2019, Mr. ZHAO Zhi Gang has been appointed as the Chief Executive Officer.

There is no other financial, business, family or other material/relevant relationship amongst the Directors. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

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

THE BOARD OF DIRECTORS (CONTINUED)

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

All Directors have participated in appropriate continuous professional development activities by attending training courses and reading materials relevant to the Company's business or to the Directors' duties and responsibilities. According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2018 is as follows:

	Type of continuous professional development activities
Kingsley LEUNG	A,B,C
CHEN Dawei	A,B,C
LAU Chau In *(resigned on 8 April 2019)*	N/A
YAU Kwok Wing Tony *(appointed on 8 April 2019)*	N/A
ZHAO Zhi Gang	B,C
CHOW Kai Ming	B,C
REN Qimin	B,C
MA Qingshan *(appointed on 8 April 2019)*	N/A

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

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

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

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

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

All Board meetings held during the year ended 31 December 2018 involved the active participation, either in person or through other electronic means of communication, of a majority of the Directors.

THE BOARD OF DIRECTORS (CONTINUED)

Set out below is a summary of the attendance of Directors at the board meetings and general meetings during the year ended 31 December 2018.

	Number of attendance	
	General meetings	**Board meetings**
Executive Directors		
Kingsley LEUNG	2/2	8/8
CHEN Dawei	2/2	7/8
ZHAO Zhi Gang *(re-designated from an independent non-executive Director on 8 April 2019)*	N/A	N/A
Non-Executive Directors		
LAU Chau In *(resigned on 8 April 2019)*	1/2	5/8
YAU Kwok Wing Tony (appointed as a non-executive Director on 8 April 2019)	N/A	N/A
Independent Non-executive Directors		
ZHAO Zhi Gang *(re-designated to an executive Director on 8 April 2019)*	2/2	5/8
CHOW Kai Ming	2/2	8/8
REN Qimin	1/2	5/8
MA Qingshang *(appointed as an independent non-executive Director on 8 April 2019)*	N/A	N/A

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry to all Directors, all Directors confirmed they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") was established in 2001. The Audit Committee comprised three independent non-executive Directors, namely Mr. CHOW Kai Ming, Mr. REN Qimin and Mr. MA Qingshan. As at the date of this report, Mr. CHOW Kai Ming was the chairman of the Audit Committee. Mr. CHOW Kai Ming has the appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.21 of the Listing Rules for the purpose of such appointment.

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

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

AUDIT COMMITTEE (CONTINUED)

The main duties of the Audit Committee are as follows:

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

The Audit Committee held two meetings during the year ended 31 December 2018. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Number of attendance
CHOW Kai Ming *(Chairman)*	2/2
ZHAO Zhi Gang *(resigned on 8 April 2019)*	1/2
REN Qimin	1/2
MA Qingshan *(appointed on 8 April 2019)*	N/A

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

REMUNERATION COMMITTEE

The Company established a remuneration committee ("**Remuneration Committee**") on 4 November 2005 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprised one executive Director, namely Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Mr. CHOW Kai Ming, Mr. REN Qimin and Mr. MA Qingshan. As at the date of this report Mr. CHOW Kai Ming was the chairman of the Remuneration Committee. No Directors will be involved in any discussion in connection with his own remuneration.

The main duties of the Remuneration Committee are as follows:

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

REMUNERATION COMMITTEE (CONTINUED)

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

The Remuneration Committee meets regularly to determine the policy for the remuneration of the Directors, assess performance of the executive Directors and senior management of the Group and approve the terms of the executive Directors' service contracts. During the year ended 31 December 2018, the Remuneration Committee has assessed the performance of the executive Directors, reviewed and discussed the remuneration package of the executive Directors, the remuneration of the non-executive director, independent non-executive Directors and senior management. Three Remuneration Committee meetings were held during the year ended 31 December 2018, The individual attendance of each member is set out below:

Members of the Remuneration Committee	Number of attendance
CHOW Kai Ming *(Chairman)*	3/3
Kingsley LEUNG	3/3
ZHAO Zhi Gang *(resigned on 8 April 2019)*	2/3
REN Qimin	2/3
MA Qingshan *(appointed on 8 April 2019)*	N/A

NOMINATION COMMITTEE

The Company established a nomination committee ("**Nomination Committee**") on 4 November 2005. The Nomination Committee has adopted written terms of reference to conform to the CG Code. The Nomination Committee comprised one executive Director, namely Mr. Kingsley LEUNG, and three independent non-executive Directors, namely Mr. CHOW Kai Ming, Mr. REN Qimin and Mr. MA Qingshan. As at the date of this report, Mr. Kingsley LEUNG was the chairman of the Nomination Committee.

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

The main duties of the Nomination Committee are as follows:

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

NOMINATION COMMITTEE (CONTINUED)

During the year ended 31 December 2018, the Nomination Committee performed the following work without conducting a formal meeting:

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

AUDITORS' REMUNERATION

The Group was charged HK$1,852,000 for audit services provided by Messrs. Deloitte Touche Tohmatsu in respect of the year ended 31 December 2018.

INTERNAL CONTROLS

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

DIVIDEND POLICY

The Company has adopted a dividend policy and the declaration and recommendation of dividends are subject to the decision of the Board after considering the Company's ability to pay dividends. The Board has complete discretion on whether to declare and pay an interim dividend and/or to recommend a final dividend, subject to Shareholders' approval, where applicable.

The Directors will take into consideration, among other things, the financial results, operations, liquidity and capital requirements of the Group, general business conditions and strategies, future business plans of the Group and legal restrictions when determining whether or not to recommend and declare dividends. The Board will also review and reassess the dividend policy and its effectiveness on a regular basis or as required.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the consolidated financial statements of the Company for the year ended 31 December 2018.

COMPANY SECRETARY

Ms. YAU Suk Yan was appointed as the company secretary of the Company with effect from 14 August 2015. All Directors have access to the advice and services of the company secretary. During the year ended 31 December 2018, Ms. YAU Suk Yan has taken no less than 15 hours of relevant professional trainings respectively to update her skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS OF THE COMPANY ("SHAREHOLDERS")

The Board recognizes the importance of good communications with all Shareholders. The Company's annual general meeting for the year ended 31 December 2017 ("**AGM**") was a valuable forum for the Board to communicate directly with the Shareholders. The Chairman of the Board and the chairman of each of the Audit, Remuneration and Nomination Committees together with the external auditors were also present at the AGM to answer Shareholders' questions. The Company has also published a Shareholders communication policy on the website of the Company. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong at Unit 502, 5/F, No. 20 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

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

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

COMMUNICATION WITH SHAREHOLDERS OF THE COMPANY ("SHAREHOLDERS") (CONTINUED)

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

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

There have been no changes in the Company's constitutional documents during the year ended 31 December 2018 under review.

BUSINESS ETHICS

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

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

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group (comprising the Company and its subsidiaries) for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES, SEGMENTAL INFORMATION AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of subsidiaries are set out in Note 40 to the consolidated financial statements. Segmental information of the Group is disclosed in Note 6 to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54.

DIVIDEND

The Directors do not recommend the payment for a dividend for the year ended 31 December 2018.

SHARE CAPITAL AND RESERVES

Details of movements in the share capital of the Company during the year under review are set out in Note 30 to the consolidated financial statements.

Movements in reserves of the Company and the Group during the year under review are set out in the consolidated statement of changes in equity on page 56 and Note 31 to the consolidated financial statements.

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

At 31 December 2018, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$132,257,000 (31 December 2017: HK$145,291,000).

SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 are set out in Note 40 to the consolidated financial statements respectively.

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors

Mr. Kingsley LEUNG *(Chairman)*
Mr. CHEN Dawei *(Vice-chairman)*
Mr. ZHAO Zhi Gang *(Chief executive officer) (re-designated from independent non-executive Director on 8 April 2019)*

Non-executive Directors

Ms. LAU Chau In *(resigned on 8 April 2019)*
Mr. YAU Kwok Wing Tony *(appointed on 8 April 2019)*

Independent non-executive Directors

Mr. ZHAO Zhi Gang *(re-designated to executive Director on 8 April 2019)*
Mr. CHOW Kai Ming
Mr. REN Qimin
Mr. MA Qingshan *(appointed on 8 April 2019)*

In accordance with Articles 87(1) and 87(2) of the Company's articles of association, each of Mr. CHEN Dawei and Mr. CHOW Kai Ming will retire by rotation at the forthcoming annual general meeting of the Company ("**Annual General Meeting**") and being eligible, offer themselves for re-election. In accordance with Article 86(3) of the Company's articles of association, Mr. YAU Kwok Wing Tony and Mr. MA Qingshan, shall hold office only until the Annual General Meeting, and being eligible, will offer themselves for re-election at the Annual General Meeting.

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

DIRECTORS' SERVICE CONTRACTS (CONTINUED)

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

Mr. ZHAO Zhi Gang, an executive Director, has entered into a service agreement with the Company for a fixed term of 3 years commencing from 8 April 2019.

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

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

DIRECTORS' EMOLUMENTS

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

PERMITTED INDEMNITY PROVISION

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

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

TAX RELIEF AND EXEMPTION

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

REMUNERATION POLICY

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

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

The Company has a share option scheme in place, of which share options may be granted to eligible persons. Details of the scheme are set out in the section headed "Share Options" of this Directors' report and Note 35 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares ("**Shares**"), underlying Shares and debentures of the Company or any of the its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of issued ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 7)
Kingsley LEUNG	Beneficial owner and interest of a controlled corporation (Note 2)	1,530,877,026 (L)	16,600,000 (L)	1,547,477,026 (L)	25.04%
CHEN Dawei	Beneficial owner (Note 3)	330,955,516 (L)	64,060,000 (L)	395,015,516 (L)	6.39%
LAU Chau In	Beneficial owner (Note 6)	–	1,640,000 (L)	1,640,000 (L)	0.03%
ZHAO Zhi Gang	Beneficial owner (Note 4)	–	6,140,000 (L)	6,140,000 (L)	0.10%
CHOW Kai Ming	Beneficial owner (Note 5)	–	3,420,000 (L)	3,420,000 (L)	0.06%
REN Qimin	Beneficial owner (Note 6)	–	1,640,000 (L)	1,640,000 (L)	0.03%

Notes:

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

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

3. These interests consist of (i) 315,955,516 Shares held by Mr. CHEN Dawei; (ii) 60,000,000 Service Shares under the terms of his service agreement with the Company (please refer to Directors' Report on P.36 section "Directors' Service Contracts" for details) and (iii) 4,060,000 underlying Shares relating to the share options granted by the Company to Mr. CHEN Dawei.

