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)

ANNUAL REPORT 2019

心創造新醫藥
LEADING GENUINE INNOVATION

* For identification purposes only

AGILE

ACCELERATED GROWTH 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.

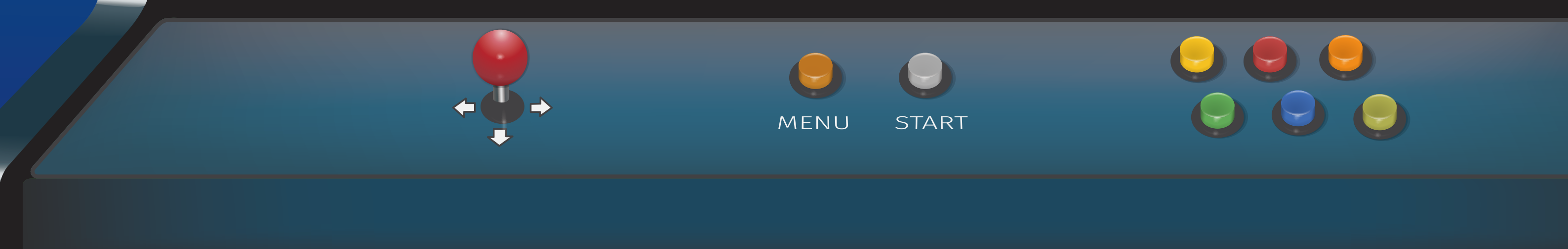
OUR VISION

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.

UNI-BIO

CONTENT



WE ARE DEDICATED TO

IMPROVING THE QUALITY OF LIFE OF PATIENTS

THROUGH INNOVATIVE TREATMENTS

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. 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.*

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.

Key Financial Highlights

	Notes	Year ended 31 December **2019**	2018
Revenue (HK$'000)		**209,449**	135,258
Gross profit (HK$'000)		**181,517**	117,601
R&D costs (HK$'000)		**(42,702)**	(44,174)
Profit (loss) before taxation (excluding the impairment of assets)		**5,140**	(120,433)
Adjusted EBITDA (LBITDA) (HK$'000)	1	**27,376**	(98,431)
Gross profit margin (%)		**86.7%**	86.9%
R&D costs to revenue (%)		**20.4%**	32.7%

		As at 31 December **2019**	2018
Cash ratio (times)	2	**1.60**	0.98
Current ratio (times)	3	**3.53**	2.64
Trade payables turnover days (days)	4	**11**	80
Trade receivables turnover days (days)	5	**65**	115
Inventory turnover days (days)	6	**208**	331
Debt-to-equity ratio (%)	7	**22.8%**	20.2%
Total assets turnover (%)	8	**70.7%**	55.8%

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R&D COSTS TO REVENUE 20.4%

^
REVENUE 209,449 (HK$'000)

^
GROSS PROFIT MARGIN 86.7%

Notes for key ratios:

1 Adjusted EBITDA (LBITDA):
Earnings (loss) before taxation minus interest expense, impairment loss, depreciation of property, plant and equipment, depreciation of right-of-use assets, 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

KINGSLEY LEUNG
(Chairman)

Dear esteemed shareholders, employees and key stakeholders,

On behalf of Uni-Bio Science Group Limited, I am pleased to present the annual results of 2019.

China's drug and medical regulatory environment has seen drastic changes in recent years. We have seen some positive new policies implemented to enhance the quality of generic drugs, encourage innovation of new drugs and treatments, expedite review and approval process and increase pricing transparency of medicines. In particular, the time needed for new drug review and approval has been shortened significantly with the clinical trial of investigational new drug timeline reduced to approximately 60 working days as compared to 1 to 2 years previously. As a company focusing on innovation, this has obviously provided a favourable operating environment for us to grow and prosper.

Chairman's Statement

In 2019, Uni-Bio continued to progressing the research and development of new products together with a disciplined efforts on sales team restructuring, cost control and efficiency enhancement. With the successful disposal of Figure Up Trading Limited and its subsidiaries in March 2019, we concluded a major milestone to establish a more focused product portfolio and business by targeting on diabetes and related metabolic disorders, dermatology and ophthalmology. Uni-Bio is currently developing various treatments for Type 2 Diabetes and Osteoporosis. Amongst all our recent developments, Uni-E4 (liquid), an innovative anti-diabetic non-insulin treatment is one of the key highlights. As the first fully biologically expressed GLP-1 agent in the world, Uni-E4 is much more similar to the natural GLP-1 existing in living body as compared with chemically synthesized exenatide. Thus, Uni-E4 provides a more complete and stable biological spatial structure and leading to better efficacy and safer results. Another highlight in our development pipeline is Uni-PTH, one of a few fully biologically expressed parathyroid hormone analogue in the world that provides effective treatment on Osteoporosis. Both projects are rooted on our self-developed, unique biological expression manufacturing process with high technological barrier, which provides us strong pricing powers and cost saving advantages as compared to chemically synthesized alternatives.

On top of new product development, we also endeavoured to streamline our structure to achieve greater operational efficiencies. In 2019, Uni-Bio focused more on expanding its direct sales channels, forming closer relationships with hospitals and establishing strategic partnerships with sector specific distributors to enhance sales of our core products. In addition, we have also undergone management reorganization by forming functional organizations with specific business units. The reorganization provides us a leaner and efficient structure for effective decision making and execution. Fruitful results have been seen. Partially supported by the reformed sales team, turnover in 2019 increased by 54.9% year-on-year ("**YoY**") to HK$209.4 million. Contributed by the management reorganization that led to efficient deployment of internal resources and decrease in administrative expenses, we recorded an adjusted Earnings before Interest, Tax, Depreciation and Amortization ("**EBITDA**") of HK$27.4 million as compared to a loss of HK$98.4 million in 2018. We believe that the above restructuring are necessary to conserve resources in uncertain macroeconomic environment and allowing us to quickly respond to any challenges ahead.

Chairman's Statement

2020 may be another rollercoaster year. The COVID-19 outbreak has plunged the world's economy into nearly full stop, leaving us a challenging environment to operate. This may inevitably affects our performance in the first quarter of 2020. Albeit the difficulties, the healthcare and pharmaceutical industry is still relatively defensive compared to other industries. Coupled with the Group's great efforts of restructuring, we have become more resilient, more focused and more ready for changes. Product innovation are in good progress and we are expecting new products to be launched as scheduled. We have been working with our strategic investors to bridge in multiple resources in further consolidating our operating platform. We have also collaborate with renowned industry players to expand sales channels and capture more market shares for our launched products. All these efforts are paving the way for us to become a respectable biopharmaceutical company in China.

The achievements we made in 2019 is due to the dedication and commitments of our employees. They are the heroes driving our transformation and developments. I would also like to thank our investors, customers, suppliers and key stakeholders for their trust in 2019. With your support, we will be achieving greater success in 2020.

ACCELERATE GROWTH INTERNATIONAL EXECUTION

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

MARKET REVIEW

In 2018, China's pharmaceutical market has reached US$127.9 billion, growing 2.4% on a year-on-year ("**YoY**") basis. The market is expected to maintain the growth momentum with an average annual growth rate of 5% in the coming five years, and is now embracing a growing emphasis on innovation upgrades of local pharmaceutical companies in order to reduce the reliance on imports. In recent years, the Central Government has introduced a series of policies to match its intention. This included developing multinational clinical centers, sharing clinical data globally, accelerating the approval process of innovative medicine, and enhancing the protection of clinical data. Industry data showed that, after the acceleration of innovative drug access, the drug approval speed has since increased by 62%. The same can be said for biologicals, as newly approved biologicals in 2018 has also surged by 450% YoY. The process from material submission to final approval now only takes as fast as six months.

In order to extract maximum value from the state-organized, centralized procurement reform ("**4+7 pilot programme**"), the State Council had a new arrangement in September last year that, it would expand the pilot area for the centralized procurement and use of generic drugs to almost the entire mainland, covering 11 major cities including Shanghai and Beijing. Simultaneously, the State Council held an executive meeting, proposing that the scope of centralized procurement and use of drug varieties should be expanded, and priority should be given to those i) with a large price difference between original research drugs and the corresponding generic drugs, and ii) the basic drugs that passed the consistency evaluation of the quality and efficacy of generic drugs. Bulk procurement with fixed quantity has thus promoted a substantial reduction in drug prices, particularly on generic drugs with the highest sales volume (and subsequently uses most reimbursement money) in China. It is expected that in the next 3 years, 80% of the top oral selling drugs will be included in the 4+7 pilot programme.

In the case of the Group, its product Acarbose is already included in the list, and the recent price negotiation has set the product at a very competitive price. Within the next 3 years, Pinup®, another product of the Group, may also be entering the list. Despite the perceived price pressure, the Group will continue to optimize its cost structure in order to fit into the new low pricing policy, and at the same time, focusing more on the innovation and development of best-in-class biologics and niche generic products, which have a smaller chance to be included in 4+7 programme. Sales of the Group's self-developed products, including GeneTime®, GeneSoft®, Uni-PTH and Uni-E4, however, is not expected to be affected by this policy.

BUSINESS REVIEW

Uni-Bio Science – A Fully Integrated Biopharmaceutical Company

Uni-Bio Group is a biopharmaceutical company focusing on diabetes and related metabolic disorders, dermatology and ophthalmology. From research and development ("**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 2019, the group has launched 4 products into the market, namely GeneTime®, GeneSoft®, Pinup® and Bokangtai.

KEY ACCOMPLISHMENTS IN 2019

A significant increase in turnover of GeneTime® products

The Group continued to promote its proprietary product GeneTime® (EGF spray indicated for wound healing), which has been well received by the market as a dermatological drug for healing burns and assisting wound healing. As of 31 December 2019, sales of GeneTime® reached approximately HK$125.3 million, representing a significant increase of 72.8% YoY. In fact, the sales of GeneTime® and GeneSoft® (EGF-derivative eye drop indicated for corneal damage and postoperative healing), both of which are the Group's proprietary products, recorded a significant increase during the Year. Being the proprietary products of the Group, the Group will continue to explore further market opportunities of the products.

Signed a letter of intent to co-construct healthcare facilities used for chronic disease management in the Greater Bay Area

In June 2019, the Group signed a letter of intent for strategic cooperation framework with Kai Ping Shi Jian Bao Zhen Tourism Development Company Limited, regarding the cooperation of the construction and operation of a chronic illness rehabilitation base and related healthcare facilities, along with the provision of chronic disease management services. The agreement is expected to directly benefit the long-term sales of the Group's chronic disease products, especially the soon-to-be-launched rExendin-4 ("**Uni-E4**") and rhPTH (1-34) ("**Uni-PTH**") used in the treatment of diabetes and osteoporosis, respectively.

Uni-PTH (Teriparatide) high-precision industrialization project approved by Zhongguancun Science Park Management Committee

According to "The Announcement on High-precision Industry Cultivation Projects in Zhongguancun Demonstration Zone Park" issued by the Committee in May 2018, the selected units may receive financial support with a total amount of not more than RMB30 million annually for up to three years consecutively. Upon the approval of the project, the Group has since received the first installment of government support funds in April 2019, and is intended to utilize the funding to support the optimization and upgrades of the product's production line, the protection of independent intellectual property rights and major core technologies, as well as market promotion in order to prepare for its official launch and realize its social value in time. The approval and the respective financial support all point to the fact that the industrialization project has important clinical significance and commercial potential.

Formed a long-term cooperation relationship with Hong Kong strategic investor with state-owned background

During the Year, the Group had successfully completed a private placement of HK$30 million of new shares to a new strategic investor – CHMT Peaceful Development Fund Management Limited ("**CHMT**"), which is a multi-strategy fund with worldwide investments in both private and public markets with an asset under management (AUM) of more than USD5 billion. After a comprehensive review of the Group's R&D and innovation capability, business operation, corporate governance and positive stock price performance in the past year, the fund decided to subscribe to a total of 215,800,000 shares, accounting for 3.37% of the Company's issued equity with a one-year lockup period. The proceeds from the placement will be used as the initial capital to progress three new corporate development projects towards the next stage, with hopes to further strengthen the Group's portfolio coverage.

Products being included in the latest National Medical Insurance Catalogue for 2019 for the second time

According to the Catalogue of Drugs for National Basic Medical Insurance, Work Injury Insurance and Maternity Insurance (2019 Version) published by the National Healthcare Security Administration and the Ministry of Human Resources and Social Security on 20 August 2019, Triazole, recombinant human epidermal growth factor, along with glinides class products of the Group, were once again being included in the latest National Medical Insurance Catalogue, which has come into effect on 1 January 2020. The market potential of the major products sold by the Group, namely GeneTime® (a patented biopharmaceutical recombinant human epidermal growth factor external solution (I)), Pinup® (Voriconazole Tablet, a patented chemical) and Bokangtai (Mitiglinide calcium tablets), are expected to have significant and sustainable growth in the near future.

Management Discussion and Analysis

R&D and Pipeline Progress

During the Year, the Group continued to invest in the R&D of innovative and proprietary products with high potential in order to deliver significant commercial value to its business. It has identified three therapeutic areas to focus on, namely endocrinology, ophthalmology and dermatology. The Group was progressing well on the newly-patented drugs below:

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 (liquid)	Type 2 Diabetes	✓	CTE	CTE	CTE		

Note:

CTE, the 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, the new drug can be exempted from Phase I/II/III clinical trial.