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

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

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

7. The percentage of shareholding is calculated on the basis of 6,179,968,147 Shares in issue as at 31 December 2018.

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company, or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

To the best knowledge of the Directors after making reasonable enquiry, as at 31 December 2018, shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company were as follows:

Name	Capacity	Number of ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 6)
Automatic Result (Note 2)	Beneficial owner	616,301,016 (L)	–	616,301,016 (L)	9.97%
Lord Profit (Note 3)	Beneficial owner	914,576,010 (L)	–	914,576,010 (L)	14.80%
Overseas Capital Assets Limited (Note 4)	Beneficial owner	657,180,000 (L)	–	657,180,000 (L)	10.63%
Vital Vigour Limited (Note 5)	Beneficial owner	873,360,000 (L)	218,340,000 (L)	1,091,700,000 (L)	17.67%

Notes:

1. The letter "L" denotes the person's long position in the shares and underlying shares in the Company.
2. Automatic Result is wholly owned by MJKPC Holdings Limited, which is a family trust which Mr. Kingsley LEUNG is one of the discretionary objects.
3. Lord Profit is wholly owned by Mr. Kingsley LEUNG.
4. Based on the individual substantial shareholder notice of Overseas Capital Assets Limited filed on 19 June 2014, Overseas Capital Assets Limited is wholly-owned by He Rufeng.
5. Vital Vigour Limited is a wholly owned subsidiary of HeungKong Great Health GP Limited, which is acting for and on behalf of, and as the general partner of, HeungKong Great Health Fund I. These interests consist of (i) 873,360,000 Shares held by Vital Vigour Limited and (ii) 218,340,000 warrants issued by the Company on 20 September 2017, with warrant exercise price of HK$0.2063 at any time for the period commencing from the date of issue and ending on the third anniversary thereof.
6. The percentage of shareholding is calculated on the basis of 6,179,968,147 Shares in issue as at 31 December 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (CONTINUED)

Save as disclosed above, the Directors were not aware of any other persons who had relevant interests or short positions in the shares or underlying shares in the Company as at 31 December 2018 which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in which a Director or was materially interested, either directly or indirectly, had subsisted at the end of the year or at any time during the year ended 31 December 2018.

CONTRACTS OF SIGNIFICANCE

No contracts of significance between the Company or one of its subsidiaries, and a controlling shareholder or any of its subsidiaries had subsisted as at the end of the year or at any time during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING INTERESTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended under review, the top five customers of the Group together accounted for approximately 24.2% (year ended 31 December 2017: 26.5%) of the Group's total sales for the year while the single largest customer accounted for approximately 6.4% (year ended 31 December 2017: 11.7%) of the Group's total sales during the Year under Review.

The top five suppliers of the Group for the year under review together accounted for approximately 37.5% (year ended 31 December 2017: 78.7%) of the Group's total purchases for the year and the single largest supplier accounted for approximately 19.1% (year ended 31 December 2017: 51.5%) of the Group's total purchases.

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

CONTINGENT LIABILITIES

At 31 December 2018, the Group had no material contingent liabilities.

RETIREMENT BENEFITS SCHEMES

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

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company completed the issue of subscription shares and issue of unlisted warrants under specific mandate on 20 September 2017, in accordance with the terms and conditions of the subscription agreements entered with Vital Vigour Limited and Wynhaus Assets Management Pte. Ltd. on 18 July 2017 ("**Subscription Agreements**"). Pursuant to the Subscription Agreements, the Company allotted and issued a total of 1,027,480,000 Subscription Shares to the Subscribers at the issue price of HK$0.138 per Subscription Share.

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

Shareholders	**Shareholding structure as at 31 December 2018**		**Shareholding structure immediately after the exercise of the Warrant Subscription Rights in full**	
	Number of Shares	%	Number of Shares	%
Automatic Result Limited	616,301,016	9.97	616,301,016	9.57
Lord Profit Limited	914,576,010	14.80	914,576,010	14.21
Overseas Capital Assets Limited	657,180,000	10.63	657,180,000	10.21
Mr. Chen Dawei (Note 1)	330,955,516	5.36	330,955,516	5.14
Vital Vigour Limited	873,360,000	14.13	1,091,700,000	16.96
Wynhaus Assets Management Pte. Ltd	154,120,000	2.49	192,650,000	2.99
Other Shareholders	2,633,475,605	42.62	2,633,475,605	40.92
Total	6,179,968,147	100.00	6,436,838,147	100.00

Notes:

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

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

As at year ended 31 December 2018, no warrant has been exercised.

Save as disclosed above and in the sections headed "Directors' Service Contracts" and "Share Options" of this Directors' report, the Company had no outstanding convertible securities, options, warrants or instruments carrying other similar rights as at 31 December 2018.

PRE-EMPTIVE RIGHTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTIONS

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

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

SHARE OPTIONS (CONTINUED)

	Number of share options								
	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Directors:									
Kingsley LEUNG	2,940,000	–	–	–	–	2,940,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	3,020,000	–	–	–	–	3,020,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	4,640,000	–	–	–	–	4,640,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	6,000,000	–	–	–	–	6,000,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
ZHAO Zhi Gang	1,560,000	–	–	–	–	1,560,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	1,160,000	–	–	–	–	1,160,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	1,780,000	–	–	–	–	1,780,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	1,640,000	–	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
CHOW Kai Ming	1,780,000	–	–	–	–	1,780,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	1,640,000	–	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
CHEN Dawei	4,060,000	–	–	–	–	4,060,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
LAU Chau In	1,640,000	–	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574
REN Qimin	1,640,000	–	–	–	–	1,640,000	16 November 2017	16 November 2017 to 15 November 2027	0.1574

SHARE OPTIONS (CONTINUED)

	Number of share options								
	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Employees	10,880,000	–	–	–	–	10,880,000	23 January 2015	23 January 2015 to 22 January 2025	0.230
	20,700,000	–	–	–	–	20,700,000	27 January 2016	27 January 2016 to 26 January 2026	0.172
	34,950,000	–	–	–	–	34,950,000	3 April 2017	3 April 2017 to 2 April 2027	0.1500
	–	36,810,000	–	–	–	36,810,000	9 April 2018	9 April 2018 to 8 April 2028	0.1500
Other eligible participants	4,420,000	–	–	–	–	4,420,000	12 September 2014	12 September 2014 to 11 September 2024	0.230
	33,100,000	–	–	–	–	33,100,000	23 January 2015	23 January 2015 to 22 January 2025	0.230
	3,080,000	–	–	–	–	3,080,000	10 July 2015	10 July 2015 to 9 July 2025	0.215
	120,000,000	–	–	–	–	120,000,000	17 August 2015	17 August 2015 to 16 August 2025	0.237
	1,300,000	–	–	–	–	1,300,000	27 January 2016	27 January 2016 to 26 January 2026	0.172
	2,680,000	–	–	–	–	2,680,000	7 October 2016	7 October 2016 to 6 October 2026	0.1714
	2,010,000	–	–	–	–	2,010,000	3 April 2017	3 April 2017 to 2 April 2027	0.1500
	–	3,000,000	–	–	–	3,000,000	5 July 2018	5 July 2018 to 4 July 2028	0.1050
	266,620,000	39,810,000	–	–	–	306,430,000			

SHARE OPTIONS (CONTINUED)

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

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

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

The Directors consider the 2016 Scheme, with its broadened basis of participation, will enable the Group to reward the employees, Directors and other selected participants for their contributions to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth and stability of the Group. Further details of share options were set out in Note 35 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

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

The Audit Committee provides an important linkage between the Board and the Company's auditors in relation to audit, financial reporting and internal control matters. The Audit Committee had reviewed with the auditors and the management of the Company the audited results of the Group for the year ended 31 December 2018, the accounting principles and practices adopted by the Company and certain other matters relating to the internal control and financial reporting procedures of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

DONATIONS

The Group makes regular contributions in terms of financial and other supports to various charitable organizations. Employees are also encouraged to have direct and active involvement in fund raising activities for the needs of the society. The Group made donations during 2018 totalling HK$28,000 (2017: Nil).

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were either not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 39 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results of the Group for the last five financial years is set out in the section headed "Five-Tear Financial Summary" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

KEY RELATIONSHIPS

(a) Employees

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

(b) Suppliers

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

(c) Distributors

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

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

KEY RELATIONSHIPS (CONTINUED)

(d) Customers

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

Further discussions on the Group's environmental policy and our relationships with various stakeholders are covered by a separate environmental, social and governance report which will be available of the Group's website under the "Corporate Social Responsibility" section and the website of the Stock Exchange on or around mid-July 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out in the People's Republic of China ("**PRC**") while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all PRC and Hong Kong laws and applicable laws in the jurisdictions where it has operations, further details of which are discussed in the environmental, social and governance report, the discussion of which forms part of this Directors' report. During the year under review and up to the date of this annual report, the Group has complied with all relevant laws and regulations in the PRC and Hong Kong in all material respects.

AUDITORS

The financial statements for the year ended 31 December 2018 of the Company have been audited by Deloitte Touche Tohmatsu.