Product	Indication	Status	Remarks
Endocrinology			
Acarbose	Type 2 Diabetes	The Group is currently preparing for the submission of additional supplementary documents, and expects to obtain the drug registration approval number in the second half of 2020	Co-developed with Beijing Baiao Pharmaceutical Co., Ltd.
Bokangtai	Type 2 Diabetes	Bokangtai is currently undergoing BE study	Co-developed with Jiangsu Hansoh Pharmaceutical Group Co., Ltd.
Infectious Disease			
Pinup®	Fungal infection	All the consistency assessment have been completed, and the materials were submitted to the National Medical Products Administration ("**NMPA**") in August 2019. Expects to obtain the consistency assessment certification in the second half of 2020	

Uni-PTH

Uni-PTH (a recombinant human parathyroid hormone 1-34 analogue), a proprietary product that is under R&D of the Group, is effective in treating osteoporosis and bone pain, increasing bone density and reducing the risk of bone fracture. Currently, the drug is the only class of anabolic agent which can actively increase bone density and reduce the chance of vertebral and hip fractures by stimulating osteoblasts activity. Uni-PTH is also one of the few fully-biological expressed parathyroid hormone analogue in the world, which has very limited competition in the PRC market.

In April 2019, the Group received a notification letter from the Center for Drug Evaluation ("**CDE**") of National Medical Products Administration, requesting the submission of supplementary drug information of the Uni-PTH powder injection (the "**Supplementary Notification**") which was being submitted in December 2019. According to the latest schedule, the Group expects the Uni-PTH lyophilised powder injection to be launched in the second half of 2020 after obtaining the drug registration approval.

Pinup®

Pinup® (Voriconazole oral tablet) is a major drug for the treatment of severe fungal infections. As the first-line treatment recommended by clinical guidelines, it is widely used for immunocompromised patients with indications such as oncology, haematology, respiratory disease and ICUs, etc. According to IMS statistics, the market size for China's anti-fungal medicine in 2017 was amounted to RMB4.9 billion, of which Voriconazole was accounting for the biggest market share of 50%, while the oral form of Voriconazole was accounting for 35% of the Voriconazole total sales.

In order to meet the national requirements for improving the quality of generic drugs, the Group launched the quality advancement and therapeutic effect consistency assessment experiment in 2018. At present, the Group has completed all the consistency assessment experiments, and has submitted the materials to the National Medical Products Administration ("**NMPA**") in August 2019. The Group expects to obtain the consistency assessment certification in the second half of 2020. By completing the consistency assessment, the Group will be in a better position to enter into the supplier list for the centralised drug procurement, competing with a limited number of competitor products that have also passed the consistency assessment. The Group aims to achieve a larger market share by providing products with the same therapeutic effect and quality at a more affordable price.

Boshutai®

Boshutai® (Acarbose tablet) is an oral anti-diabetic drug targeting patients with pre-diabetes condition who need to be treated early, or those with poorly-controlled post prandial hyperglycemia. Acarbose tablet is especially suitable for Asians' carbohydrate-rich diet. The NMPA has officially accepted the Group's application for registering Boshutai® as a Category IV chemical drugs in January 2019, and a notification letter for supplementary information was issued by CDE in October 2019. The Group is now preparing the submission of the supplementary information, and expects to obtain the drug registration approval number in the second half of 2020. To make it stand out among the competing drugs within the centralized drug procurement programme, the Group will look to further optimize its cost structure through internal control and external partnership, as the leaner cost structure should in turn offer the Group competitive advantage in market penetration with limited marketing input, effectively boosting market share.

Management Discussion and Analysis

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. Its active ingredient is recombinant Exendin-4 (rExendin-4). In 2016, GLP-1 receptor stimulating agents recorded a global sales of US$6.9 billion, accounting for 10% of the anti-diabetic drug market. Yet, GLP-1 currently accounts for only 1% of the domestic market due to the lagging market introduction as a result of its relatively late entry into the PRC market, representing huge growth potential in the future.

Our Uni-E4 product is the first fully biologically expressed GLP-1 agent in the world. Although the biological expression of Uni-E4 has the same primary structure sequence as the chemically synthesized Exenatide, it is more similar to natural GLP-1 existing in living body in terms of secondary structure, with a more complete and stable biologically spatial structure, leading to potentially better efficacy and safety. Due to its higher technical requirement, it will not be easily copied, enjoying greater advantages in separate pricing, price support (as it will not be included in the procurement for chemical drugs with specific volume) and market entry as compared with other chemically synthesized Exenatide. It also enjoys the benefits from stable supply and costs as no externally purchased active pharmaceutical ingredients are required. With its unique biological expression manufacturing process along with its advantages in costs and price, Uni-E4 has the potential of becoming a leading competitor of the GLP-1 drugs in the blue ocean market of China. In addition, the liquid formulation developed by the Group is compatible with safe and efficient injection pens for multiple uses without reconstitution, offering greater convenience as compared with the powder formulation.

Currently, the project is under development as scheduled. The CDE has accepted the Group's application for bridging trial of the new Uni-E4 pen injection formulation in December 2019. The Group expects the bridging clinical research of the Uni-E4 injection to begin in 2020, and the drug will be launched after the completion of registration with the NMPA as soon as 2022.

RESULTS OVERVIEW

For the Year under review, the Group recorded a turnover of HK$209.4 million, representing a surge of approximately 54.9% YoY (2018: HK$135.3 million). The increase in turnover was mainly attributable to the significant sales growth of GeneTime® and the rebound in sales of Pinup®.

Cost of sales for the Year increased proportionally by 58.2% from HK$17.7 million in 2018 to HK$27.9 million in 2019. Gross profit was at HK$181.5 million, representing an increase of 54.30% as compared with approximately HK$117.6 million for 2018, mainly driven by the increase in revenue. On the contrary, gross profit margin remained stable at 86.7% (2018: 86.9%). Alongside our efforts on restructuring and reorganizing our direct sales team in order to achieve greater efficiency, the Group has appointed an increasing number of market agencies over the Year, leading to the increase in sales and distribution cost by 28.8% to HK$149.3 million (2018: HK$116.0 million).

The Group recorded a profit of HK$2.5 million with a basic earnings per share of HK0.04 cents, marking a turnaround from a loss of HK$138.6 million or a basic loss per share of HK2.24 cents in 2018.

Marketed drugs sales

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® reached HK$125.3 million, representing an increase of 72.8% from approximately HK$72.5 million in 2018, mainly due to the effective adjustment in marketing strategy. Specifically, the Group's 15ml GeneTime® was particularly favored by the market, with its sales volume showing a significant increase during the Year. The Group has since initiated two new research projects in November 2019 on this drug line, which are expected to expand the application of GeneTime® to new patient groups, further solidifying its market competitiveness.

GeneSoft®

GeneSoft®, mainly used for the treatment of corneal ulcer in the field of ophthalmology, has recorded a stable growth in revenue from approximately HK$31.3 million to HK$33.0 million, representing an increase of 5.4% for the Year. 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® to its existing domestic hospital network. Leveraging the vast network of CR Zizhu, revenue from this product witnessed a considerable growth, meaning that such strategic move has come to fruition and has since reflected on the Group's revenue.

Pinup®

Tailored to treat severe fungal infection, the Group's self-developed chemical pharmaceutical product Pinup® (Voriconazole tablets) has recorded a significant increase in revenue during the Year, as revenue surged by 63.8% from approximately HK$29.3 million to approximately HK$48.0 million in 2019. The increase was mainly attributable to a new strategy introduced by our partner, as well as the positive reaction from the market regarding the good progress of the BE study, significantly driving sales volume and offsetting the negative price impact from last year. The Group remains optimistic for obtaining the consistency assessment certification for the product in the second half of 2020. Since the consensus evaluation and BE study on Pinup® is about to be completed, it is expected that there will be stronger growth from this product when comparing with other similar products that are not involved in the BE clinical testing process.

Bokangtai

The Group's newly-launched product Bokangtai (Mitiglinide tablets) is a new diabetes drug for oral administration, focusing on the treatment of Type 2 diabetes. Being included in the National Reimbursement Drug List in 2017, Bokangtai enjoys enormous market potential, and the Group has been investing more resources to expand its sales channels in order to secure additional market share. During the Year, revenue from Bokangtai increased by 40.9% from HK$2.2 million to approximately HK$3.1 million, with three more provinces being added to its distribution network, namely Guangxi, Guizhou and Xinjiang provinces. Since its inclusion in the Medical Insurance Catalogue by the Group in 2017, Bokangtai was able to enter into a total of 16 provincial and municipal medical insurance catalogues. The Group believes that revenue contribution from the product will continue to grow after the production process qualifications are transferred to the Group in 2021, and the profit of this product is expected to increase substantially.

Management Discussion and Analysis

FINANCIAL PERFORMANCE REVIEW

Revenue

Sales Developments

For the year ended 31 December 2019, as sales of GeneTime® reported a major growth, the Group recorded a total turnover of approximately HK$209.4 million, representing a surge of approximately 54.9% 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$158.4 million in sales, representing a significant uptick of approximately 52.7% when compared to last year and accounted for 75.6% of total sales for the Year.

Proprietary Chemical Pharmaceutical Products

The Group's chemical pharmaceutical products include Pinup® (Voriconazole tablets which is tailored to treat severe fungal infection) and Bokangtai (Mitiglinide tablets, which was launched by Uni-Bio Group in 2017 to treat Type 2 diabetes). During the Year, the segment achieved a turnover of HK$51.1 million, with Pinup® and Bokangtai contributing a sales of HK$48.0 million and HK$3.1 million respectively. Specifically, Pinup® has completed all the consistency assessment experiments during the Year, and is anticipated to officially pass the consistency assessment by second half of 2020. The Group expects to achieve larger market share after completing the relevant consistency assessment.

Gross Profit and Gross Profit Margin

During the Year, gross profit was approximately HK$181.5 million, representing an increase of 54.3% as compared with approximately HK$117.6 million for 2018. The significant increase in gross profit was mainly led by the increase of revenue generated from our major products. Gross margin remains stable at 86.7% (2018: 86.9%).

Selling and Distribution Expenses

During the Year, selling and distribution expenses recorded an increase from approximately HK$116.0 million in 2018 to approximately HK$149.3 million in 2019; if by percentages, it has significantly shrank from 85.8% of total revenue in 2018, to 71.3% of total revenue in 2019. The decrease was mainly attributable to the structural adjustment made by the Group to its sales team and distribution strategies, in which the Group focused more on expanding its direct sales channels, establishing close relationship with more hospitals, and forming strategic partnerships, such as that with Shanghai Loymed Pharma Technology Co., Ltd (上海信忠醫藥科技有限公司) ("**Loymed Pharma**") signed in January 2019. The Group found its strategy run well and has since reflected on the noticeable increase in sales revenue. With the solid distribution network, the Group expects the sales of various products will grow exponentially, and as a result, the percentage of selling expenses to revenue will continue to drop to an increasingly reasonable level.

Research and Development Expenses

R&D expense in 2019 was approximately HK$42.7 million, representing a slight decrease of 3.3% from HK$44.2 million in 2018. In terms of percentage to revenue, R&D expenses decreased from 32.7% in 2018 to 20.4% in 2019. The Group continued to conduct several R&D projects in 2019, including Uni-E4 and Uni-PTH, and the BE study of Acarbose and Pinup®. Seeing the vast potential in GeneTime® and GeneSoft®, the Group will invest more R&D resources on the two products. The Group will also stick to its strategic focus on metabolic and 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 also saw a decrease during the Year, decreasing from HK$74.8 million in 2018 to HK$59.4 million in 2019, representing a decline of 20.6%. Specifically, the Group has undergone a management reorganization earlier in 2019, in which the Group's organization structure has changed from a divisional organization structure to a functional organization structure with specific business units. This has led to additional savings and efficiencies by combining supporting functions, such as finance, human resource, administration, and IT, into one. The Group also had a significant change in its IT infrastructure, as all severs and IT support have been relocated from Hong Kong to Beijing, leading to further savings.

Gain on disposal of property, plant and equipment

During the Year, the Group has recorded a gain on disposal of property, plant and equipment of RMB46.4 million, as a result of WTGL Disposal of RMB60 million which shall be settled in three phases. As at 25 March 2019, the Company received RMB36 million after the completion of the first phase. Another RMB12 million was received as at 31 December 2019, save for WTGL having completed the WTGL Split-off and the WTGL Land and Property Rights Completion having taken place, the other remaining conditions precedent to the WTGL Sale Shares Completion have yet been fulfilled. In particular, the transfer of the titles and land use rights of the WTGL Land and property rights of the buildings constructed on the WTGL Land has taken more time than the parties have originally expected.

Other Income

Other income for the Year was approximately HK$20.2 million, indicating an increase of 173% when compared with the HK$7.4 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 product development. During the Year, the Group received government funding and tax exemptions to support the R&D and commercialization of the Group's projects, amounting to a total of HK$12.5 million (2018: HK$3.3 million). The financial support continues to be an important recognition from the government over the Group's research and innovation capability.