On behalf of the Board

Kingsley LEUNG
Chairman

Hong Kong, 29 March 2019

Independent Auditor's Report

Deloitte.

德勤

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

OPINION

We have audited the consolidated financial statements of Uni-Bio Science Group Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 54 to 126, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Valuation of intangible assets and property, plant and equipment related to pipeline pharmaceutical products	
We identified the valuation of intangible assets and property, plant and equipment related to pipeline pharmaceutical products as disclosed in note 20 to the consolidated financial statements as a key audit matter due to significant judgment involved in estimating the recoverable amount of these assets. Determining whether these intangible assets and property, plant and equipment are impaired requires an estimation of the recoverable amount which is the higher of the fair value less costs of disposal, or value in use of the cash generating units ("**CGU**") to which the intangible assets and property, plant and equipment have been allocated. The value in use calculation relies on the management's assumptions and estimates of future operating performance of these drugs and the key data and assumptions applied by the management in the impairment review are: • Discount rates; • Expected revenue growth rate; • Estimated gross profit margin; and • Expected launch dates of these new drugs. As at 31 December 2018, the carrying amounts of the intangible assets and property, plant and equipment related to pipeline pharmaceutical products are HK$39,971,000 and HK$21,395,000, respectively and impairment losses of HK$14,400,000 and HK$3,600,000 on intangible assets and property plant and equipment have been recognised during the year ended 31 December 2018.	Our procedures in relation to valuation of intangible assets and property, plant and equipment related to pipeline pharmaceutical products included: • Obtaining the valuation reports on the CGUs of these drugs prepared by independent external valuers and evaluating the external valuers' competence and objectivity; • Discussing with the external valuers to understand and evaluate the appropriateness of their valuation methodology to determine the recoverable amount; • Checking the management's data and challenging the assumptions used in the valuation report by 1) comparing the inputs with the financial budget approved by the management; 2) assessing the discount rates applied with the support from our internal valuations specialists and comparing the rates to benchmark data; 3) comparing expected revenue growth rate and estimated gross profit margin to recent industry and economic data and the Group's specific information; 4) challenging the expected launch dates of new drugs by checking the new drugs approval status and the Group's future business plan and 5) evaluating the sensitivity analysis on the cash flow forecast preparing by the management and assessing the impact on the recoverable amount; and • Evaluating the management's assessment on the required technical, financial and other resources to complete the development of pipeline drugs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to significant unobservable inputs and management judgement associated with the determination of the fair value of the investment properties. As disclosed in note 17 to the consolidated financial statements, the carrying amount of the Group's investment properties located in the People's Republic of China was approximately HK$24,350,000 as at 31 December 2018, with a loss arising on change in fair value of investment properties amounting to HK$1,042,000 recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. In determining the fair value of the relevant properties, the Board of Directors of the Company has set up a valuation team to work with the qualified valuers to establish the appropriate valuation techniques and inputs to the model. The fair value of the investment properties were measured using the direct comparison approach and the significant unobservable input was market unit sale rate.	Our procedures in relation to the valuation of investment properties included: • Evaluating the qualified valuers' competence, capabilities and objectivity and reviewing their terms of engagement with the Group; • Discussing with the valuers to understand their approaches to determine the fair values of each investment property to assess if the requirements of HKFRS 13 Fair Value Measurement and the industry norms have been met; and • Evaluating the appropriateness of market unit sale rate used in the valuations of the investment properties by comparing the unit sale rate for similar properties in similar locations with adjustments based on investment properties' specific conditions.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	**2018 HK$'000**	2017 HK$'000
Revenue	5 & 6	**135,258**	156,477
Cost of sales		**(17,657)**	(22,849)
Gross profit		**117,601**	133,628
Other income	7	**7,428**	5,057
Other gains and losses	8	**(1,703)**	377
Selling and distribution costs		**(115,989)**	(76,446)
General and administrative expenses		**(74,799)**	(89,693)
Research and development costs		**(44,174)**	(42,519)
Equity-settled share-based payment expenses		**(8,550)**	(6,864)
Impairment losses on intangible assets	20	**(14,400)**	(167,705)
Impairment losses on property, plant and equipment	20	**(3,600)**	(33,955)
Finance costs	9	**(247)**	(177)
Loss before taxation	10	**(138,433)**	(278,297)
Income tax expense	11	**(134)**	(1,012)
Loss for the year		**(138,567)**	(279,309)
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profits or loss:			
Exchange differences arising on translation on foreign operations		**(11,386)**	27,402
Other comprehensive (expenses) income for the year		**(11,386)**	27,402
Total comprehensive expenses for the year		**(149,953)**	(251,907)
Loss per share (HK cents)	12		
Basic		**(2.24)**	(5.15)
Diluted		**(2.24)**	(5.15)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**54,620**	60,257
Investment properties	17	**24,350**	26,605
Prepaid lease payments	18	**10,062**	11,398
Intangible assets	19	**39,971**	63,313
Deposits paid for the acquisition of property, plant and equipment	21	**3,331**	17,855
Deposits paid for the acquisition of intangible assets	22	**6,050**	4,939
		138,384	184,367
Current assets			
Inventories	23	**18,517**	13,548
Trade and other receivables	24	**45,967**	70,159
Prepaid lease payments	18	**794**	834
Time deposits	25	**7,000**	87,104
Structured deposit	25	**–**	11,412
Bank balances and cash	25	**31,786**	22,765
		104,064	205,822
Current liabilities			
Trade and other payables	26	**11,386**	43,206
Contract liabilities	27	**12,434**	–
Income tax payable		**2,213**	2,422
Bank borrowings	28	**13,447**	–
		39,480	45,628
Net current assets		**64,584**	160,194
Total assets less current liabilities		**202,968**	344,561
Non-current liability			
Deferred tax liability	29	**1,218**	1,408
Net assets		**201,750**	343,153
Capital and reserves			
Share capital	30	**61,800**	61,650
Reserves		**139,950**	281,503
Total equity		**201,750**	343,153

The consolidated financial statements on pages 54 to 126 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Mr. Chen Dawei
DIRECTOR

Mr. Kingsley Leung
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Distributable reserve HK$'000 (note a)	Exchange reserve HK$'000 (note b)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	51,375	593,812	11,310	1,291,798	21,451	(1,523,342)	446,404
Other comprehensive expense for the year	–	–	–	–	27,402	–	27,402
Loss for the year	–	–	–	–	–	(279,309)	(279,309)
Total comprehensive expense for the year	–	–	–	–	27,402	(279,309)	(251,907)
Recognition of equity-settled share based payment expenses	–	–	6,864	–	–	–	6,864
Issue of private placement (note 32)	10,275	131,517	–	–	–	–	141,792
At 31 December 2017	61,650	725,329	18,174	1,291,798	48,853	(1,802,651)	343,153
Other comprehensive expense for the year	–	–	–	–	(11,386)	–	(11,386)
Loss for the year	–	–	–	–	–	(138,567)	(138,567)
Total comprehensive expense for the year	–	–	–	–	(11,386)	(138,567)	(149,953)
Issue of ordinary shares in relation to award of new shares	150	2,100	(2,250)	–	–	–	–
Recognition of equity-settled share based payment expenses	–	–	8,550	–	–	–	8,550
At 31 December 2018	61,800	727,429	24,474	1,291,798	37,467	(1,941,218)	201,750

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(138,433)**	(278,297)
Adjustments for:			
Amortisation of intangible assets		**6,245**	4,837
Amortisation of prepaid lease payments		**835**	808
Change in fair value of investment properties		**1,042**	(2,707)
Depreciation of property, plant and equipment		**14,675**	25,419
Equity-settled share-based payment expenses		**8,550**	6,864
Impairment losses on intangible assets	20	**14,400**	167,705
Impairment losses on property, plant and equipment	20	**3,600**	33,955
Interest income		**(1,078)**	(744)
Interest expense		**247**	177
Loss on disposal of property, plant and equipment		**1,579**	100
(Reversal of) impairment losses recognised on trade receivables		**(935)**	2,545
Operating cash flows before movements in working capital		**(89,273)**	(39,338)
Increase in inventories		**(4,969)**	(431)
Decrease (increase) in trade and other receivables		**25,127**	(32,454)
(Decrease) increase in trade and other payables		**(17,738)**	7,238
Decrease in contract liabilities		**(1,648)**	–
Cash used in operations		**(88,501)**	(64,985)
Income tax paid		**(499)**	(3,620)
NET CASH USED IN OPERATING ACTIVITIES		**(89,000)**	(68,605)
INVESTING ACTIVITIES			
Funds withdrawal of (placed on) time deposits		**80,104**	(56,331)
Funds withdrawal of (placed on) structured deposit		**11,412**	(11,412)
Purchase of property, plant and equipment		**(1,647)**	(24,575)
Proceeds from disposal of property, plant and equipment		**–**	44
Deposits paid for acquisition of intangible assets		**(1,111)**	(1,503)
Interest received		**1,078**	744
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**89,836**	(93,033)

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
Proceed from a bank borrowing	**13,447**	–
Proceeds from private placement	**–**	141,792
Repayment of a bank borrowing	**–**	(11,990)
Interest paid	**(247)**	(117)
NET CASH FROM FINANCING ACTIVITIES	**13,200**	129,685
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,036**	(31,953)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**22,765**	47,344
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(5,015)**	7,374
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**31,786**	22,765

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

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

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

The Company acts as investment holding company and the principal activities of its subsidiaries are set in note 39.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
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 HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 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. 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 sales of pharmaceutical products which arise from contracts with customers, sales of pharmaceutical products is the sole revenue of the Group.

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15

Upon the adoption of HKFRS 15, advance and deposits from customers included in trade and other payables of HK$14,082,000 as at 31 December 2017 were reclassified to contract liabilities on the consolidated statement of financial position on 1 January 2018.

As at 31 December 2018, contract liabilities of HK$12,434,000, representing as advance and deposits from customers, would have been included in trade and other payables without application of HKFRS 15.