EBITDA and Profit for the Year

As compared with the negative EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) of approximately HK$98.4 million for the year ended 31 December 2018, the Group recorded a positive EBITDA of approximately HK$27.4 million as at 31 December 2019. As compared with the net loss of approximately HK$138.6 million for the year ended 31 December 2018, the Group recorded a profit of approximately HK$2.5 million as at 31 December 2019. The turnaround was attributable to a number of factors, including: i) the Group's continuous effort in sales team, direct sales channel and marketing strategy optimization, as sales performance of major products have recorded a double-digit increase as compared to last year, ii) a variety of the Group's R&D projects have received government support, totaling HK$12.5 million for the Year, iii) significant reduction in G&A cost due to company restructuring, and iv) a one-time gains of HK$65.2 million arose from the transaction in relation to disposal of subsidiaries of the Group, and land and property rights, which was set out in the announcement dated 25 March 2019.

Management Discussion and Analysis

PROSPECT

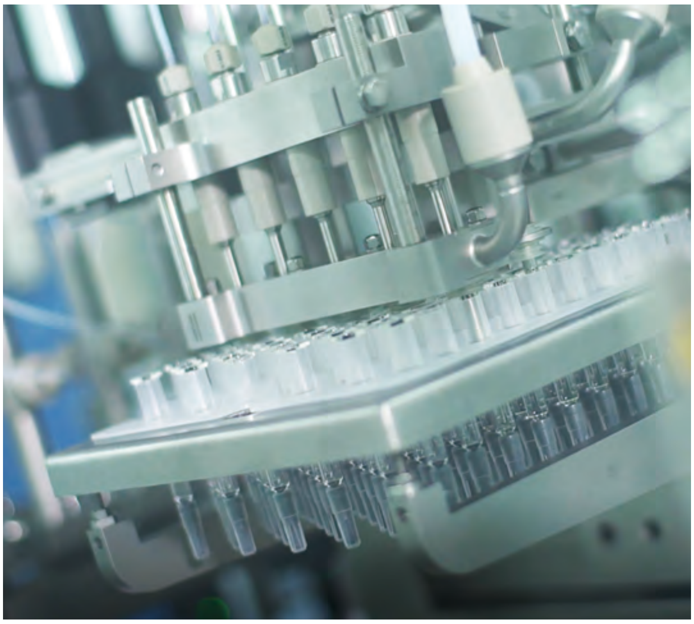
Outlook

China's pharmaceutical market has been constantly growing in recent years, and is estimated to reach $161.8 billion in size by 2023, or 30% of the global market. A recent report from Equal Ocean also showed that, in 2018, China's medical startups has attracted a total investment of $2.7 billion, taking up 7.1% of global investment. The figure then doubled to $4.5 billion, or 11.6% in 2019, all pointing to a vibrant and growing market in the future.

Over the past five years, China's pharmaceutical industry has slowly shifted its focus from generic drugs, to the development of original and innovative treatment. Aiming to become a leader in original treatment, the Group has been investing lots of R&D resources in metabolic long-term diseases such as diabetes and osteoporosis, as well as epidermal growth factors. The development strategy is also supported by a series of favourable policies, including the reform of registration and classification of chemical drugs, the pilot system of Marketing Authorization Holder, the priority review arrangement of innovative drugs, patent compensation, and protection of drug test data etc.

Capture opportunities from the increasing prevalence of chronic diseases

According to the National Health Commission of the People's Republic of China, as of the end of 2018, there were 250 million of elderly people aged over 60 years with far-from-ideal health status. The proportion of elderly people suffering from more than one chronic disease in China is as high as 75%, demonstrating the urgent needs of suitable and sufficient healthcare. To capture such opportunity, the Group had entered into a non-legally binding letter of intention for an exclusive cooperation framework agreement with Kai Ping Shi Jian Bao Zhen Tourism Development Company Limited. The Project is a nature wellness tourism project that integrates regimen, elderly care, and leisure tourism facilities. Pursuant to the letter, the Group will provide healthcare-related services for patients diagnosed with chronic diseases, and may set up and operate hospitals/clinics within the project area especially in the fields of diabetes and osteoporosis, in order to support the phase I and phase IV clinical trials of the Group's future research. Through such exercise, the Group is expected to gain specific technical knowhow in these therapeutic areas, leading to the capability of developing better, and more profitable products in the future. The development of the Group's Uni-E4 and Uni-PTH are also expected to benefit from this project.



Management Discussion and Analysis

Actively source and solidify relationship with strategic partners

There is an increasing number of secondary market investors who are interested in pre-revenue biotech companies after the approval of the chapter 18A listing rule of the HKEX last year. Since then, the Group had successfully completed a private placement with CHMT on 6 August 2019. The Group will look to closely collaborate with CHMT in order to realize any potential synergies, while setting an example in welcoming future strategic partners.

To counter the effect of the 4+7 pilot programme, the Group is also looking for strategic partners particularly on generic products in order to optimize manufacturing cost. The Group believes that by leveraging the expertise of strategic partners, the Group will be able to streamline and lower manufacturing cost, in turn, yielding a higher competitive advantage for products such Acarbose. In particular, the global Acarbose market is valued at approximately USD131.1 million in 2020, and is expected to enjoy a CAGR growth of 2.8%, reaching approximately USD159.4 million by the end of 2026. This paints an optimistic outlook for the product which the Group looks to capture.

On product development, the Group will continue to monitor the progress of its applications closely. With the support from its strategic partners, the Group is expected to start next phase of R&D of Uni-E4, Uni-PTH, GeneTime®, GeneSoft® and Boshutai®, further strengthening the Group's competitive advantage and creating long-term value for our shareholders. The Group will also look to further optimize its sales team in order to maximize efficiency and reduce costs through partnering with high quality third parties.

Liquidity and Financial Resources

As at 31 December 2019, the Group's bank deposits, bank balances and cash amounted to approximately HK$87.2 million. The Group had total assets of approximately HK$296,453,000 (as at 31 December 2018: HK$242,448,000), and current assets of approximately HK$192,469,000 (as at 31 December 2018: HK$104,064,000), while current liabilities were at HK$54,599,000 as at 31 December 2019 (as at 31 December 2018: HK$39,479,000). The total liabilities to total assets ratio is 18.6% (as at 31 December 2018: 16.8%). 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 Nil as at 31 December 2019 (as at 31 December 2018: 6.7%).

On 22 July 2019, arrangements were made for a private placement to an independent private investor of 215,800,000 ordinary shares of HK$0.01 each, at a price of HK$0.139 per ordinary share, representing a proportion of approximately 3.37% of the total of the Company's ordinary share on 22 July 2019. The proceeds were used to provide additional working capital for the Company. Company has strong cash reserve to maintain the operation.

Employment and Remuneration Policy

As of 31 December 2019, the Group employed 288 staff in both mainland and HK, 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.

USE OF PROCEEDS

The Company entered into the subscription agreement with Xinghua Enterprises Limited on 22 July 2019, pursuant to which the Company has conditionally agreed to allot and issue an aggregate of 215,800,000 subscription of ordinary shares (the "**Subscription Shares**") at the subscription price of HK$0.139 per Subscription Share, which represents: (i) a discount of approximately 2.11% to the closing price of HK$0.142 per share as quoted on the Stock Exchange on 22 July 2019; and (ii) a premium of approximately 2.51% over the average closing price of HK$0.1356 per share as quoted on the Stock Exchange for the last five consecutive trading days prior to 22 July 2019. The aggregate gross proceeds of the subscription will be approximately HK$30.0 million and the aggregate net proceeds of the subscription, after deduction of expenses, are estimated to be approximately HK$29.9 million, representing a net issue price of approximately HK$0.1385 per Subscription Share. It is proposed that the net proceeds from the subscription will be used for research and development expenses over the Company's pipeline products oriented to osteoporosis and diabetes and for general working capital.

The Directors are of the view that the subscription can strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations. The subscription also represents a good opportunity to broaden the shareholders' base and the capital base of the Company.

The following table sets forth the status of the use of proceeds from the issuance of shares by the Company:

Business objectives	**Intended use of net proceeds from the issuance of shares** *(approximate)*	**Utilised net proceeds from the issuance of shares by the Company for the year ended 31 December 2019** *(approximate)*	**Utilised net proceeds from the issuance of shares by the Company as at 31 December 2019** *(approximate)*
For research and development expenses over the Company's pipeline products oriented to osteoporosis and diabetes	HK$14.95 million	HK$14.95 million	HK$0 million
For general working capital of the Company	HK$14.95 million	HK$14.95 million	HK$0 million

As at 31 December 2019, all the proceeds were used.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Kingsley LEUNG, aged 33, 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 50, 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 60, 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.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. YAU Kwok Wing Tony, aged 45, 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 54, 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 64, 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 40, 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 Consulting 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).

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. XUE Wei, Winston, aged 49, is the Head of sales department of the company. 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.

Dr. WEN Ya Lei, Jacky, aged 59, is the Head of manufacture department of the company. 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.

Ms. LI Jing, aged 41, is the Head of R&D department of the company. Post-doctoral Fellow, University of Medicine and Dentistry of New Jersey, USA, Ph.D. in Biochemistry and Molecular Biology, State Key Laboratory of Supramolecular Structures and Materials, Jilin University. Senior Engineer, Over 10 years of experience in research and development of new drugs in the field of cancer and endocrinology, rich experience in application for new drugs of CTA and NDA. Former head of the Institute of Biopharmaceuticals of the Yangtze River Pharmaceutical Group ,Published more than 20 academic articles and patents.

Mr. SHE Shi Bin Richard, aged 35, has been appointed as financial controller and company secretary of the company with effect from 5 November 2019. He graduated from Hunan Institute of Science and Technology in 2007. He subsequently served as an audit manager in Reanda Certified Public Accountants LLP and Ernst & Young, a deputy chief accountant in Hytera Communications Corporation Limited and a senior financial officer in CGN Power Co., Ltd. Mr. She is a member of the Chinese Institute of Certified Public Accountants, the Institute of Chartered Accountants of England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr. She has over 12 years of experience in audit and financial management of listed companies. He was responsible for numerous domestic and overseas IPO projects and has extensive experience in capital market operation.

Mr. ZHAO HuaNan, aged 40, is the Head of Medicine and Registration department of the company. He graduated from Northeast Forestry University with the master's degree while he also abtained MBA from the Harbin Institute of Technology University, he has won 6 awards of provincial and municipal science and technology. He had worked in Harbin Pharmaceutical Group as a clinical director. Many new drug products were invented by him which had brought the billions of sales for the company. He has 5 years of pharmaceutical R&D experiences and 15 years of clinical R&D experiences in well-known big pharmaceutical companies.

Ms. TIAN Wei, aged 37, is the Head of HR and administration department of the company, graduated from Chengdu University of Technology with a bachelor's degree in industrial design. She has obtained the qualification certificate of director of human resources legal affairs and the qualification certificate of senior manager of human resources issued by the human resources and social security department. She has 14 years of experience in human resources administration and management.

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 applied the principles and 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 2019 except the following deviation.

CODE PROVISION A.2.1

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. The Company has been in compliance with code provision A.2.1 when Mr. ZHAO Zhi Gang was appointed as the Chief Executive Officer since 8 April 2019.

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 2020 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 2019.
(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 BOARD OF DIRECTORS (CONTINUED)

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.

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.

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 2019 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)*	A, B, C
YAU Kwok Wing Tony *(appointed on 8 April 2019)*	B, C
ZHAO Zhi Gang	B,C
CHOW Kai Ming	B,C
REN Qimin	B,C
MA Qingshan *(appointed on 8 April 2019)*	B, C

Notes:

A Reading materials, journals and updates relating to the business and industry development
B Reading materials relevant to the latest development of the Listing Rules and other applicable regulatory requirement
C Attending seminars and/or conferences and/or forums
* Ms. LAU Chau In resigned as a non-executive Director due to her other career commitments which require more of her time with effect from 8 April 2019.

THE BOARD OF DIRECTORS (CONTINUED)

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 2019 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 2019.

	Number of attendance	
	General meetings	Board meetings
Executive Directors		
Kingsley LEUNG	2/2	8/8
CHEN Dawei	2/2	8/8
ZHAO Zhi Gang *(re-designated from an independent non-executive Director on 8 April 2019)*	2/2	N/A
Non-Executive Directors		
LAU Chau In* *(resigned on 8 April 2019)*	1/2	3/8
YAU Kwok Wing Tony *(appointed as a non-executive Director on 8 April 2019)*	1/2	5/8
Independent Non-executive Directors		
ZHAO Zhi Gang *(re-designated to an executive Director on 8 April 2019)*	N/A	8/8
CHOW Kai Ming	2/2	8/8
REN Qimin	2/2	8/8
MA Qingshang *(appointed as an independent non-executive Director on 8 April 2019)*	1/2	5/8

* Ms. LAU Chau In resigned as a non-executive Director due to her other career commitments which require more of her time with effect from 8 April 2019.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 stipulates that the chairman and chief executive should be separate and should not be performed by the same individual. Please refer to paragraph under "Code provision A.2.1" above for details.