The decrease in contract liabilities of HK$1,648,000 for the year ended 31 December 2018 disclosed on the consolidated statement of cash flows; would have been included in decrease in trade and other payables without application of HKFRS 15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

2.2 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 requirements 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.

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

Summary of effects arising from initial application of HKFRS 9

At the date of initial application of HKFRS 9, the Group's structured deposit of HK$11,412,000 was reclassified from loans and receivables to financial assets at fair value through profit or loss as the cash flows from it were not solely payments of principal and interest on the principal amount outstanding and did not meet the definition of financial assets at amortised cost or financial assets at fair value through other comprehensive income under HKFRS 9. There was no impact on the amount recognised in relation to this asset from the application of HKFRS 9.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables with outstanding significant balances have been assessed individually, and the remaining balances are grouped based on common credit risk characteristics and past due analysis.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Except for those which had been determined as credit-impaired under HKFRS 9, ECL for other financial assets at amortised cost, including bank balances and cash, time deposits, bill receivables and other receivables, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against accumulated losses as the amount involved is insignificant.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
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[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
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 HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

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

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

HKFRS 16 Leases (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$9,455,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,229,000 and refundable rental deposits received of HK$24,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The directors of the Company assess that such changes would significantly increase the consolidated assets and consolidated liabilities of the Group but would not result in a significant impact on the financial performance of the Group upon adoption of HKFRS 16.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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)

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

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.

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

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.

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.

Sales of goods

Revenue is recognised at a point in time when the customer obtains control of pharmaceutical products.

Interest income

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

Rental income

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

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 grants will be received.

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

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

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

Equity-settled share-based payment transactions

Share options granted to employees/directors

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

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

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

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

Share options granted to consultants

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

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 a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation 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.

Operating lease payments, including the cost of acquiring land held under operating leases, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Leasehold land and building

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

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

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

Borrowing costs

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

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

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

Retirement benefit costs

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

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The change in functional currency of the Company was applied prospectively from the date of change. All items were translated into new functional currency at the exchange rate on that date. The cumulative currency translation differences which had arisen from the translation of foreign operations up to the date of the change in functional currency were not reclassified from equity to profit or loss until the disposal of the relevant operations.

The change in presentation currency of the Company was applied retrospectively, as if the new presentation currency had always been applied.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditures

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

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

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

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

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

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

Impairment on tangible and intangible assets other than goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill (Continued)

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

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. 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. 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. If, in subsequent reporting periods, 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.

Interest income is recognised in profit or loss and is included in the "other income" line item.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortised cost, exchange differences are recognised in profit or loss and are included in the "foreign exchange gains (losses), net" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated individually for debtors with significant balances 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL ("12m 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 instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- 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 for a particular financial instrument, e.ga significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the a foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument 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 fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of investment grade as per globally understood definition.

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.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

When there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, 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. Any recoveries made are recognised in profit or loss.

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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- 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.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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 party.

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.

Financial liabilities and equity

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 substance of the contractual arrangements entered into 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 a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "foreign exchange gains (losses), net" line item in profit or loss.

Derecognition 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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, structured deposit, time deposits and bank balances and cash) 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 are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

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

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

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 are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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 at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (CONTINUED)

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

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of intangible assets and property, plant and equipment related to pipeline pharmaceutical products

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Keys sources of estimation uncertainty (Continued)

Impairment of intangible assets and property, plant and equipment related to pipeline pharmaceutical products (Continued)

As at 31 December 2018, the carrying amounts of the intangible assets and property, plant and equipment related to pipeline pharmaceutical products are HK$39,971,000 (2017: HK$63,313,000) and HK$21,395,000 (2017: HK$12,458,000), respectively and impairment losses of HK$14,400,000 (2017: HK$167,705,000) and HK$3,600,000 (2017: HK$33,955,000) on intangible assets and property, plant and equipment, respectively, have been recognised during the year ended 31 December 2018.

Fair value of investment properties

At the end of each reporting period, investment properties are stated at fair value based on the valuation performed by professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. At 31 December 2018, the carrying amount of investment properties measured at fair value was approximately HK$ 24,350,000 (31 December 2017: HK$26,605,000).

Amortisation of intangible assets

Intangible assets are amortised over their useful lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group's management, taking into account factors such as the ability to legally renew the technical know-how, technological progress and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying value in the period in which the changes take place. As of 31 December 2018, the carrying amount of intangible assets with definite useful life is HK$25,890,000 (31 December 2017: HK$33,412,000), and amortisation of the intangible assets of HK$6,245,000 (31 December 2017: HK$4,837,000) was recognised for the year ended 31 December 2018.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables based on the grouping of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable that is 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.

5. REVENUE

Revenue is arising from sale of chemical and biological pharmaceutical products and is recognised at point in time when control of the goods has been transferred and the goods have been delivered to the customers' specific locations. Following delivery, the customers bear the risks of obsolescence and loss in relation to the goods without refund policy. The normal credit term is 90 days (2017:120 days) upon delivery.

Advance and deposits received from the customers are recognised as a contract liabilities until the goods have been delivered to the customers.

The sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

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

Segment revenues and results

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

For the year ended 31 December 2018

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	31,513	103,745	–	135,258
Result				
Segment (loss) profit	(26,889)	3,217	(77,087)	(100,759)
Other income				7,428
Change in fair value of investment properties				(1,042)
Equity-settled share based payment expenses				(8,550)
Unallocated administration expenses				(35,263)
Finance costs				(247)
Loss before taxation				(138,433)

6. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

For the year ended 31 December 2017

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

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

Segment assets and liabilities

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

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

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

6. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

As at 31 December 2018

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment assets	**48,429**	**62,764**	**61,366**	**172,559**
Unallocated assets				**69,889**
Total assets				**242,448**
Segment liabilities	**4,856**	**27,429**	**1,831**	**34,116**
Unallocated liabilities				**6,582**
Total liabilities				**40,698**

As at 31 December 2017

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

6. SEGMENT INFORMATION (CONTINUED)

Other segment information

For the year ended 31 December 2018

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets					
Additions to property, plant and equipment	–	1,233	10,885	4,053	16,171
Amortisation of intangible assets	–	–	6,245	–	6,245
Amortisation of prepaid lease payments	300	535	–	–	835
Depreciation of property, plant and equipment	5,564	6,738	363	2,010	14,675
Loss on disposal of property, plant and equipment	1,345	–	–	234	1,579
Research and development cost	–	5,663	38,511	–	44,174
Impairment losses on intangible assets	–	–	14,400	–	14,400
Impairment losses on property, plant and equipment	–	–	3,600	–	3,600
(Reversal of) impairment losses on trade receivables, net	(1,810)	875	–	–	(935)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets					
Interest on bank deposits	(165)	(256)	(441)	(216)	(1,078)

6. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

For the year ended 31 December 2017

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

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

	Sales to external customers		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Hong Kong	**–**	–	**4,135**	5,933
People's Republic of China ("**PRC**")	**135,258**	156,477	**134,249**	178,434
	135,258	156,477	**138,384**	184,367

Information about major customers

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

	2018 HK$'000 (Note b)	2017 HK$'000
Customer A (Note a)	**N/A**	18,240

Note a: Revenue generated from in-house chemical pharmaceutical products.

Note b: The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest on bank deposits	**1,078**	744
Rental income	**2,652**	2,625
Government grants (Note)	**3,375**	1,304
Sundry income	**323**	384
	7,428	5,057

Note:

During the year ended 31 December 2018, the Group received government grants amounted to RMB2,865,000 (approximately HK$3,375,000) as a subsidy of research and development expenditures already incurred and the conditions have been fulfilled upon the grant. (2017: RMB1,130,000 (approximately HK$1,304,000))

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
(Loss) gain from changes in fair value of investment properties (note 17)	**(1,042)**	2,707
Reversal of (impairment losses) recognised on trade receivables, net	**935**	(2,545)
Loss on disposal of property, plant and equipment	**(1,579)**	(100)
Others	**(17)**	315
	(1,703)	377

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**247**	177
	247	177

10. LOSS BEFORE TAXATION

	2018 **HK$'000**	2017 HK$'000
Loss before taxation is arrived at after charging:		
Staff costs (including directors' emoluments)		
Salaries, wages and other benefit	**54,097**	35,690
Retirement benefit scheme contribution	**11,131**	7,147
Equity-settled share based payments	**8,324**	6,714
	73,552	49,551
Equity-settled share based payments to consultants	**226**	150
Amortisation of intangible assets	**6,245**	4,837
Amortisation of prepaid lease payments	**835**	808
Auditor's remuneration	**1,950**	1,877
Cost of inventories recognised as an expense	**17,657**	22,849
Operating lease rentals in respect of offices	**3,852**	3,587
Depreciation	**14,675**	25,419
Less: Depreciation included in research and development costs	**(5,079)**	(6,390)
	9,596	19,029
Research and development costs	**44,174**	42,519
After crediting:		
Property rental income less outgoing	**2,210**	2,625

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
PRC Enterprise Income Tax ("**EIT**")		
– Current year	–	555
– Under-provision in prior years	290	51
	290	606
Deferred taxation (Note 29)		
– Current year	(156)	406
	134	1,012

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

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

Beijing Genetech Pharmaceutical Co., Limited and Shenzhen Watsin Genetech Pharmaceutical Co., Limited, wholly owned subsidiaries of the Company, were approved as "high-new technology enterprise" and were eligible to enjoy a preferential enterprise income tax rate of 15% (2017: 15%) for the years ended 31 December 2017 and 2018.

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

	2018 HK$'000	2017 HK$'000
Loss before taxation	(138,433)	(278,297)
Tax at the preferential enterprise income tax rate of 15% (2018: enterprise income tax rate of 15%)	(20,765)	(41,745)
Tax effect of non-taxable income	(34)	(647)
Tax effect of non-deductible expenses	6,832	35,566
Tax effect of deductible temporary difference not recognised	(156)	406
Tax effect of tax losses not recognised	14,431	7,891
Under-provision in prior years	290	51
Effect of different tax rates of group entities	(464)	(510)
Income tax expense for the year	134	1,012

12. LOSS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(138,567)**	(279,309)

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,175,911**	5,426,650

No adjustment has been made to basic loss per share amounts presented for the years ended 31 December 2018 and 31 December 2017 in respect of a dilution as the impact of the share options and warrants outstanding would decrease basic loss per share.

13. DIVIDEND

No dividend was paid, declared or proposed during 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

14. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS

(a) Directors' remuneration

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

For the year ended 31 December 2018

	Kingsley Leung HK$'000	Chen Dawei HK$'000	Total HK$'000
Executive Directors			
Fee	–	–	–
Other emoluments			
Salaries, allowance and benefits in kind	527	515	1,042
Performance related bonuses	170	85	255
Equity-settled share-based payments	217	4,571	4,788
Retirement benefit scheme contribution	18	18	36
	932	5,189	6,121

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

	Chow Kai Ming HK$'000	Ren Qi Min HK$'000	Zhao Zhi Gang HK$'000	Total HK$'000
Independent Non-executive Directors				
Fee	155	155	155	465
Equity-settled share-based payments	72	29	72	173
	227	184	227	638

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

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

(a) Directors' remuneration (Continued)

For the year ended 31 December 2018 (Continued)

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

	Lau Chau In HK$'000
Non-executive Director	
Fee	**155**
Equity-settled share based payment	**29**
	184

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

For the year ended 31 December 2017

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

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

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

(a) Directors' remuneration (Continued)

For the year ended 31 December 2017 (Continued)

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

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

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

	Lau Chau In HK$'000
Non-executive Director	
Fee	30
Equity-settled share based payment	24
	54

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

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

(b) Five highest paid employees

Of the five individuals with highest emoluments in the Group, one (2017: one) were directors of the Company. The emoluments of the remaining four (2017: four) highest paid individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**5,304**	4,932
Retirement benefit scheme contributions	**332**	259
Equity-settled share based payments	**478**	367
	6,114	5,558

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

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	–
	4	4

During the year, certain non-director highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 35 to the Group's consolidated financial statements.

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

15. RETIREMENT BENEFIT PLANS

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

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

The total expense recognised in profit or loss of HK$11,131,000 (2017: HK$7,147,000) represents contributions payable to these plans by the Group for staff (including directors and senior management) at rates specified in the rules of the plans.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in process HK$'000	Total HK$'000
COST							
At 1 January 2017	40,655	213,351	45,197	64,816	4,348	17,637	386,004
Exchange realignment	3,064	17,845	1,245	3,517	306	1,243	27,220
Additions	–	2,690	4,808	2,352	356	1	10,207
Transfer	–	–	–	18,355	–	(18,355)	–
Disposals	–	(2,343)	(915)	–	(303)	–	(3,561)
At 31 December 2017	43,719	231,543	50,335	89,040	4,707	526	419,870
Exchange realignment	(2,212)	(12,937)	(1,051)	(3,413)	(224)	(25)	(19,862)
Additions	65	4,764	693	638	–	10,011	16,171
Transfer	–	–	–	–	–	–	–
Disposals	–	(1,545)	(593)	–	–	–	(2,138)
At 31 December 2018	41,572	221,825	49,384	86,265	4,483	10,512	414,041
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	29,305	183,011	32,453	34,575	3,332	–	282,676
Exchange realignment	1,984	15,463	760	2,529	244	–	20,980
Provided for the year	2,137	15,120	3,704	4,167	291	–	25,419
Eliminated on disposals	–	(2,260)	(870)	–	(287)	–	(3,417)
Impairment losses recognised in the year (Note c)	–	13,930	2,463	17,562	–	–	33,955
At 31 December 2017	33,426	225,264	38,510	58,833	3,580	–	359,613
Exchange realignment	(1,595)	(12,444)	(807)	(2,881)	(181)	–	(17,908)
Provided for the year	2,210	6,004	3,365	2,883	213	–	14,675
Eliminated on disposals	–	(169)	(390)	–	–	–	(559)
Impairment losses recognised in the year (Note c)	–	–	–	–	–	3,600	3,600
At 31 December 2018	34,041	218,655	40,678	58,835	3,612	3,600	359,421
CARRYING VALUES							
At 31 December 2018	7,531	3,170	8,706	27,430	871	6,912	54,620
At 31 December 2017	10,293	6,279	11,825	30,207	1,127	526	60,257

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

(c) The directors of the Company conducted impairment review of the Group's property, plant and equipment related to pipeline pharmaceutical products. During the year ended 31 December 2018, impairment losses of HK$3,600,000 (2017: HK$33,955,000) were recognised in profit or loss. Details of such impairment testing are set out in note 20.

As at 31 December 2018, the Group's property, plant and equipment related to chemical pharmaceutical products amounted to HK$11,000,000. During the year ended 31 December 2018, the Group recorded segment loss of HK$26,889,000 in chemical pharmaceutical products segment. The directors of the Company consider that no impairment is required as the related property, plant and equipment are leasehold building and leasehold improvement and their recoverable amounts, determined on the basis of fair value less cost of disposal, are higher than the carrying value with reference to the valuation report prepared by external valuers.

17. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
FAIR VALUE		
At the beginning of the year	**26,605**	22,245
Exchange realignment	**(1,213)**	1,653
(Loss) gain from changes in fair value recognised in profit and loss	**(1,042)**	2,707
At the end of the year	**24,350**	26,605

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

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

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

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

17. INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2018, the fair value of investment properties was based on direct comparison approach, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. For the investment properties situated in Shenzhen, the valuers have also taken into account the agreed selling price in the transaction disclosed in note 41. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

As at 31 December 2018, the key inputs used in valuing the investment properties were market unit sale rate of RMB7,700 (2017: RMB8,200) and RMB5,500 (2017: RMB5,500) per square meter for investment properties in Shenzhen and Beijing respectively. A slight increase in market unit sale rate used would result in a significant increase in fair value measurement of the investment properties, and vice versa.

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

18. PREPAID LEASE PAYMENTS

	2018 **HK$'000**	2017 HK$'000
The Group's prepaid lease payments are held under in the PRC as follows:		
Medium-term lease	**8,355**	9,072
Short-term lease	**2,501**	3,160
	10,856	12,232

	2018 **HK$'000**	2017 HK$'000
Analysed for reporting purposes as:		
Current assets	**794**	834
Non-current assets	**10,062**	11,398
	10,856	12,232

19. INTANGIBLE ASSETS

	Trademarks and certificates HK$'000 (Note a)	Technical know-how HK$'000 (Note b)	Capitalised development costs HK$'000 (Note c)	Total HK$'000
COST				
At 1 January 2017	234,890	117,734	185,372	537,996
Exchange realignment	16,552	8,296	13,064	37,912
At 31 December 2017	251,442	126,030	198,436	575,908
Exchange realignment	(11,947)	(5,988)	(9,428)	(27,363)
At 31 December 2018	239,495	120,042	189,008	548,545
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2017	234,890	81,860	775	317,525
Exchange realignment	16,552	5,921	55	22,528
Provided for the year	–	4,837	–	4,837
Impairment losses recognised in the year (Note e)	–	–	167,705	167,705
At 31 December 2017	251,442	92,618	168,535	512,595
Exchange realignment	(11,947)	(4,711)	(8,008)	(24,666)
Provided for the year	–	6,245	–	6,245
Impairment losses recognised in the year (Note e)	–	–	14,400	14,400
At 31 December 2018	239,495	94,152	174,927	508,574
CARRYING VALUES				
At 31 December 2018	–	25,890	14,081	39,971
At 31 December 2017	–	33,412	29,901	63,313

19. INTANGIBLE ASSETS (CONTINUED)

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

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

Notes:

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

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

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

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

(e) The directors of the Company conducted impairment review of the Group's intangible assets annually. During the year ended 31 December 2018, impairment losses of HK$14,400,000 (2017: HK$167,705,000) were recognised in profit or loss. Details of such impairment testing are set out in note 20.

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO PIPELINE PHARMACEUTICAL PRODUCTS

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

	Property, plant and equipment		**Intangible assets**	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
CGUs				
Drug 1	**15,643**	7,212	**17,896**	23,376
Drug 2	**4,838**	3,890	**22,075**	39,937
Drug 3	**914**	1,356	**–**	–
	21,395	12,458	**39,971**	63,313

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO PIPELINE PHARMACEUTICAL PRODUCTS (CONTINUED)

Drug 1:

During the year ended 31 December 2017, due to changes in the competitive landscape of this drug, including the successful introduction of a number of new players into the market, the Group has therefore made adjustments to the development plan of this drug. Instead of submitting new drug application for this drug at original formulation, the directors of the Company has decided to direct all the existing resources to develop an advanced formulation of this drug for new drug application. The directors of the Company consider that the drug can be launched in 2023 and sales forecast has been updated accordingly. The changes result in a significant decline in the recoverable amount of the CGU. Impairment losses of HK$102,764,000 and HK$31,707,000 on intangible assets and property, plant and equipment are recognized for the year ended 31 December 2017.

During the year ended 31 December 2018, the Company was advised by the officials of China Food and Drug Administration (the "**CFDA**") that Phase I, Phase II and certain Phase III clinical trial for the development of the advanced formulation of this drug are not required due to the work already conducted for the original formulation and the application for Phase III clinical trial of the advanced formulation of this drug submitted by the Company has been accepted by the CFDA on 20 November 2018. No impairment loss is recognized for the year ended 31 December 2018.