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 2019.

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.

AUDIT COMMITTEE (CONTINUED)

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.

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 2019. 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	2/2
MA Qingshan *(appointed on 8 April 2019)*	1/2

* Mr. Zhao Zhi Gang has been re-designated from an independent non-executive Director to an executive Director and ceased to be a member of the Audit Committee with effect from 8 April 2019.

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

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 2019, 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 2019, 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)*	2/3

* Mr. Zhao Zhi Gang has been re-designated from an independent non-executive Director to an executive Director and ceased to be a member of the Remuneration Committee with effect from 8 April 2019.

REMUNERATION COMMITTEE (CONTINUED)

The remuneration of Directors is determined with reference to their duties and responsibilities in the Company as well as the prevailing market conditions. Details of emoluments of Directors for the year ended 31 December 2019 are set out in note 14 to the financial statements. The number of senior management of the Group whose remuneration for the year ended 31 December 2019 fell within the following band is as follows:

	Number of senior management
Nil to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	–
HK$3,000,001 to HK$3,500,000	1

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

During the year ended 31 December 2019, 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.

NOMINATION COMMITTEE (CONTINUED)

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.

NOMINATION POLICY

The Board has adopted the nomination policy (the "**Nomination Policy**") on 31 December 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, management, professional recruitment agency and the Shareholders;
(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
(3) reviewing the profiles of the shortlisted candidates and interview them; and
(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

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$1,997,000 for audit services and HK$240,000 for non-audit services provided by Messrs. Deloitte Touche Tohmatsu in respect of the year ended 31 December 2019.

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. The Board considers that the Company's internal control systems are adequate and effective.

The process to identify, evaluate and manage risks are carried out on a regular and on-going basis. These processes are summarised as follows:

Risk identification

- Identify risks that may potentially affect the Group's business and operations.

Risk assessment

- Assess the impact and consequence of the identified risks on the business and the likelihood of their occurrence.

Response to findings of risk assessment

- Prioritise the risks by comparing the results of the risk assessment; and
- Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk monitoring and reporting

- Perform ongoing and regular monitoring of the risk and ensure that appropriate internal control processes are in place;
- Enhance the risk management strategies and internal control processes in case of any significant change of situation; and
- Report the results and effectiveness of risk management and internal control to the Board regularly.

The Board has, through the Audit Committee, conducted annual review of the effectiveness of the risk management and internal control systems of the Group. The review covered the budget of the Group's accounting and financial reporting function, adequacy of resources, staff qualifications and experience and training programmers during the year ended 31 December 2019. The Board considers that the Group's risk management and internal control systems are adequate and effective.

The Company has also established and maintained appropriate procedures for the handling and dissemination of inside information. Disclosure policy was adopted by the Company, providing a general guide to directors, senior management and relevant employees of the Group in the handling and/or monitoring of inside information disclosure pursuant to the relevant rules and regulations.

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 2019, 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 2019.

COMPANY SECRETARY

Mr. SHE Shibin was appointed as the company secretary of the Company with effect from 5 November 2019. All Directors have access to the advice and services of the company secretary. During the year ended 31 December 2019, Mr. SHE Shibin has taken no less than 15 hours of relevant professional trainings respectively to update his skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS OF THE COMPANY ("SHAREHOLDERS")

The Board recognizes the importance of good communications with all Shareholders. The Company's annual general meeting for the year ended 31 December 2019 ("**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 2019 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 2019.

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 42 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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

DIVIDEND

The Directors do not recommend the payment for a dividend for the year ended 31 December 2019.

SHARE CAPITAL AND RESERVES

Details of movements in the share capital of the Company during the year under review are set out in Note 32 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 60 and Note 33 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 2019, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$147,793,000 (31 December 2018: HK$132,257,000).

SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2019 are set out in Note 42 to the consolidated financial statements respectively.

Directors' Report

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 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)*

* Ms. LAU Chau In resigned as a non-executive Director due to her other career commitments which require more of her time with effect from 8 April 2019.

In accordance with Articles 87(1) and 87(2) of the Company's articles of association, each of Mr. Kigsley Leung, Mr. ZHAO Zhi Gang and Mr. REN Qimin will retire by rotation at the forthcoming annual general meeting of the Company ("**Annual General Meeting**") and being eligible, offer themselves for re-election.

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 2020.

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 36 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2019, 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 9)
Kingsley LEUNG	Beneficial owner and interest of a controlled corporation (Note 2)	1,650,877,026 (L)	22,779,000 (L)	1,673,656,026 (L)	26.11%
YAU Kwok Wing Tony	Interest held through a controlled corporation (Note 3)	873,360,000 (L)	218,340,000 (L)	1,091,700,000 (L)	17.03%
CHEN Dawei	Beneficial owner (Note 4)	345,955,516 (L)	49,060,000 (L)	395,015,516 (L)	6.16%
LAU Chau In	Beneficial owner (Note 5)	–	1,093,000 (L)	1,093,000 (L)	0.02%
ZHAO Zhi Gang	Beneficial owner (Note 6)	–	66,140,000 (L)	66,140,000 (L)	1.03%
CHOW Kai Ming	Beneficial owner (Note 7)	–	3,420,000 (L)	3,420,000 (L)	0.05%
REN Qimin	Beneficial owner (Note 8)	–	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) 736,301,016 Shares held by Automatic Result Limited ("**Automatic Result**") that is wholly owned by MJKPC Holdings Limited, a family trust of 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; and (iii) 22,779,000 underlying shares relating to the share options granted by the Company to Mr. Kingsley LEUNG.

3. These underlying shares are held by Vital Vigour Limited, which is a corporation controlled by Mr. YAU Kwok Wing Tony within the meaning of Part XV of the SFO.

4. These interests consist of (i) 345,955,516 Shares held by Mr. CHEN Dawei; (ii) 45,000,000 Service Shares under the terms of his service agreement with the Company; and (iii) 4,060,000 underlying Shares relating to the share options granted by the Company to Mr. CHEN Dawei.

5. These underlying Shares related to the share options granted by the Company to Ms. LAU Chau In on 16 November 2017. Ms. LAU Chau In has resigned as a non-executive Director with effect from 8 April 2019.

6. 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, 16 November 2017 and 9 April 2019 respectively.

7. 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.

8. These underlying Shares related to the share options granted by the Company to Mr. REN Qimin on 16 November 2017.

9. The percentage of shareholding is calculated on the basis of 6,410,768,147 Shares in issue as at 31 December 2019.

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Save as disclosed above, as at 31 December 2019, 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 2019, 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	736,301,016 (L)	–	736,301,016 (L)	11.49%
Lord Profit (Note 3)	Beneficial owner	914,576,010 (L)	–	914,576,010 (L)	14.27%
Overseas Capital Assets Limited (Note 4)	Beneficial owner	657,180,000 (L)	–	657,180,000 (L)	10.25%
Vital Vigour Limited (Note 5)	Beneficial owner	873,360,000 (L)	218,340,000 (L)	1,091,700,000 (L)	17.03%
Mr. CHEN Dawei	Beneficial owner	345,955,516 (L)	49,060,000 (L)	395,015,516 (L)	6.16%

Notes:

1. The letter "L" denotes the person's long position in the shares and underlying shares in the Company.

2. Automatic Result Limited 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 Limited 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 6,410,768,147 Shares in issue as at 31 December 2019.

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 2019 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 2019.

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 2019.

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 23.6% (year ended 31 December 2018: 24.2%) of the Group's total sales for the year while the single largest customer accounted for approximately 6.7% (year ended 31 December 2018: 6.4%) 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 23.8% (year ended 31 December 2018: 37.5%) of the Group's total purchases for the year and the single largest supplier accounted for approximately 7.1% (year ended 31 December 2018: 19.1%) 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 2019, 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.

EQUITY-LINKED AGREEMENT

Details of equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year are set out below:

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 2019**		**Shareholding structure immediately after the exercise of the Warrant Subscription Rights in full**	
	Number of Shares	%	Number of Shares	%
Automatic Result Limited	736,301,016	11.49	736,301,016	11.04
Lord Profit Limited	914,576,010	14.27	914,576,010	13.72
Overseas Capital Assets Limited	657,180,000	10.25	657,180,000	9.86
Vital Vigour Limited	873,360,000	13.62	1,091,700,000	16.37
Other Shareholders	3,229,351,121	50.37	3,267,881,121	49.01
Total	6,410,768,147	100.00	6,667,638,147	100.00

Note:

1. 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 2019, 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 2019.

SHARE OPTIONS SCHEME

2001 Share Option Scheme

To enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group, the Company adopted a share option scheme (the "**2001 Scheme**"), pursuant to a written resolution passed by the then shareholders of the Company on 22nd October 2001 (the "**Adoption Date**"). The Board may, at its absolute discretion, offer to grant to any full time employee of the Group (including directors of the Company) (the "**Eligible Person**"), options to subscribe for shares of the Company.

Subject to certain other provisions of the 2001 Scheme as disclosed in the Company's IPO Prospectus. The maximum number of shares in respect of which options may be granted (including shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Scheme and under any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue whereas the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised at any time under the 2001 Scheme and any other share option scheme of the Group shall not exceed 30% of the issued share capital of the Company from time to time.

Subject to certain other conditions of the share option scheme as disclosed in the Company's IPO Prospectus, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme (including both exercised or outstanding options) to each Eligible Person in any twelve-month period must not exceed 1% of the issued share capital of the Company for the time being.

Pursuant to the 2001 Scheme, an Option may be exercised in whole or in part in the manner provided in the Scheme by a grantee giving notice in writing to the Company at any time during a period commencing one year after the date of the Options, to be notified by the Board of the Company to the grantee, which shall be not less than 3 years nor more than 10 years from the date an Option is granted.

Upon application or acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The subscription price of options pursuant to the 2001 Scheme is absolute discretion determined by the Board and will not be less than the highest of the following: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share, provided that for the purpose of determining the subscription price of the shares where the shares have been listed on the Stock Exchange for less than 5 business days preceding the date of grant, the issue price of the shares in connection with such listing shall be deemed to be the closing price of the shares for each business day falling within the period before the listing of the shares on the Stock Exchange.

There are no securities available for issue under the 2001 Scheme. The 2001 Scheme was terminated following the adoption of a new share option scheme on 22 September 2006.

SHARE OPTIONS SCHEME (CONTINUED)

2006 Share Option Scheme

Pursuant to ordinary resolutions passed by the shareholders of the Company on 22 September 2006, the Company terminated the 2001 Scheme and adopted a new share option scheme (the "**2006 Scheme**"). Under the 2006 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 long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or parttime including any executive director but excluding any non-executive director) (the "**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 Company's shares shall be a price at least equal to the highest of the nominal value of the Company's shares, the average of the closing prices of the Company's 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 Company's 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 28 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 2006 Scheme.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the 2006 Scheme would be 202,160,000 shares, representing 3.15% of the Company's shares in issue as at the date of adoption of the 2006 Scheme. The limit on the number of the Company's shares which may be issued upon exercise of all outstanding option granted any yet to be exercised under the 2006 Scheme and any other schemes of the Group must not exceed 30% of the Company's shares in issue from time to time. The total number of the Company's shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the 2006 Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

The Directors consider the 2006 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. The share options are vested immediately on the date of grant.

The 2006 Scheme was terminated following the adoption of a new share option scheme on 26 September 2016.

SHARE OPTIONS SCHEME (CONTINUED)

2016 Share Options Scheme

Pursuant to ordinary resolutions passed by the shareholders of the Company on 26 September 2016 (the "**2016 Scheme**"), 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 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. 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 remaining life of the 2016 Scheme is 6 years.

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 total number of securities available for issue under the 2016 Scheme is 467,227,012, representing approximately 7.44% of the issued shares of the Company as at the date of this report. 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.

SHARE OPTIONS SCHEME (CONTINUED)

2016 Share Options Scheme (Continued)

The following table discloses movements in the Company's share options of the 2006 Scheme and 2016 Scheme during the year:

	Number of share options								
	At 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2019	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
	–	6,179,000	–	–	–	6,179,000	9 April 2019	9 April 2019 to 8 April 2029	0.1600
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
	–	60,000,000	–	–	–	60,000,000	9 April 2019	9 April 2019 to 8 April 2029	0.1600
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	–	–	–	(547,000)	1,093,000	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 SCHEME (CONTINUED)

2016 Share Options Scheme (Continued)

	Number of share options								
	At 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2019	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	–	–	–	(4,596,000)	32,214,000	9 April 2018	9 April 2018 to 8 April 2028	0.1500
	–	67,000,000	–	–	(4,551,000)	62,449,000	9 April 2019	9 April 2019 to 8 April 2029	0.1600
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
	–	3,300,000	–	–	–	3,300,000	9 April 2019	9 April 2019 to 8 April 2029	0.1600
	306,430,000	136,479,000	–	–	(9,694,000)	433,215,000			

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

On 6 August 2019, 215,800,000 subscription shares were allotted and issued under the general mandate.