Drug 2:

The Group filed formal new drug application of this drug to the CFDA in 2015. During the year ended 31 December 2017, due to the changes in the regulations of the pharmaceutical industry in the PRC, the Group had to conduct an evaluation to all clinical studies and submitted supplementary filing. It resulted in postponement of expected launch date results in a decline in the recoverable amount of the CGU and impairment losses of HK$23,091,000 and HK$2,248,000 on intangible assets and property, plant and equipment were recognized in 2017.

During the year ended 31 December 2018, the application has been transferred to CFDA for technical review and additional research and development works need to be conducted by the Company as advised by the officials of CFDA to get the final approval. It results in an increase in budget for research and development costs and a decline in the recoverable amount of the CGU. Impairment losses of HK$14,400,000 and HK$3,600,000 on intangible assets and property, plant and equipment are recognized for the year ended 31 December 2018. The directors of the Company consider that the application will be approved in late 2019 or early 2020 and the drug can be commercially launched in 2020.

Drug 3:

During the year ended 31 December 2017, it was in the opinion of the management that the Group might not have the required technical, financial and other resources to complete the development of Drug 3 taking into accounts 1) the adjustment of strategy on Drug 1, which required significant resources and times for its development in coming few years; 2) the prolonged delay on the new drug application of Drug 2 due to the tightened regulatory environment of the pharmaceutical industry in the PRC, which had an impact on the Group's cash inflow, 3) the current progress on developing Drug 3. As a result, an impairment loss of HK$41,850,000 on intangible assets of Drug 3 was made for the year ended 31 December 2017. No impairment has been made for the year ended 31 December 2018 as the assets and liabilities of CGU was disposed of at consideration higher than their carrying amounts subsequent to the year end as disclosed in Note 41.

20. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT RELATED TO PIPELINE PHARMACEUTICAL PRODUCTS (Continued)

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

The recoverable amounts of these two units have been determined based on a value in use calculation. That calculation was based on the cash flow forecasts derived from the most recent financial budgets for the next 10 years using the discount rate of 20.02% for Drug 1 and 20.25% for Drug 2 (2017: 19.4% for Drug 1 and 19.6% for Drug 2) which reflects current market assessments of the time value of money and the risk specific to these two CGUs. The cash flows beyond the 10-year-period are extrapolated for 10 years assuming 3% (2017: 3%) growth based on market data and historical records of existing drugs.

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

Drug 1

	Favourable change	Unfavourable change
At 31 December 2018		
Growth rate from Year 11 to 20 (current model: 3%)	+1% to 4%	-1% to 2%
Increase/(decrease) in VIU (HK$'000)	1,922	(1,829)
Discount rate (current model: 20.02%)	+2% to 22.02%	-2% to 18.02%
Increase/(decrease) in VIU (HK$'000)	17,472	(13,586)

Drug 2

	Favourable change	Unfavourable change
At 31 December 2018		
Growth rate from Year 11 to 20 (current model: 3%)	+1% to 4%	-1% to 2%
Increase/(decrease) in VIU (HK$'000)	1,525	(1,452)
Discount rate (current model: 20.25%)	+2% to 22.25%	-2% to 18.25%
Increase/(decrease) in VIU (HK$'000)	13,391	(10,533)

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

At 31 December 2018, the carrying amount of deposits paid for the acquisition of property, plant and equipment relates to the purchase of plant and equipment for the expansion of production facilities was approximately HK$3,331,000 (2017: HK$17,855,000).

22. DEPOSITS PAID FOR THE ACQUISITION OF INTANGIBLE ASSETS

The deposits paid for the acquisition of intangible assets represent deposits paid for (1) an acquisition of manufacturing technology and exclusive rights to distribute an antidiabetic drug and the corresponding consulting fee. The transfer is subject to a series of conditions and is expected to be completed in 2020; and (2) a co-development project to develop high quality tablets for treatment of diabetes with independent third parties. The clinical data as contained in the bioequivalence study on these tablets has been formally accepted by the CFDA in January 2019 and the directors of the Company considered that the production will be approved in 2019. The remaining unpaid consideration is disclosed as capital commitment in note 36.

Acquisition of intangible assets	Deposits paid for the acquisition	Contract sum
As at 31 December 2018		
Antidiabetic drug from an independent third party	RMB3,298,498 (equivalent to approximately HK$3,696,000) including consultancy fee of RMB827,000 (equivalent to approximately HK$927,000)	RMB16,826,800 (equivalent to approximately HK$18,856,000)
Co-development project with an independent third party	RMB2,100,000 (equivalent to approximately HK$2,354,000)	RMB6,500,000 (equivalent to approximately HK$7,284,000)
As at 31 December 2017		
Antidiabetic drug from an independent third party	RMB3,298,498 (equivalent to approximately HK$3,881,000) including consultancy fee of RMB827,000 (equivalent to approximately HK$973,000)	RMB16,826,800 (equivalent to approximately HK$19,796,000)
Co-development project with an independent third party	RMB900,000 (equivalent to approximately HK$1,058,000)	RMB6,500,000 (equivalent to approximately HK$7,647,000)

23. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**7,337**	6,491
Work in progress	**5,590**	1,149
Finished goods	**5,590**	5,908
	18,517	13,548

24. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**37,618**	66,119
Less: Allowance for credit losses	**(2,697)**	(3,813)
	34,921	62,306
Bill receivables	**4,974**	1,600
Rental deposits	**1,229**	1,291
Advance to staff	**1,005**	906
Prepayments	**1,488**	1,539
Other	**2,350**	2,517
	45,967	70,159

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$34,921,000 and HK$62,306,000, respectively.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

An aged analysis of trade receivables, net of allowance of credit losses, presented based on invoice date which approximated the respective revenue recognition dates, is as follows:

	2018 HK$'000	2017 HK$'000
0–90 days	**17,831**	42,466
91–120 days	**1,647**	13,094
121–180 days	**8,655**	3,896
181–360 days	**4,796**	1,850
Over 360 days	**1,992**	1,000
	34,921	62,306

As at 31 December 2018, included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK$17,090,000 which are past due at the end of the reporting period. Out of the past due balances, HK$6,788,000 has been past due 90 days or more and is not considered as in default as 1) The balances are mainly arisen from large and reputable listed companies with long term relationship; 2) No significant change in credit quality and these debtors are classified as low risk under the internal credit scoring system used by the Group.

As at 31 December 2017, trade receivables of HK$55,560,000 that are neither past due nor impaired are considered as recoverable as there have been no significant change in credit quality and most of the debtors are with long term business relationship without recent history of default.

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

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

	2017 HK$'000
121 to 180 days	3,896
181–360 days	1,850
Over 360 days	1,000
Total	6,746

Apart from these debtors that are past due to but not impaired, as at 31 December 2017, the Group has provided fully for all receivables aged for over 365 days but not yet settled before the report date of annual report 2017, because the directors of the Company considered that these balances are not recoverable.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017 HK$'000
At the beginning of the year	1,109
Exchange realignment	159
Recognised during the year	2,545
At the end of the year	3,813

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

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 34.

Bill receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2017: less than 180 days) and not yet due at the end of the reporting period, and the management considers the default rate is low based on historical information and experience, after taking relevant forward-looking information into account.

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

	2018 HK$'000	2017 HK$'000
Bank balances and cash (note a)	**31,786**	22,765
Time deposits (note b)	**7,000**	87,104
Structured bank deposit (note c)	**–**	11,412
	38,786	121,281

Notes:

(a) The bank balances carry interest rates ranging from 0.01% to 0.35% (2017: 0.01% to 0.35%) per annum.

(b) At 31 December 2018, the time deposit represented short-term deposits with a maturity of one month to three months (2017: with a maturity of three months to one year). At 31 December 2018 the interest rates from 1.00% at 1.60% per annum. (2017: 0.92% at 2.10%)

(c) During the year ended 31 December 2017, the Group entered into a structured contract with a bank in PRC with a principal sum of RMB9,700,000 (equivalent to approximately HK$11,412,000). The investment is an enhancement bank deposit and contains an embedded derivative, which represents the returns varying with the underlying investment portfolio of the structured bank deposit and comprises primarily of debt instrument products including bank bonds. The principal amount together with the investment return would be repaid to the Group anytime upon request, and therefore, the amount is classified as current assets. The structured bank deposit carried a minimum interest rate at zero per annum plus an additional interest rate up to 4.2% per annum which was determined by reference to the duration of deposit and the returns of the underlying investments. The management considered the fair value of the embedded derivative in the structured bank deposit as of the same date was insignificant.

On 1 January 2018, the Group adopted HKFRS 9 Financial Instruments, thus the structured bank deposit held by the Group was reclassified to financial assets at FVTPL. The fair value of above structured contracts on January 1, 2018 amounted to HK$11,412,000. The balance has been fully withdrawn shortly after 1 January 2018 with no material change in fair value.

As at 31 December 2018, the Group performed impairment assessment on time deposits and bank balances and cash concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of time deposits and bank balances and cash and time deposits as at 31 December 2018 are set out in note 34.

26. TRADE AND OTHER PAYABLES

	Notes	2018 HK$'000	2017 HK$'000
Trade payables	(i) & (ii)	**86**	9,002
Accrued expenses and other payables:			
Advance and deposits from customers	(iii)	**–**	14,082
Payables for acquisition of equipment		**1,072**	918
Payables for research and development expense		**2,139**	3,319
Other tax payables		**906**	1,628
Accrued audit fee		**1,833**	1,787
Accrued payroll		**5,350**	4,462
Accrued selling expenses		**–**	7,107
Others		**–**	901
		11,386	43,206

Notes:

(i) The average credit period on purchases of goods is 120 days (2017: 120 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit time frame.

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

	2018 HK$'000	2017 HK$'000
0–30 days	**46**	7,648
31–60 days	**40**	1,043
61–90 days	**–**	61
Over 90 days	**–**	250
	86	9,002

(iii) Upon the adoption of HKFRS 15, advance payments from customers are classified as contract liabilities at 1 January 2018 and 31 December 2018.