On 15 April 2019, 15,000,000 service shares were allotted and issued to Mr. Chen Dawei pursuant to the service agreement entered between Mr. Chen Dawei and the Company, details of which are disclosed in the circular of the Company dated 8 June 2017.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

EVENTS AFTER REPORTING PERIOD

Events after reporting period are disclosed in note 45 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 2019, 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 2019 totalling HK$10,000 (2018: HK$28,000).

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, 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 41 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Zhao Zhi Gang was re-designated to executive Director and appointed as the chief executive officer of the Company with effect from 8 April 2019.

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

Our major suppliers are reliable and had business relationship with the Group for over 5 years on average, which mainly located within Guangdong province, the PRC.

The payables were usually settled within the credit period. The credit terms granted to the Group ranged from 30 to 90 days. The payables were usually settled within the credit period. Details of the trade and bills payables of the Group as at 31 December 2019 are set out in note 27 to the financial statements. Up to the date of this report, approximately 89% of the trade and bills payable to the major suppliers has been settled. 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) Customers

Our major customers include pharmaceutical commercial companies. The years of business relationship with the Group ranged from 3 to 10 years and the credit terms granted to the major customers ranged from 30 to 120 days. Details of the trade and bills receivables of the Group as at 31 December 2019 are set out in note 25 to the financial statements. Up to the date of this report, approximately 75% of the trade and bills receivables from the major customers has been settled.

During the year ended 31 December 2019, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our 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 2019 of the Company have been audited by Deloitte Touche Tohmatsu.

On behalf of the Board

Kingsley LEUNG
Chairman

Hong Kong, 31 March 2020

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 58 to 132, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 21 to the consolidated financial statements as a key audit matter due to significant estimates involved in determining 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 2019, the carrying amounts of the intangible assets and property, plant and equipment related to pipeline pharmaceutical products are HK$33,900,000 and HK$23,519,000, respectively and no impairment losses on intangible assets and property plant and equipment have been recognised during the year ended 31 December 2019.	Our procedures in relation to valuation of intangible assets and property, plant and equipment related to pipeline pharmaceutical products included: • Understanding key controls on how the management determine the recoverable amount of these assets; • Obtaining the valuation reports on the CGUs of these drugs prepared by 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, which is calculated based on the management's assumptions and estimates of future operating performance of these drugs; • 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; 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$9,300,000 as at 31 December 2019, with no change in fair value of investment properties recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. In determining the fair value of the relevant properties, the Board of Directors of the Company has set up a valuation team to work with the independent qualified valuers to establish the appropriate valuation techniques and inputs to 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 independent qualified valuers' competence, capabilities and objectivity and reviewing their terms of engagement with the Group; • Discussing with the valuers to understand their approaches to determine the fair values of each investment property to assess if the requirements of HKFRS 13 Fair Value Measurement and the industry norms have been met; and • Evaluating the 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 Sy Sunnie.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5&6	**209,449**	135,258
Cost of sales		**(27,932)**	(17,657)
Gross profit		**181,517**	117,601
Other income	7	**20,193**	7,428
Other gains and losses	8	**(1,248)**	(1,703)
Selling and distribution costs		**(149,338)**	(115,989)
General and administrative expenses		**(59,393)**	(74,799)
Research and development costs		**(42,702)**	(44,174)
Equity-settled share-based payment expenses		**(8,344)**	(8,550)
Impairment losses on intangible assets	21	**–**	(14,400)
Impairment losses on property, plant and equipment	21	**–**	(3,600)
Gain on disposal of subsidiaries	37	**18,777**	–
Gain on derecognition of investment properties, right-of-use assets and property, plant and equipment	40	**46,427**	–
Finance costs	9	**(749)**	(247)
Profit (loss) before taxation	10	**5,140**	(138,433)
Income tax expense	11	**(2,681)**	(134)
Profit (loss) for the year		**2,459**	(138,567)
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation on foreign operations		**(1,101)**	(11,386)
Other comprehensive expenses for the year		**(1,101)**	(11,386)
Total comprehensive income (expenses) for the year		**1,358**	(149,953)
Earnings (loss) per share (HK cents)	12		
Basic		**0.04**	(2.24)
Diluted		**0.04**	N/A

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**42,320**	54,620
Investment properties	17	**9,300**	24,350
Right-of-use assets	18	**9,333**	–
Prepaid lease payments	19	**–**	10,062
Intangible assets	20	**33,900**	39,971
Deposits paid for the acquisition of property, plant and equipment	22	**1,926**	3,331
Deposits paid for the acquisition of intangible assets	23	**7,205**	6,050
		103,984	138,384
Current assets			
Inventories	24	**13,338**	18,517
Trade and other receivables	25	**78,536**	45,967
Amount due from a related party	40	**13,397**	–
Prepaid lease payments	19	**–**	794
Time deposits	26	**21,000**	7,000
Bank balances and cash	26	**66,198**	31,786
		192,469	104,064
Current liabilities			
Trade and other payables	27	**30,515**	11,386
Contract liabilities	28	**19,650**	12,434
Income tax payable		**3,317**	2,213
Lease liabilities	29	**1,117**	–
Bank borrowings	30	**–**	13,447
		54,599	39,480
Net current assets		**137,870**	64,584
Total assets less current liabilities		**241,854**	202,968
Non-current liability			
Deferred tax liability	31	**404**	1,218
Net assets		**241,450**	201,750
Capital and reserves			
Share capital	32	**64,108**	61,800
Reserves		**177,342**	139,950
Total equity		**241,450**	201,750

The consolidated financial statements on pages 58 to 132 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 2018	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
Other comprehensive expense for the year	-	-	-	-	(1,101)	-	(1,101)
Profit for the year	-	-	-	-	-	2,459	2,459
Total comprehensive (expense) income for the year	-	-	-	-	(1,101)	2,459	1,358
Issue of ordinary shares in relation to award of new shares	150	2,100	(2,250)	-	-	-	-
Issue of private placement (note 32)	2,158	27,840	-	-	-	-	29,998
Recognition of equity-settled share-based payment expenses	-	-	8,344	-	-	-	8,344
At 31 December 2019	64,108	757,369	30,568	1,291,798	36,366	(1,938,759)	241,450

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 2019

	NOTES	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before taxation		**5,140**	(138,433)
Adjustments for:			
Amortisation of intangible assets		**6,016**	6,245
Depreciation of right-of-use assets		**2,862**	835
Change in fair value of investment properties		**–**	1,042
Depreciation of property, plant and equipment		**12,609**	14,675
Equity-settled share-based payment expenses		**8,344**	8,550
Impairment losses on intangible assets	21	**–**	14,400
Impairment losses on property, plant and equipment	21	**–**	3,600
Interest income		**(813)**	(1,078)
Finance costs		**749**	247
Loss on disposal of property, plant and equipment		**999**	1,579
Recognise (reversal) of impairment losses on trade receivables		**254**	(935)
Gain on derecognition of investment properties, right-of-use assets and property, plant and equipment		**(46,427)**	–
Gain on disposal of subsidiaries		**(18,777)**	–
Operating cash flows before movements in working capital		**(29,044)**	(89,273)
Decrease (increase) in inventories		**5,179**	(4,969)
(Increase) decrease in trade and other receivables		**(33,282)**	25,127
Increase (decrease) in trade and other payables		**21,858**	(17,738)
Increase (decrease) in contract liabilities		**7,216**	(1,648)
Cash used in operations		**(28,073)**	(88,501)
Income tax paid		**(2,676)**	(499)
NET CASH USED IN OPERATING ACTIVITIES		**(30,749)**	(89,000)
INVESTING ACTIVITIES			
Funds placed on time deposits		**(49,004)**	(203,683)
Funds withdrawal of time deposits		**35,004**	283,787
Funds withdrawal of structured deposit		**–**	11,412
Purchase of property, plant and equipment		**(8,096)**	(1,647)
Proceeds from disposal of investment properties, right-of-use assets and property, plant and equipment	40	**54,703**	–
Deposits paid for acquisition of intangible assets		**(1,155)**	(1,111)
Interest received		**813**	1,078
Net cash inflow on disposal of subsidiaries	37	**18,788**	–
NET CASH FROM INVESTING ACTIVITIES		**51,053**	89,836

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Proceed from a bank borrowing	–	13,447
Proceeds from private placement	29,998	–
Repayment of lease liabilities	(1,924)	–
Repayment of a bank borrowing	(13,447)	–
Interest paid	(749)	(247)
NET CASH FROM FINANCING ACTIVITIES	13,878	13,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,182	14,036
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	31,786	22,765
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES	230	(5,015)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	66,198	31,786

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

Uni-Bio Science Group Limited (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 42.

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 Company and its subsidiaries (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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and 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 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

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 16 Leases (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5.655%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	9,455
Lease liabilities discounted at relevant incremental borrowing rates	8,372
Lease liabilities as at 1 January 2019	8,372
Analysed as	
Current	1,436
Non-current	6,936
	8,372

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	8,372
Reclassified from prepaid lease payments (Note)	10,856
	19,228

Note:

Upfront payments for leasehold lands in PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$794,000 and HK$10,062,000 respectively were reclassified to right-of-use assets.

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 16 Leases (Continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should reflect the discounting effect at transition. No adjustment was made on refundable rental deposits paid as the discounting effect on refundable rental deposits paid at transition is minimal. Therefore, there is no material impact of applying HKFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement of profit or loss and other comprehensive income and cash flow for the year ended 31 December 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000
Non-current Assets			
Prepaid lease payments	10,062	(10,062)	–
Right-of-use assets	–	19,228	19,228
Current Assets			
Prepaid lease payments	794	(794)	–
Current Liabilities			
Lease liabilities	–	1,436	1,436
Non-current Liabilities			
Lease liabilities	–	6,936	6,936

There is no impact of transition to HKFRS 16 on accumulated losses at 1 January 2019. For the purpose of reporting cash flows from operating activities under indirect method for the twelve months ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[4]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] 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
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be 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.

Amendments to HKAS 1 and HKAS 8 *"Definition of Material"*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Groups' annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the consolidated financial position and performance of the Groups but may affect the presentation and disclosures in the consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Groups' annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the consolidated financial position and performance of the Groups but may affect the presentation and disclosures in the consolidated financial statements.

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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved 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. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

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.

Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Revenue from contracts with customers

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

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.

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.

Equity-settled share-based payment transactions

Shares/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 Shares/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 each reporting period, the Group revises its estimate of the number of shares/share options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

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.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share capital and share premium.

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)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to 1 January 2019)

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.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, 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)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Nonlease components are separated from lease component on the basis of their relative standalone selling prices.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating 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.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sale and leaseback transactions (upon application of HKFRs 16 since 1 January 2019)

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that satisfies the requirements as a sale, the Group as a seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset and recognises any gain or loss that relates to the rights transferred to the buyer-lessor only.

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 ‘profit (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Property, plant and equipment

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditures

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets 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 property, plant and equipment, right-of-use assets 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.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (Continued)

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 recognised in the consolidated statement 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. 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.

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

Financial assets

Classification and subsequent measurement of financial assets

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 interest income

Interest income is recognised using the effective interest method for financial assets 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 from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, other receivables, bills receivables, time deposits, bank balances and amount due from a related party). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivable are estimated individually for debtors with significant balances or credit-impaired, and/or collectively using a provision matrix with appropriate groupings.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g a 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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.

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 two 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.

Generally, 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);
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

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.

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.

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.

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.

As at 31 December 2019, the carrying amounts of the intangible assets and property, plant and equipment related to pipeline pharmaceutical products are HK$33,900,000 (2018: HK$39,971,000) and HK$23,519,000 (2018: HK$21,395,000), respectively and no impairment losses on intangible assets (2018: HK$14,400,000) and property, plant and equipment (2018: HK$3,600,000), respectively, have been recognised during the year ended 31 December 2019.

Fair value of investment properties

At the end of each reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates of market conditions. 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. Details are described in note 17. At 31 December 2019, the carrying amount of investment properties measured at fair value was approximately HK$9,300,000 (31 December 2018: HK$24,350,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

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 2019, the carrying amount of intangible assets with definite useful life is HK$19,872,000 (31 December 2018: HK$25,890,000), and amortisation of the intangible assets of HK$6,016,000 (31 December 2018: HK$6,245,000) was recognised for the year ended 31 December 2019.

Provision of ECL for trade receivables

Trade receivables with significant balances and which are credit impaired are assessed for ECL individually. In addition, 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.

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 (2018: 90 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 2019

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	51,071	158,378	–	209,449
Result				
Segment (loss) profit	(20,109)	15,152	(39,165)	(44,122)
Other income (excluding royalty income)				16,981
Equity-settled share-based payment expenses				(8,344)
Unallocated administration expenses				(23,830)
Finance costs				(749)
Gains on disposal of subsidiaries				18,777
Gains on derecognition of investment properties, right-of-use assets and property, plant and equipment				46,427
Profit before taxation				5,140

6. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

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)

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, finance costs, gains on disposal of subsidiaries, and gain on derecognition of investment properties, right-of-use assets and property, plant and equipment. 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 2019

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment assets	**56,579**	**78,983**	**57,419**	**192,981**
Unallocated assets				**103,472**
Total assets				**296,453**
Segment liabilities	**21,752**	**22,507**	**–**	**44,259**
Unallocated liabilities				**10,744**
Total liabilities				**55,003**

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

6. SEGMENT INFORMATION (CONTINUED)

Other segment information

For the year ended 31 December 2019

	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	5,289	334	2,827	20	8,470
Amortisation of intangible assets	–	–	6,016	–	6,016
Depreciation of right-of-use assets	289	649	–	1,924	2,862
Depreciation of property, plant and equipment	1,987	3,443	5,522	1,657	12,609
Loss on disposal of property, plant and equipment	509	460	–	30	999
Research and development cost	–	6,560	36,142	–	42,702
(Reversal of) impairment losses on trade receivables, net	(208)	462	–	–	254
Gain on derecognition of investment properties, right-of-use assets and property, plant and equipment	–	–	–	46,427	46,427
Gain on disposal of subsidiaries	–	–	–	18,777	18,777
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets					
Interest on bank deposits	(419)	(131)	–	(263)	(813)

6. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

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)

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	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Hong Kong	**–**	–	**2,859**	4,135
People's Republic of China ("**PRC**")	**209,449**	135,258	**101,125**	134,249
	209,449	135,258	**103,984**	138,384

Information about major customers

No revenue from any individual customer of the corresponding year exceeds over 10% or more of the revenue of the Group.

7. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest on bank deposits	**813**	1,078
Rental income	**1,674**	2,652
Royalty income (Note i)	**3,212**	–
Government grants (Note ii)	**12,546**	3,375
Service income (Note iii)	**1,269**	–
Sundry income	**679**	323
	20,193	7,428

Note i: During the year ended 31 December 2019, the Group granted a right to use the trademark of its chemical drug to its distributor on its sales and marketing activities and received a royalty fee amounted to RMB6,000,000 (approximately HK$6,424,000). As the right to use the trademark is not distinct from the Group's future sales of its chemical drug, the Group considers the performance obligation of such income is satisfied over time and therefore based on the terms in the contract, half of the royalty fee received was recognised as other income in the current year and the remaining amount is expected to be recognised as other income next year.

The contract also includes variable consideration, the amount and timing of receipt of which is dependent on the achievement of certain milestones. Such variable consideration has not been included in the determination of the transaction price.

Note ii: During the year ended 31 December 2019, the Group received government grants amounted to RMB11,054,000 (approximately HK$12,546,000) as subsidies for research and development expenditures already incurred and the conditions have been fulfilled upon the grant (2018: RMB2,865,000 (approximately HK$3,375,000)).

Note iii: During the year ended 31 December 2019, the Group received service income amounted to RMB451,000 (approximately HK$512,000) from its related party for manufacturing works performed. Details are set out in note 41.

8. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Loss from changes in fair value of investment properties (note 17)	–	(1,042)
(Recognised) reversal of impairment losses on trade receivables, net	(254)	935
Loss on disposal of property, plant and equipment	(999)	(1,579)
Others	5	(17)
	(1,248)	(1,703)

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	583	247
Interest on lease liabilities	166	–
	749	247

10. PROFIT (LOSS) BEFORE TAXATION

	2019 HK$'000	2018 HK$'000
Profit (loss) before taxation is arrived at after charging:		
Staff costs (including directors' emoluments)		
Salaries, wages and other benefit	45,230	54,097
Retirement benefit scheme contribution	7,400	11,131
Equity-settled share-based payments	8,093	8,324
	60,723	73,552
Equity-settled share based payments to consultants	251	226
Amortisation of intangible assets	6,016	6,245
Depreciation of property, plant and equipment	12,609	14,675
Depreciation of right-of-use assets	2,862	–
Less: Amortisation and depreciation included in research and development costs	(12,319)	(5,079)
	9,168	15,841
Amortisation of prepaid lease payments	–	835
Auditor's remuneration	2,619	1,950
Cost of inventories recognised as an expense	27,932	17,657
Operating lease rentals in respect of offices	–	3,852
Research and development costs	42,702	44,174
After crediting:		
Property rental income less outgoing	1,674	2,210

11. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
PRC Enterprise Income Tax ("**EIT**")		
– Current year	**3,467**	–
– Under-provision in prior years	**36**	290
	3,503	290
Deferred taxation (Note 31)		
– Current year	**(822)**	(156)
	2,681	134

The Company is tax exempt under the laws of the Cayman Islands.

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 and New Technology Enterprise and were eligible to enjoy a preferential enterprise income tax rate of 15% (2018: 15%) for both years with the expiration date of 15 July 2022 and 31 October 2020, respectively.

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

	2019 **HK$'000**	2018 HK$'000
Profit (loss) before taxation	**5,140**	(138,433)
Tax at the preferential enterprise income tax rate of 15% (2018: 15%)	**771**	(20,765)
Tax effect of non-taxable income	**(10,107)**	(34)
Tax effect of non-deductible expenses	**6,793**	6,832
Tax effect of (utilisation of) deductible temporary difference not recognised	**521**	(156)
Tax effect of tax losses not recognised	**6,743**	14,431
Utilisation of tax losses previously not recognised	**(1,959)**	–
Under-provision in prior years	**36**	290
Effect of different tax rates of group entities	**(117)**	(464)
Income tax expense for the year	**2,681**	134

12. EARNING (LOSS) PER SHARE

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

	2019 HK$'000	2018 HK$'000
Earnings/(Loss)		
Profit/(Loss) for the year attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share	**2,459**	(138,567)

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**6,278,443**	6,175,911
Dilutive effect of potential ordinary shares: Share options	**1,798**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**6,280,241**	6,175,911

For the year ended 31 December 2019, the computation of diluted earnings per share does not assume the conversion of warrants and certain share options as the exercise price of these warrants and share options are higher than the average market price of the Company.

For the year ended 31 December 2018, no adjustment has been made to basic loss per share amounts presented 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 2019, nor has any dividend been proposed since the end of the reporting period (2018: 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 2019

	Kingsley Leung HK$'000	Chen Dawei HK$'000	Zhao Zhi Gang* HK$'000	Total HK$'000
Executive Directors				
Fee	–	–	–	–
Other emoluments				
Salaries, allowance and benefits in kind	152	–	600	752
Equity-settled share-based payments	325	1,349	2,642	4,316
	477	1,349	3,242	5,068

* Mr. Zhao Zhi Gang has been re-designated from an independent non-executive Director to an executive Director since 8 April 2019.

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	Ma Qing Shan* HK$'000	Total HK$'000
Independent Non-executive Directors				
Fee	70	120	90	280
Equity-settled share-based payments	15	15	–	30
	85	135	90	310

* Mr. Ma Qing shan has been appointed as an independent non-executive Director and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee since 9 April 2019.

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

	Yau Kwok Wing Tony* HK$'000
Non-executive Director	
Fee	80

* Mr. Yau Kwok Wing Tony has been appointed as a non-executive Director since 8 April 2019.

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

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

(a) Directors' remuneration (Continued)

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.

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

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, two (2018: one) was director of the Company. The emoluments of the remaining three (2018: four) highest paid individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	3,702	5,304
Retirement benefit scheme contributions	251	332
Equity-settled share-based payments	2,263	478
	6,216	6,114

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:

	2019 No. of employees	2018 No. of employees
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	1	–
	3	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 36 to the Group's consolidated financial statements.

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

15. RETIREMENT BENEFIT PLANS

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

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

The total expense recognised in profit or loss of HK$7,400,000 (2018: HK$11,131,000) 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

	Buildings HK$'000	Plant and machinery HK$'000	Fixtures and equipment HK$'000	Buildings improvements HK$'000	Motor vehicles HK$'000	Construction in process HK$'000	Total HK$'000
COST							
At 1 January 2018	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
Disposals	–	(1,545)	(593)	–	–	–	(2,138)
At 31 December 2018	41,572	221,825	49,384	86,265	4,483	10,512	414,041
Exchange realignment	183	1,589	86	307	120	102	2,387
Additions	–	2,585	2,009	2,382	–	1,494	8,470
Transfer	–	10,139	–	–	–	(10,139)	–
Disposal of subsidiaries (Note 37)	–	(159,481)	(3,129)	(17,086)	(2,966)	–	(182,662)
Disposals to related party (Note 40)	(21,250)	–	–	(20,257)	–	–	(41,507)
Disposals – others	–	(10,385)	(513)	–	–	–	(10,898)
At 31 December 2019	20,505	66,272	47,837	51,611	1,637	1,969	189,831
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	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
Exchange realignment	164	1,684	28	549	116	60	2,601
Provided for the year	1,331	5,354	2,616	3,121	187	–	12,609
Transfer	–	3,660	–	–	–	(3,660)	–
Eliminated on disposal of subsidiaries (Note 37)	–	(159,021)	(3,035)	(17,086)	(2,908)	–	(182,050)
Eliminated on disposals to related party (Note 40)	(18,561)	–	–	(18,193)	–	–	(36,754)
Eliminated on disposals – others	–	(8,214)	(102)	–	–	–	(8,316)
At 31 December 2019	16,975	62,118	40,185	27,226	1,007	–	147,511
CARRYING VALUES							
At 31 December 2019	3,530	4,154	7,652	24,385	630	1,969	42,320
At 31 December 2018	7,531	3,170	8,706	27,430	871	6,912	54,620

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The buildings are situated on leasehold lands in the PRC. As at 31 December 2018, the Group had pledged its leasehold building with a net book value of approximately HK$5,400,000 to secure a bank borrowings. The pledged assets was released during the year ended 31 December 2019.

(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:

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

(c) The directors of the Company conducted impairment review of the Group's property, plant and equipment attributable to pipeline pharmaceutical products. During the year ended 31 December 2019, impairment losses of HK$Nil (2018: HK$3,600,000) were recognised in profit or loss. Details of such impairment testing are set out in note 21.

As at 31 December 2019, the Group's property, plant and equipment attributable to chemical pharmaceutical products amounted to HK$11,876,000 (HK$11,000,000). During the year ended 31 December 2019, the Group recorded segment loss of HK$16,897,000 (2018: 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 buildings and buildings improvements 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 independent external valuers.

(d) During the year ended 31 December 2019, the Group disposed/derecognised some of property, plant and equipment as part of the related party transactions. Details of such disposal/derecognition are set out in notes 37 and 40 respectively.

17. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
FAIR VALUE		
At the beginning of the year	**24,350**	26,605
Exchange realignment	**158**	(1,213)
Loss from changes in fair value recognised in profit or loss	**–**	(1,042)
Derecognition during the year (Note 40)	**(15,208)**	–
At the end of the year	**9,300**	24,350

The investment properties shown above are situated in Beijing, PRC (2018: Shenzhen and Beijing). During the year ended 31 December 2019, the Group derecognised its investment property in Shenzhen as part of transaction with a related party. Details of such derecogition are set out in note 40.

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, independent qualified professional valuers not connected to the Group.

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

As at 31 December 2019, 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.

As at 31 December 2019, the key inputs used in valuing the investment property in Beijing were market unit sale rate of RMB5,600 per square meter (2018: RMB7,700 and 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. RIGHT-OF-USE ASSETS

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
As at 1 January 2019			
Carrying amount	10,856	8,372	19,228
As at 31 December 2019			
Carrying amount	8,030	1,303	9,333
For the year ended 31 December 2019			
Depreciation charge	408	2,454	2,862
Total cash outflow for leases			2,090
Additions to right-of-use assets			340
Disposal/derecognition of right-of-use assets (Note)			(7,373)

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of one to three years (2018: one to five years). Lease terms are negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Note:

During the year ended 31 December 2019, the Group disposed of and derecognised part of its right-of-use assets as part of the related party transactions. Details of such disposal and derecognition are set out in note 37 and note 40, respectively. In addition, the Group reached a mutual agreement with the landlord to terminate two of the leases in Beijing, resulting a derecognition of the right-of-use assets amounting to HK$3,128,000.

19. PREPAID LEASE PAYMENTS

	2018 HK$'000
The Group's prepaid lease payments are held under in the PRC as follows:	
Medium-term lease	8,355
Short-term lease	2,501
	10,856

	2018 HK$'000
Analysed for reporting purposes as:	
Current assets	794
Non-current assets	10,062
	10,856

20. 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 2018	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
Exchange realignment	(891)	(447)	(705)	(2,043)
At 31 December 2019	238,604	119,595	188,303	546,502
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2018	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
Exchange realignment	(891)	(445)	(652)	(1,988)
Provided for the year	–	6,016	–	6,016
Impairment losses recognised in the year (Note e)	–	–	–	–
At 31 December 2019	238,604	99,723	174,275	512,602
CARRYING VALUES				
At 31 December 2019	–	19,872	14,028	33,900
At 31 December 2018	–	25,890	14,081	39,971

20. INTANGIBLE ASSETS (CONTINUED)

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

Trademarks and certificates	10 to 15 years
Technical 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 incurred 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 2019, no impairment losses (2018: HK$14,400,000) were recognised in profit or loss. Details of such impairment testing are set out in note 21.

21. 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 segment set out in notes 20 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) related to these CGUs are as follows:

	Property, plant and equipment		**Intangible assets**	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
CGUs				
Drug 1	**19,629**	15,643	**13,380**	17,896
Drug 2	**3,890**	4,838	**20,520**	22,075
Drug 3	**–**	914	**–**	–
	23,519	21,395	**33,900**	39,971

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

Drug 1:

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 recognised for the year ended 31 December 2018.