27. CONTRACT LIABILITIES

The Group receives certain percentage of the contract value from customers when they sign the sales agreements or place their purchase orders. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2018, revenue recognised relating to carried-forward contract liabilities is HK$12,434,000.

28. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank loan repayable within one year	**13,447**	–

During the year ended 31 December 2018, the Group raised a secured bank borrowing of RMB12,000,000 (equivalent to approximately HK$13,447,000) which carries interest at 5.655% and is repayable on 30 August 2019. The loan was secured by a leasehold building, with a net book value of approximately HK$5,400,000, owned by a PRC subsidiary of the Company.

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

	2018	2017
Effective interest rate:		
Fixed-rate borrowing	**5.655%**	–

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2018 HK$'000	2017 HK$'000
Fixed-rate:		
Expiring within one year	**20,170**	–

29. DEFERRED TAX LIABILITY

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

	2018 HK$'000	2017 HK$'000
At beginning of the year	**1,408**	949
Exchange realignment	**(34)**	53
(Credited) charged to profit or loss	**(156)**	406
At the end of the year	**1,218**	1,408

29. DEFERRED TAX LIABILITY (CONTINUED)

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

At 31 December 2018, the Group has unused tax losses of HK$231,808,000 (2017: HK$135,764,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profits streams. The losses will expire within five years from the year in which they arose.

The unused tax losses will expire in the following years:

	2018 HK$'000	2017 HK$'000
2018	**–**	4,523
2019	**10,705**	10,361
2020	**31,097**	30,097
2021	**39,444**	38,176
2022	**54,355**	52,607
2023	**96,207**	–
Total unused tax losses	**231,808**	135,764

30. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each			
Authorised:			
At 1 January 2017, 31 December 2017 and 31 December 2018		500,000,000,000	5,000,000
Issued and fully paid:			
At 1 January 2017		5,137,488,147	51,375
Private placement	32	1,027,480,000	10,275
At 31 December 2017		6,164,968,147	61,650
Issue of ordinary shares in relation to award of new shares	35(b)	15,000,000	150
At 31 December 2018		6,179,968,147	61,800

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

31. STATEMENT OF FINANCIAL POSITIONS AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSET		
Investment in a subsidiary	**214,745**	186,871
CURRENT ASSETS		
Deposits and prepayments	**1,158**	1,128
Bank balances and cash	**7,547**	40,622
	8,705	41,750
CURRENT LIABILITIES		
Amounts due to subsidiaries	**1,200**	1,200
Other payables and accruals	**3,719**	2,306
	4,919	3,506
NET CURRENT ASSETS	**3,786**	38,244
NET ASSETS	**218,531**	225,115
CAPITAL AND RESERVES		
Share capital	**61,800**	61,650
Reserves	**156,731**	163,465
TOTAL EQUITY	**218,531**	225,115

Mr. Chen Da Wei
DIRECTOR

Mr. Kingsley Leung
DIRECTOR

31. STATEMENT OF FINANCIAL POSITIONS AND RESERVES OF THE COMPANY (CONTINUED)

Movement in reserves

	Share premium HK$'000	Share-based payment reserve HK$'000	Distributable reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	593,812	11,310	1,291,798	(1,306,544)	590,376
Total comprehensive expenses for the year	–	–	–	(565,292)	(565,292)
Equity-settled share-based payments	–	6,864	–	–	6,864
Issue of ordinary shares upon subscription of shares	131,517	–	–	–	131,517
At 31 December 2017	725,329	18,174	1,291,798	(1,871,836)	163,465
Total comprehensive expenses for the year	–	–	–	(15,134)	(15,134)
Issue of ordinary shares in relation to award of new shares	2,100	(2,250)	–	–	(150)
Recognition of equity-settled Share-based payments	–	8,550	–	–	8,550
At 31 December 2018	727,429	24,474	1,291,798	(1,886,970)	156,731

32. WARRANT

On 20 September 2017, arrangements were made for a private placement to two independent private investors of 1,027,480,000 ordinary shares of HK$0.01 each, at a price of HK$0.138 per ordinary share. The proceeds were used to provide additional working capital for the Company. Pursuant to the terms of each of the subscription agreement, the Company also issued 256,870,000 warrants ("**2017 Warrant**") at warrant exercise price of HK$0.2063 per share for the period commencing from the date of issue of 2017 warrant and ending on the third anniversary. No 2017 Warrant was exercised for the years ended 31 December 2018 and 2017.

33. CAPITAL RISK MANAGEMENT

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

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

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

34. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost	**83,265**	–
Loans and receivables (including cash and cash equivalents)	**–**	189,901
Financial liabilities		
Liabilities at amortised cost	**28,849**	34,929

b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

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

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate bank deposits (note 25) and cash flow interest rate risk relates primarily to a fixed rate bank borrowing (note 28). The Group currently does not have interest rate hedging policy. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2018 and 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality by reviewing its shareholding information, financial position and reputation in the industry. For new customers which are not listed companies and without historical business relationship, the Group may request to receive advance from customers. Credit term will be granted if there are ongoing repayment without default. If there are indicators that the customer's credit quality is getting worse, the Group will take follow-up action to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors consider that Group's credit risk is significantly reduced.

The credit risk on bank balances, time deposits and bill receivables are limited because the counterparties are banks with high credit ratings.

As at 31 December 2018, the Group has concentration of credit risk of approximately 8% (2017: 20%) and 31% (2017: 37%) of the total trade receivables due from the Group's largest customer and the five largest customers respectively. As at 31 December 2018 and 31 December 2017, all trade receivables were from customers located in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit Rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty is large listed company with a low risk of default and does not have any default history	Lifetime ECL – not credit-impaired	12-month ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Doubtful	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The tables below detail the credit risk exposures of the Group's major financial assets which are subject to ECL assessment:

Financial assets at amortised costs

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	Net carrying amount HK$'000
Bank balances	25	AA	Low risk	12-month ECL	31,786	31,786
Time deposits	25	AA	Low risk	12-month ECL	7,000	7,000
Bill receivables	24	AA	Low risk	12-month ECL	4,974	4,974
Trade receivables	24	N/A	(Note)	Lifetime ECL (provision matrix)	10,672	9,344
			Low risk	Lifetime ECL	26,946	25,577

Note:

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers (excluding large listed companies which are classified as low risk under internal credit rating) because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances and with gross carrying amounts of HK$26,946,000 as at 31 December 2018 were assessed individually. As all these debtors with significant balances are listed companies with good financial position based on their public annual reports and without recent default history, they are all classified as low risk and loss rate ranging from 3% to 6% is applied.

34. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Gross carrying amount of trade receivables assessed using provision matrix:

	Average loss rate	Gross trade receivables	ECL	Net trade receivables
		HK$'0000	HK$'000	HK$'000
Internal credit rating				
Current (not past due)	6%	6,724	403	6,321
1–30 days past due	14%	535	75	460
31–90 days past due	22%	1,463	322	1,141
90–270 days past due	25%	1,130	282	848
More than 270 days past due	30%	820	246	574
		10,672	1,328	9,344

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2018, the Group provided HK$1,328,000 impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of HK$1,369,000 were made on debtors with significant balances.

34. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	3,813	3,813
Adjustment upon application of HKFRS 9	–	–	–
As at 1 January 2018	–	3,813	3,813
Changes for trade receivables recognised as at 1 January			
– Impairment losses reversed	–	(3,813)	(3,813)
– Impairment losses recognised	286	–	286
Changes for new trade receivables during current year			
– Impairment losses recognised	2,592	–	2,592
Exchange adjustments	(181)	–	(181)
As at 31 December 2018	2,697	–	2,697

The change in the loss allowance for trade receivables are mainly due to settlement of trade receivables that were classified as credit impaired at 1 January 2018 by the debtors during the year and expected credit loss rate applied to gross carrying amount of trade receivables as at 31 December 2018 which are not credit-impaired.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over two years past due, whichever occurs earlier. As at 31 December 2018, no such indicator exist and no write off is made.

34. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

The Group has net current assets amounting to approximately HK$64,584,000 at 31 December 2018 (2017: HK$160,194,000).

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

The contractual maturity dates for all non-derivative financial liabilities as at 31 December 2018 and 31 December 2017 are less than 1 year or on demand. The carrying amount of non-derivative financial liabilities is approximately to their total undiscounted cash flows.

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

35. SHARE-BASED PAYMENT TRANSACTIONS

(a) The equity-settled share option scheme of the Company

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

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

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 306,430,000 (2017: 266,620,000), representing 4.97 % (2017: 4.32%) of the ordinary shares in issue at that date.

35. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Details of the share option movements during the year ended 31 December 2018 and 31 December 2017 under the 2016 Scheme are as follows:

Share options grant date	Outstanding at 1.1.2018 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Cancelled during the year '000	Outstanding at 31.12.2018 '000
12 September 2014 Directors	8,560	–	–	–	–	8,560
12 September 2014 Others	360	–	–	–	–	360
23 January 2015 Employees	10,880	–	–	–	–	10,880
23 January 2015 Others	33,100	–	–	–	–	33,100
10 July 2015 Directors	7,260	–	–	–	–	7,260
17 August 2015 Others	120,000	–	–	–	–	120,000
27 January 2016 Employees	20,700	–	–	–	–	20,700
27 January 2016 Others	1,300	–	–	–	–	1,300
7 October 2016 Directors	10,880	–	–	–	–	10,880
3 April 2017 Employees	34,950	–	–	–	–	34,950
3 April 2017 Others	2,010	–	–	–	–	2,010
16 November 2017 Directors	16,620	–	–	–	–	16,620
9 April 2018 Senior management	–	11,990	–	–	–	11,990
9 April 2018 Employees	–	24,820	–	–	–	24,820
5 July 2018 Others	–	3,000	–	–	–	3,000
	266,620	39,810	–	–	–	306,430
Exercisable at the end of the year						266,986
Weighted average exercise price	HK$0.21	HK$0.15	–	–	–	HK$0.20

35. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

(i) Share options granted on 5 July 2018

On 5 July 2018, 3,000,000 were granted to a consultant providing similar services as employee and the estimated fair value of the options granted was approximately HK$152,490. The share option will be exercisable from 5 July 2018 to 4 July 2028. There is no vesting period and the share option can be exercised on 5 July 2018.