During the year ended 31 December 2019, the project was developing as scheduled. The Center for Drug Evaluation ("**CDE**") of National Medical Products Administration ("**NMPA**", name changed from CFDA since August 2018) requiring submission of has accepted the application for the bridging trial in December 2019. The Group expects that the bridging clinical research of Drug 1 will be completed in 2020 and this drug will be launched after completion of registration with the NMPA as soon as 2021. No impairment loss is recognised for the year ended 31 December 2019.

Drug 2:

The Group filed formal new drug application of this drug to the CFDA in 2015. 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 Group 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 recognised for the year ended 31 December 2018.

During the year ended 31 December 2019, the Group received a notification letter from the CDE of NMPA requiring submission of supplementary drug information and the supplementary material have been submitted in December 2019. According to the management's schedule, the Group expects that the Drug 2 will be launched in the second half of 2020 after obtaining the drug registration approval from NMPA. No impairment loss is recognised for the year ended 31 December 2019.

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 and during the year ended 31 December 2019, the subsidiaries carrying out the development of Drug 3 were disposed of as set out in note 37 and all the related property, plant and equipment were derecognised as a result.

21. 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, considering the product cycle, launch time and management's best estimation on business cycle of the products, using a pre-tax discount rate of 23.45% for Drug 1 and 22.33% for Drug 2 (2018: 20.02% for Drug 1 and 20.25% 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 another 10 years assuming 3% (2018: 3%) growth based on market data and historical records of existing drugs. The valuation of these two units has been carried out on the respective dates by Roma Appraisal Limited, independent qualified professional valuers not connect to the Group.

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

At 31 December 2019, 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$1,926,000 (2018: HK$3,331,000).

23. 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 2021; and (2) a co-development project to develop high quality tablets for treatment of diabetes with independent third parties, including profit sharing arrangement once the drug reached its commercial stage. The clinical data as contained in the bioequivalence study on these tablets has been formally accepted by the NMPA in January 2019 and the directors of the Company considered that the production will be approved in 2020. The remaining unpaid consideration is disclosed as capital commitment in note 39.

Acquisition of intangible assets	Deposits paid for the acquisition	Contract sum
As at 31 December 2019		
Antidiabetic drug from an independent third party	RMB3,303,643 (equivalent to approximately HK$3,688,000) including consultancy fee of RMB827,000 (equivalent to approximately HK$923,000)	RMB19,106,800 (equivalent to approximately HK$21,331,000)
Co-development project with an independent third party	RMB3,150,000 (equivalent to approximately HK$3,517,000)	RMB3,450,000 (equivalent to approximately HK$3,852,000)
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)

24. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**2,835**	7,337
Work in progress	**635**	5,590
Finished goods	**9,868**	5,590
	13,338	18,517

25. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**52,929**	37,618
Less: Allowance for credit losses	**(2,937)**	(2,697)
	49,992	34,921
Bill receivables	**21,088**	4,974
Rental deposits	**1,132**	1,229
Advance to staff	**799**	1,005
Prepayments	**3,536**	1,488
Other	**1,989**	2,350
	78,536	45,967

As at 31 December 2019 and 2018, trade receivables from contracts with customers amounted to HK$49,992,000 and HK$34,921,000, respectively.

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:

	2019 HK$'000	2018 HK$'000
0–90 days	**34,272**	17,831
91–120 days	**6,859**	1,647
121–180 days	**5,088**	8,655
181–360 days	**2,303**	4,796
Over 360 days	**1,470**	1,992
	49,992	34,921

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2019, included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK$15,720,000 (2018: HK$17,090,000) which are past due at the end of the reporting period. Out of the past due balances, HK$3,773,000 (2018: 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.

Details of impairment assessment of trade and other receivables are set out in note 35.

Bill receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2018: 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.

26. TIME DEPOSITS/BANK BALANCES AND CASH

	2019 **HK$'000**	2018 HK$'000
Bank balances and cash (note a)	**66,198**	31,786
Time deposits (note b)	**21,000**	7,000
	87,198	38,786

Notes:

(a) The bank balances carry interest rates ranging from 0.01% to 0.35% (2018: 0.01% to 0.35%) per annum.

(b) At 31 December 2019, the time deposits represented short-term deposits with a maturity of two months to six months (2018: with a maturity of one month to three months). At 31 December 2019 the interest rates from 2.1% at 2.35% per annum (2018: 1.00% at 1.60%).

As at 31 December 2019, 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 bank balances and time deposits as at 31 December 2019 are set out in note 35.

27. TRADE AND OTHER PAYABLES

	Notes	2019 HK$'000	2018 HK$'000
Trade payables	(i) & (ii)	**1,802**	86
Accrued expenses and other payables:			
Payables for acquisition of equipment		**41**	1,072
Payables for research and development expense		**1,970**	2,139
Other tax payables		**2,989**	906
Accrued audit fee		**1,704**	1,833
Accrued payroll		**7,832**	5,350
Accrued selling expenses		**9,867**	–
Amount due to a related party	41	**1,712**	–
Professional fee accruals		**609**	–
Others		**1,989**	–
		30,515	11,386

Notes:

(i) The average credit period on purchases of goods is 120 days (2018: 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:

	2019 HK$'000	2018 HK$'000
0–30 days	**1,098**	46
31–60 days	**80**	40
61–90 days	**65**	–
Over 90 days	**559**	–
	1,802	86

28. 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. Additionally, the Company received upfront payment of royalty income during the year ended 31 December 2019. Details are set out in note 7.

As at 1 January 2018, contract liabilities amounted to HK$14,082,000.

During the year ended 31 December 2019, revenue recognised relating to carried-forward contract liabilities is HK$12,434,000 (2018: HK$14,082,000), which was included in the balance at the beginning of the year.

29. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities payable:	
Within one year	1,117

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Currency RMB HK$'000
As at 31 December 2019	212

30. BANK BORROWINGS

	2019 HK$'000	2018 HK$'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. As at 31 December 2018, the loan was secured by a building, with a net book value of approximately HK$5,400,000, owned by a PRC subsidiary of the Company. The loan was fully repaid in during the year ended 31 December 2019.

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

	2018
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
Fixed-rate:	
Expiring within one year	20,170

31. DEFERRED TAX LIABILITY

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

	2019 HK$'000	2018 HK$'000
At beginning of the year	1,218	1,408
Exchange realignment	8	(34)
Credited to profit or loss	(822)	(156)
At the end of the year	404	1,218

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 the end of the reporting period, the Group has deductible temporary differences of HK$6,169,000 (deductible temporary difference in 2018: HK$2,697,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 December 2019, the Group has unused tax losses of HK$105,555,000 (2018: HK$236,481,000) 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 ten years from the year in which they arose. According to the announcement published by the PRC tax authorities on 11 July 2018, tax losses arising from entities qualifying as New and High Technology Enterprise can be carried for ten years effective from 1 January 2018. Accordingly, the expiry of the tax losses arising from subsidiaries that qualify as New and High Technology Enterprise is extended from five years to ten years.

The unused tax losses will expire in the following years:

	2019 HK$'000	2018 HK$'000
2020	–	147
2021	–	6,914
2022	6,972	15,256
2023	18,647	24,289
After 2024	79,936	189,875
Total unused tax losses (*)	105,555	236,481

* The change includes the decrease caused by the disposal of Dongguan Taili Biotech Co., Limited as disclosed in note 37.

32. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each			
Authorised:			
At 1 January 2018, 31 December 2018 and 31 December 2019		500,000,000,000	5,000,000
Issued and fully paid:			
At 1 January 2018		6,164,968,147	61,650
Issue of ordinary shares in relation to award of new shares	36(b)	15,000,000	150
At 31 December 2018		6,179,968,147	61,800
Issue of ordinary shares in relation to award of new shares	36(b)	15,000,000	150
Private placement	Note	215,800,000	2,158
At 31 December 2019		6,410,768,147	64,108

Note:

On 22 July 2019, arrangements were made for a private placement to an independent private investor of 215,800,000 ordinary shares of HK$0.01 each, at a price of HK$0.139 per ordinary share. The proceeds were used to provide additional working capital for the Company.

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

33. STATEMENT OF FINANCIAL POSITIONS AND RESERVES OF THE COMPANY

	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSET		
Investment in a subsidiary	**222,435**	214,745
CURRENT ASSETS		
Deposits and prepayments	**1,509**	1,158
Bank balances and cash	**23,388**	7,547
	24,897	8,705
CURRENT LIABILITIES		
Amounts due to subsidiaries	**1,200**	1,200
Other payables and accruals	**3,663**	3,719
	4,863	4,919
NET CURRENT ASSETS	**20,034**	3,786
NET ASSETS	**242,469**	218,531
CAPITAL AND RESERVES		
Share capital	**64,108**	61,800
Reserves	**178,361**	156,731
TOTAL EQUITY	**242,469**	218,531

Mr. Chen Da Wei
DIRECTOR

Mr. Kingsley Leung
DIRECTOR

33. 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 2018	725,329	18,174	1,291,798	(1,871,836)	163,465
Loss and 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
Loss and total comprehensive expenses for the year	–	–	–	(14,404)	(14,404)
Issue of ordinary shares in relation to award of new shares	2,100	(2,250)	–	–	(150)
Issue of private placement (note 32)	27,840	–	–	–	27,840
Recognition of equity-settled Share-based payments	–	8,344	–	–	8,344
At 31 December 2019	757,369	30,568	1,291,798	(1,901,374)	178,361

34. 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.

35. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost	**175,595**	83,265
Financial liabilities		
Financial liabilities at amortised cost	**16,001**	28,849

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, time deposits, bank balances and cash, bill receivables, trade and other payables, lease liabilities 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 26) and fixed rate bank borrowing (note 30). 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.

35. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2019 and 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge 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 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.

For amount due from a related party, the directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019, the Group assessed the ECL this balance was insignificant considering the financial background and condition of the related party and thus loss allowance was assessed to be immaterial.

As at 31 December 2019, the Group has concentration of credit risk of approximately 9% (2018: 8%) and 31% (2018: 31%) of the total trade receivables due from the Group's largest customer and the five largest customers respectively. As at 31 December 2019 and 31 December 2018, 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	12m 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

35. 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

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount 2019 HK$'000	Gross carrying amount 2018 HK$'000	Net carrying amount 2019 HK$'000	Net carrying amount 2018 HK$'000
Bank balances	26	AAA	Low risk	12m ECL	**66,198**	31,786	**66,198**	31,786
Time deposits	26	AAA	Low risk	12m ECL	**21,000**	7,000	**21,000**	7,000
Bill receivables	25	A+ to AAA	Low risk	12m ECL	**21,088**	4,974	**21,088**	4,974
Amount due from a related party	40	N/A	Low risk	12m ECL	**13,397**	–	**13,397**	–
Other receivables	25	N/A	Low risk	12m ECL	**3,920**	3,355	**3,920**	3,355
Trade receivables	25	N/A	(Note)	Lifetime ECL (provision matrix)	**14,073**	10,672	**12,401**	9,344
			Low risk	Lifetime ECL	**38,856**	26,946	**37,591**	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 2019 and 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances and with gross carrying amounts of HK$38,856,000 as at 31 December 2019 and 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.

35. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Gross carrying amount of trade receivables assessed using provision matrix:

2019

	Average loss rate	Gross trade receivables HK$'0000	ECL HK$'000	Net trade receivables HK$'000
Internal credit rating				
Current (not past due)	6%	8,714	523	8,191
1–30 days past due	14%	1,693	237	1,456
31–90 days past due	22%	1,654	364	1,290
90–270 days past due	25%	1,113	278	835
More than 270 days past due	30%	899	270	629
		14,073	1,672	12,401

2018

	Average loss rate	Gross trade receivables HK$'0000	ECL HK$'000	Net trade receivables 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

35. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Gross carrying amount of trade receivables assessed using provision matrix: (Continued)

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 2019, the Group provided HK$1,672,000 (2018: HK$1,328,000) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of HK$1,265,000 (2018: HK$1,369,000) were made on debtors with significant balances.

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
New financial assets originated	2,592	–	2,592
Exchange adjustments	(181)	–	(181)
As at 31 December 2018	2,697	–	2,697
Change for trade receivables recognised as at 1 January 2019:			
– Impairment losses reversed	(2,458)	–	(2,458)
– Impairment losses recognised	35	–	35
New financial assets originated	2,677	–	2,677
Exchange adjustments	(14)	–	(14)
As at 31 December 2019	2,937	–	2,937

The significant change in the loss allowance for trade receivables during the year ended 31 December 2018 was mainly due to settlement of trade receivables that were classified as credit impaired at 1 January 2018 by the debtors during 2018.

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 2019 and 2018, no such indicator exist and no write off is made.

35. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

The Group has net current assets amounting to approximately HK$137,870,000 at 31 December 2019 (2018: HK$64,584,000).

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 financial liabilities and lease liabilities as at 31 December 2019 and 31 December 2018 are less than 1 year or on demand. The carrying amount of the financial liabilities approximates 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.

36. 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 (vii) 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 2019, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 433,215,000 (2018: 306,430,000), representing 7.17% (2018: 4.97%) of the ordinary shares in issue at that date.

36. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

Details of the share option movements during the years ended 31 December 2019 and 31 December 2018 under the 2016 Scheme are as follows:

Share options grant date	Outstanding at 1.1.2019 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Cancelled during the year '000	Outstanding at 31.12.2019 '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	–	–	(547)	–	16,073
9 April 2018 Senior management	11,990	–	–	–	–	11,990
9 April 2018 Employees	24,820	–	–	(4,596)	–	20,224
5 July 2018 Others	3,000	–	–	–	–	3,000
9 April 2019 Directors	–	66,179	–	–	–	66,179
9 April 2019 Employees	–	67,000	–	(4,551)	–	62,449
9 April 2019 Others	–	3,300	–	–	–	3,300
	306,430	136,479	–	(9,694)	–	433,215
Exercisable at the end of the year						342,690
Weighted average exercise price	HK$0.20	HK$0.16	–	–	–	HK$0.19

36. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

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

(i) Share options granted on 9 April 2019

On 9 April 2019, 66,179,000 were granted to the directors and the estimated fair value of the options granted was approximately HK$4,241,845. The share option will be exercisable from 9 April 2019 to 8 April 2029. Among the aggregate of 66,179,000 share options granted, 22,060,000 share options were vested during the year ended 31 December 2019. The remaining shares options will be vested in 2 tranches with 22,060,000 and 22,059,000 share options to be vested on 9 April 2020 and 9 April 2021 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 2019 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.160 per share
Exercise price	HK$0.160 per share
Expected volatility	50.426%
Expected Life	10 years
Risk-free rate	1.552%
Expected dividend rate	0%
Exit rate	20.833%

36. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

(ii) Share options granted on 9 April 2019

On 9 April 2019, 67,000,000 were granted to the senior management and employees and the estimated fair value of the options granted was approximately HK$4,997,632. The share option will be exercisable from 9 April 2019 to 8 April 2029. Among the aggregate of 67,000,000 share options granted, 22,550,000 share options were vested during the year ended 31 December 2019. The remaining shares options will be vested in 2 tranches with 22,550,000 and 21,900,000 share options to be vested on 9 April 2020 and 9 April 2021 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 2019 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.160 per share
Exercise price	HK$0.160 per share
Expected volatility	50.426%
Expected Life	10 years
Risk-free rate	1.552%
Expected dividend rate	0%
Exit rate	2.847%

(iii) Share options granted on 9 April 2019

On 9 April 2019, 3,300,000 were granted to a consultant providing similar services as employee and the estimated fair value of the options granted was approximately HK$251,427. The share option will be exercisable from 9 April 2019 to 9 April 2029. There is no vesting period and the share option can be exercised on April 2019.

The fair values of the share options granted on April 2019 were calculated using the Binomial model. The inputs into the model were as follows:

Spot price (closing price of grant date)	HK$0.160 per share
Exercise price	HK$0.160 per share
Expected volatility	50.426%
Expected Life	10 years
Risk-free rate	1.552%
Expected dividend rate	0%
Exit rate	0%

36. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

(iv) 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%

(v) 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%

36. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

(vi) 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%

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

During year ended 31 December 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 2019, 15,000,000 award shares (2018: 15,000,000) were allotted and issued to him.

The Group recognised the total expense of HK$8,344,000 for the year ended 31 December 2019 (2018: HK$8,550,000) in relation to options granted under the share option scheme and the award shares of the Group.

37. DISPOSAL OF SUBSIDIARIES

On 25 March 2019, the Group disposed of an indirect wholly owned subsidiary, Figure Up Trading Limited, and its subsidiary at a consideration of RMB40,000,000 (equivalent to HK$46,806,000) to Greater Bay (R&D) Capital Limited ("**Greater Bay R&D**"), which resulted a gain on disposal of subsidiaries of approximately HK$18,777,000. 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 21. The directors of the Company have significant influence on Greater Bay R&D.

The net assets of Figures Up Trading Ltd. and its subsidiaries at the date of disposal were as follows:

Consideration received:	HK$'000
Cash received	46,806

Analysis of assets and liabilities over which control was lost:	**25 March 2019** HK$'000
Property, plant and equipment	612
Right-of-use assets	2,533
Trade and other receivables	459
Bank balances and cash	28,018
Trade and other payables	(1,060)
Lease liabilities	(2,533)
Net assets disposed of	28,029
Gain on disposal of subsidiaries:	
Consideration received	46,806
Gain on disposal	18,777
Net cash inflow arising on disposal:	
Cash consideration	46,806
Less: bank balances and cash disposed of	28,018
	18,788

38. OPERATING LEASES

The Group as lessee

	31December 2018 HK$'000
Minimum lease payments paid under operating leases during the year	9,455

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31December 2018 HK$'000
Within one year	3,888
In the second to fifth years inclusive	5,567
	9,455

The Group as lessor

The properties held for rental purposes have committed lessees for the next one year. As set out in note 17, certain of the Group's properties held for rental purposes have been derecognised during the year.

Minimum lease payments receivable on leases are as follows:

	31December 2019 HK$'000
Within one year	**992**

	31December 2018 HK$'000
Within one year	2,382

39. CAPITAL COMMITMENT

	2019 HK$'000	2018 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– purchase of property, plant and equipment	**690**	2,263
– purchase of intangible asset (note 23)	**17,978**	20,090
– Research and development activities	**335**	–
	19,003	22,353

40. DERECOGNITION OF INVESTMENT PROPERTIES, RIGHT-OF-USE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

As set out in Notes 16, 17 and 18, the Group entered into an agreement with Greater Bay Capital Limited ("**Greater Bay Capital**") 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 (the "**Shenzhen Land and Property**") that is currently held by Shenzhen Watsin Genetech Limited ("**Shenzhen Watsin**"), an indirect wholly owned subsidiary of the Company at a consideration of RMB60,000,000 (equivalent to HK$68,100,000), subject to a series of completion conditions (the "**GBC agreement**"). The directors of the Company have significant influence on Greater Bay Capital.

On 25 March 2019, all of the conditions precedent under the GBC Agreement had been satisfied and Group ceased to have control over the Shenzhen land and property, which includes investment properties, right-of use assets and property, plant and equipment amounting HK$15,208,000, HK$2,418,000 and HK$4,753,000 respectively. These assets were derecognised and a gain of HK$46,427,000 was recorded. The land and building are currently used for manufacture and sale of biological pharmaceutical products as at 31 December 2019.

	25 March 2019 HK$'000
Analysis of assets over which control was lost:	
Investment property	15,208
Right-of-use assets	2,418
Property, plant and equipment	4,753
Assets derecognised	22,379
Gain on derecogntion of investment properties, right-of-use assets and property, plant and equipment:	
Fair value of consideration received and receivable	68,100
Less: assets derecognised	(22,379)
Add: right-of-use assets retained	706
Gain on derecognition	46,427

As part of the process of transferring the legal title of the Shenzhen Land and Property to Greater Bay Capital, the Group had completed the split-off of Shenzhen Watsin whereby the title of the Shenzhen Land and Property will be transferred to a new company to be disposed of to Greater Bay Capital while all the remaining assets and liabilities, including the production equipment and facilities as well as the intellectual property rights of the existing Shenzhen Watsin will remain with the Group. The Group is in process of transferring the titles of the Shenzhen Land and Property to the new company, upon the completion of which, the share of the new company will be transferred to Greater Bay Capital (the "**Share transfer**"). In the opinion of the directors, the Share transfer will be completed in 2020.

40. DERECOGNITION OF INVESTMENT PROPERTIES, RIGHT-OF-USE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As part of the GBC agreement, Greater Bay Capital has undertaken that:

1) During the period between the date of derecognition of the Shenzhen Land and Property and the date of the Share transfer, Greater Bay Capital is responsible for all matters and bearing all related expenses, taxes and fees relating to the Shenzhen Land and Property. At the same time, Greater Bay also owns all the rights and benefits associated with the Shenzhen Land and Property during this period.

2) Shenzhen Watsin can continue to use the related land and building, free of charge, for 12 months starting from 25 March 2020.

3) Greater Bay Capital will compensate the cost of relocation incurred by Shenzhen Watsin provided that such amount shall be between RMB20 million and RMB30 million, of which based on the best estimation of the directors of the Company, would be sufficient to cover the relocation costs.

4) Based on the current disposal plan, the directors are of the opinion that the transfer of the economic benefit of the Shenzhen Land and Property and the split-off of Shenzhen Watsin will be exempt from tax by the local tax authority. However, should the Group be obliged to pay any taxes with regard to this transaction, Greater Bay Capital will bear all applicable taxes and fees arising from the GBC agreement, including the split-off and the Share transfer (including without limitation, the applicable taxes and fees arising from the transfer of the titles of the Shenzhen Land and Property), up to a maximum amount of RMB40,000,000.

During the year ended 31 December 2019, the Group received cash consideration amounting RMB 48,000,000 (equivalent to HK$54,703,000) from Greater Bay Capital. For the remaining RMB12,000,000 (equivalent to HK$13,397,000), it was originally agreed that it should be repaid by no later than 31 December 2019; however, this period was extended to the earlier of (1) the Share transfer completion date; and (2) 30 June 2020. As at 31 December 2019, the balance is unsecured and non-interest bearing. Further details about this transaction are set out in the Group's announcements dated 16 November 2018, 4 February 2019 and 25 March 2019.

41. RELATED PARTY TRANSACTIONS

(a) Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties:

Related party	Nature of balances/transactions	2019 HK$'000	2018 HK$'000
Greater Bay Capital (Note (i))	Amount due to a related party (included in trade and other payables)	1,712	–
Guangzhou Taili Biotech Co., Limited (Note (ii))	Service income	512	–

Notes:

(i) The amount is unsecured, non-interesting bearing and repayable on demand.

(ii) Guangzhou Taili Biotech Co., Limited is an indirect subsidiary of Greater Bay R&D, which the directors of the Company have significant influence on.

(b) 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 is no other remuneration paid to key management personnel during the years ended 31 December 2019 and 2018.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of major subsidiaries at 31 December 2019 and 31 December 2018 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		Particulars of issued and paid up share capital
			2019	2018	
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#	The PRC	Research and development	**–**	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 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

Disposed during the year as set out in Note 37.

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.

43. 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 2019 and 2018.

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows 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 HK$'000 (Note 30)	**Lease liabilities** HK$'000 (Note 29)	**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
At 31 December 2018	13,447	–	13,447
Adjustment upon application of HKFRS 16	–	8,372	8,372
As at 1 January 2019	13,447	8,372	21,819
Financing cash flows	(13,447)	(1,924)	(15,371)
Interest paid	(583)	(166)	(749)
Non-cash transactions:			
Leases entered	–	340	340
Disposal of subsidiaries	–	(2,533)	(2,533)
Termination of leases	–	(3,128)	(3,128)
Exchange adjustments	–	(10)	(10)
Interest expenses	583	166	749
At 31 December 2019	–	1,117	1,117

45. EVENTS AFTER THE REPORTING PERIOD

The outbreak of Novel Coronavirus ("**COVID-19**") in the PRC has caused the local government to impose policies to delay opening of offices after Lunar New Year holiday, until certain hygiene measures are fulfilled and satisfied by the local government. The Group's office has been re-opened on 10 February 2020 and the business have been gradually resuming since then as employees were able to work through remote access.

As at the date of report, the COVID-19 has not resulted in material impact to the Group. Pending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions arising thereof may have impact on the financial results of the Group, the extent of which could not be reasonably estimated as at the date of this report.

On 17 January 2020, the Group entered into two subscription agreements with China Construction Bank Shenzhen Branch ("**CCB**"), pursuant to which the Group subscribed for the wealth management products from CCB in the principal amount total amounting of RMB30,000,000. Further details are set out in the Group's announcement dated 17 January 2020.

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				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
REVENUE	**209,449**	135,258	156,477	146,489	123,364
PROFIT (LOSS) BEFORE TAXATION	**5,140**	(138,433)	(278,297)	(53,820)	(57,230)
INCOME TAX EXPENSE	**(2,681)**	(134)	(1,012)	(1,907)	(2,569)
PROFIT (LOSS) FOR THE YEAR/PERIOD	**2,459**	(138,567)	(279,309)	(55,727)	(59,799)
ATTRIBUTABLE TO: OWNERS OF THE COMPANY	**2,459**	(138,567)	(279,309)	(55,727)	(59,799)
PROFIT (LOSS) FOR THE YEAR/PERIOD	**2,459**	(138,567)	(279,309)	(55,727)	(59,799)

ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
TOTAL ASSETS	**296,453**	242,448	390,189	497,321	556,956
TOTAL LIABILITIES	**(55,003)**	(40,698)	(47,036)	(50,917)	(50,296)
EQUITY	**241,450**	201,750	343,153	446,404	506,660

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

Mr. SHE Shi Bin

AUTHORIZED REPRESENTATIVES

Mr. Kingsley LEUNG
Mr. CHEN Dawei

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

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LCH Lawyers LLP

STOCK CODE

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