The fair values of the share options granted on 5 July 2018 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.104 per share
Exercise price	HK$0.105 per share
Expected volatility	52.176%
Expected Life	10 years
Risk-free rate	2.164%
Expected dividend rate	0%
Exit rate	0%

35. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(ii) Share options granted on 9 April 2018

On 9 April 2018, 11,990,000 were granted to the senior management and the estimated fair value of the options granted was approximately HK$874,547. The share option will be exercisable from 9 April 2018 to 8 April 2028. Among the aggregate of 11,990,000 share options granted, 4,030,000 share options were vested during the year ended 31 December 2018. The remaining shares options will be vested in 2 tranches with 4,030,000 and 3,930,000 share options to be vested on 9 April 2019 and 9 April 2020 respectively. The share options will vest automatically provided that the senior management still remain in office on the vesting date.

The fair values of the share options granted on 9 April 2018 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.150 per share
Exercise price	HK$0.150 per share
Expected volatility	52.408%
Expected Life	10 years
Risk-free rate	1.878%
Expected dividend rate	0%
Exit rate	8.704%

(iii) Share options granted on 9 April 2018

On 9 April 2018, 24,820,000 were granted to the employees and the estimated fair value of the options granted was approximately HK$1,792,389. The share option will be exercisable from 9 April 2018 to 8 April 2028. Among the aggregate of 24,820,000 share options granted, 8,550,000 share options were vested during the year ended 31 December 2018. The remaining shares options will be vested in 2 tranches with 8,550,000 and 7,720,000 share options to be vested on 9 April 2019 and 9 April 2020 respectively. The share options will vest automatically provided that the employees still remain in office on the vesting date.

The fair values of the share options granted on 9 April 2018 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.150 per share
Exercise price	HK$0.150 per share
Expected volatility	52.408%
Expected Life	10 years
Risk-free rate	1.878%
Expected dividend rate	0%
Exit rate	2.982%

35. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(iv) Share options granted on 16 November 2017

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

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

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

(vi) Share options granted on 3 April 2017

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

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

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

(b) Award of new shares to a director of the Company

In 2017, the Group entered into service agreement with Chan Dawei, a director of the Company, in which the Company agreed to allot and issue 15,000,000 award shares to him for every 12 months in which he served as an executive director and up to five years. The fair value of the award shares is HK$0.15 per share at the grant date. During the year ended 31 December 2018, 15,000,000 award shares were allotted and issued to him.

The Group recognised the total expense of HK$8,550,000 for the year ended 31 December 2018 (2017: HK$6,864,000) in relation to options granted under the share option scheme and the award shares of the Group.

36. CAPITAL COMMITMENT

	2018 HK$'000	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– purchase of property, plant and equipment	**2,263**	5,109
– purchase of intangible asset (note 22)	**20,090**	22,504
	22,353	27,613

37. OPERATING LEASE

The Group as lessor

Property rental income earned during the year ended 31 December 2018 was approximately HK$2,652,000 (2017: HK$2,625,000). The investment properties held have committed tenants for the next one year (2017: one years). At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

	2018 HK$'000	2017 HK$'000
Within one year	**2,382**	2,411

The Group as lessee

The Group leases certain of its office premises under operating lease arrangements. Leases are negotiated for a term ranging from one to five years (2017: one to four years). The Group does not have an option to purchase the leased asset at the expiry of the lease period. At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due are as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**3,888**	4,112
In the second to fifth years inclusive	**5,567**	6,475
	9,455	10,587

38. RELATED PARTY TRANSACTIONS

Key management compensation

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

There are no other related party transactions during the year (2017: Nil).

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of major subsidiaries at 31 December 2018 and 31 December 2017 are disclosed as follows:

Name	Place of incorporation/ establishment and operation	Principal activities	Proportion of ownership interest and voting power held by the Company 31 December 2018	31 December 2017	Particulars of issued and paid up share capital
Directly held					
Lelion Holding Limited	British Virgin Islands/ Hong Kong	Investment holding	**100%**	100%	2 Ordinary shares of US$1 each
Indirectly held					
Uni-Bio Management Limited	Hong Kong	Provision of management services	**100%**	100%	1 Ordinary share of HK$1
Uni-Bioscience Pharm Co. Limited	Hong Kong	Distribution of pharmaceutical products	**100%**	100%	1 Ordinary share of HK$1
Dongguan Taili Biotech Co., Limited 東莞太力生物工程有限公司	The PRC	Research and development	**100%**	100%	Contributed capital of HK$120,000,000
Beijing Genetech Pharmaceutical Co., Limited 北京博康健基因科技有限公司	The PRC	Manufacture and sales of chemical and biological products	**100%**	100%	Contributed capital of RMB91,000,000
Shenzhen Watsin Genetech Limited 深圳市華生元基因工程發展有限公司	The PRC	Manufacture and sales of biological products	**100%**	100%	Contributed capital of RMB100,000,000
Uni-Bio Science Healthcare (Beijing) Co. Limited 聯康永泰生物科技(北京)有限公司	The PRC	Sales and marketing	**100%**	100%	Contributed capital of RMB500,000
北京太力科創生物工程有限公司	The PRC	Manufacture and sales of chemical and biological products	**100%**	100%	Contributed capital of RMB100,000,000

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

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowing (note 28) HK$'000	Total HK$'000
As at 1 January 2018	–	–
Financing cash flows	13,447	13,447
Interest paid	(247)	(247)
Non-cash transactions:		
Interest expenses	247	247
As at 31 December 2018	13,447	13,447
As at 1 January 2017	10,990	10,990
Financing cash flows	(11,990)	(11,990)
Interest paid	(177)	(177)
Non-cash transactions:		
Exchange realignment	1,000	1,000
Interest expenses	177	177
As at 31 December 2017	–	–

41. EVENTS AFTER THE REPORTING PERIOD

On 16 November 2018, the Group entered into an agreement to dispose an indirect wholly owned subsidiary, Figure Up Trading Limited, and its subsidiary at a consideration of RMB40,000,000 (equivalent to HK$45,024,000) to Purchaser A. Figure Up Trading Limited is an investment holding company and its major subsidiary, Dongguan Taili Biotech Co., Limited, is one of the research and development platforms of the Group responsible for the development of Drug 3 as mentioned in note 20.

On the same date, the Group entered into another agreement to transfer all the economic rights relating to the land use rights of and property rights of the buildings constructed thereon a land in Shenzhen that is currently held by Shenzhen Watsin Genetech Limited, an indirect wholly owned subsidiary of the Company at a consideration of RMB60,000,000 (equivalent to HK$67,356,000) to Purchaser B. The land and building are currently used for manufacture and sale of biological pharmaceutical products with certain portion leased out and classified as investment properties as at 31 December 2018. Purchaser B has undertaken that Shenzhen Watsin Genetech Limited can continue to use the related land and building, free of charge, within 12 months after the completion of transaction. Purchaser B will also compensate the cost of relocation incurred by Shenzhen Watsin Genetech Limited provided that such amount shall be between RMB20 million and RMB30 million.

The directors of the Company have significant influence on both Purchaser A and B. Both transactions are still subject to a series of completion conditions as at year end, including approval from independent shareholders in special general meeting, and thus the related assets are not classified as held for sale as at year end. The transactions are subsequently approved in the special general meeting in February 2019.

Five-Year Financial Summary

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

	For the year ended 31 December				For the nine months period ended 31 December
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
REVENUE	**135,258**	156,477	146,489	123,364	91,793
LOSS BEFORE TAXATION	**(138,433)**	(278,297)	(53,820)	(57,230)	(41,043)
INCOME TAX EXPENSE	**(134)**	(1,012)	(1,907)	(2,569)	(1,391)
LOSS FOR THE YEAR/PERIOD	**(138,567)**	(279,309)	(55,727)	(59,799)	(42,434)
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(138,567)**	(279,309)	(55,727)	(59,799)	(42,434)
LOSS FOR THE YEAR/PERIOD	**(138,567)**	(279,309)	(55,727)	(59,799)	(42,434)

ASSETS AND LIABILITIES

	As at 31 December				As at 31 March
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
TOTAL ASSETS	**242,448**	390,189	497,321	556,956	692,915
TOTAL LIABILITIES	**(40,698)**	(47,036)	(50,917)	(50,296)	(94,693)
EQUITY	**201,750**	343,153	446,404	506,660	598,222

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Kingsley LEUNG (*Chairman*)
Mr. CHEN Dawei
Mr. ZHAO Zhi Gang

Non-executive Director

Mr. YAU Kwok Wing Tony

Independent Non-Executive Directors

Mr. CHOW Kai Ming
Mr. REN Qimin
Mr. MA Qingshan

AUDIT COMMITTEE

Mr. CHOW Kai Ming
(*Chairman of the Audit Committee*)
Mr. REN Qimin
Mr. MA Qingshan

REMUNERATION COMMITTEE

Mr. CHOW Kai Ming
(*Chairman of the Remuneration Committee*)
Mr. Kingsley LEUNG
Mr. REN Qimin
Mr. MA Qingshan

NOMINATION COMMITTEE

Mr. Kingsley LEUNG
(*Chairman of the Nomination Committee*)
Mr. CHOW Kai Ming
Mr. MA Qingshan

COMPANY SECRETARY

Ms. YAU Suk Yan

AUTHORIZED REPRESENTATIVES

Mr. Kingsley LEUNG
Mr. CHEN Dawei

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS AS TO HONG KONG LAW

LCH Lawyers LLP

STOCK CODE

0690

WEBSITE

www.uni-bioscience.com