ESSEX BIO-TECHNOLOGY LIMITED

億 勝 生 物 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1061)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "Board") of directors (the "Directors") of Essex Bio-Technology Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 together with comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$**	2016 HK$
Turnover	*3&4*	**899,589,729**	775,662,998
Cost of sales		**(161,987,759)**	(152,636,311)
Gross profit		**737,601,970**	623,026,687
Other revenue, and other gains and losses	*5*	**24,647,137**	7,395,501
Distribution and selling expenses		**(515,298,269)**	(410,539,424)
Administrative expenses		**(40,405,123)**	(47,958,700)
Finance costs		**(9,499,843)**	(9,686,016)
Profit before income tax	*6*	**197,045,872**	162,238,048
Income tax	*7*	**(29,747,219)**	(25,953,667)
Profit for the year		**167,298,653**	136,284,381
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
– Changes in fair value		**609,477**	13,440,257
– Reclassification adjustments for gain on disposal of available-for-sale financial assets included in profit or loss		**(341,550)**	–
		267,927	13,440,257
Exchange differences on translation of financial statements of foreign operations		**42,362,557**	(32,413,062)
Other comprehensive income/(loss) for the year		**42,630,484**	(18,972,805)
Total comprehensive income for the year		**209,929,137**	117,311,576
Earnings per share attributable to owners of the Company			
– Basic	*9*	**HK29.75 cents**	HK24.33 cents
– Diluted	*9*	**HK29.35 cents**	HK24.03 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$	2016 HK$
Non-current assets			
Property, plant and equipment	10	**171,239,491**	163,901,646
Land use rights		**6,493,945**	6,189,091
Goodwill		**2,435,133**	2,227,853
Other intangible assets	11	**138,129,589**	74,700,268
Convertible loan receivables	12	**33,062,058**	27,016,775
Available-for-sale financial assets	13	**90,393,260**	83,397,434
Deposits and prepayments	14	**2,805,718**	382,385
Pledged bank deposit		**–**	20,000,000
Total non-current assets		**444,559,194**	377,815,452
Current assets			
Inventories	15	**102,869,822**	106,216,070
Trade and other receivables	16	**335,983,002**	256,007,080
Deposits and prepayments	14	**7,508,033**	35,327,800
Convertible loan receivables	12	**–**	1,750,887
Pledged bank deposit		**28,229,076**	–
Cash and cash equivalents		**240,627,387**	156,180,115
Total current assets		**715,217,320**	555,481,952
Total assets		**1,159,776,514**	933,297,404
Current liabilities			
Trade and other payables	17	**225,190,047**	195,128,065
Bank borrowings		**29,004,214**	38,780,000
Current tax liabilities		**22,959,188**	10,048,758
Total current liabilities		**277,153,449**	243,956,823
Net current assets		**438,063,871**	311,525,129
Total assets less current liabilities		**882,623,065**	689,340,581
Non-current liabilities			
Convertible loan payable	18	**128,974,146**	121,434,340
Deferred tax liabilities		**14,160,527**	11,042,175
Total non-current liabilities		**143,134,673**	132,476,515
Total liabilities		**420,288,122**	376,433,338
NET ASSETS		**739,488,392**	556,864,066
Capital and reserves attributable to owners of the Company			
Share capital		**56,349,300**	56,214,900
Reserves		**683,139,092**	500,649,166
TOTAL EQUITY		**739,488,392**	556,864,066

NOTES:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

2. ADOPTION OF HKFRSs

The adoption of these amendments has no material impact on the Group's financial statements.

Adoption of revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

3. TURNOVER

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns), further details of which are set out in note 4.

4. SEGMENT REPORTING

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

– Pharmaceutical products: Manufacture and sale of pharmaceutical products

– Provision of marketing services

(a) Reportable segments

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

For the year ended 31 December 2017

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

For the year ended 31 December 2016

	Pharmaceutical products *HK$*	Provision of marketing services *HK$*	Total *HK$*
Reportable segment revenue			
– Revenue from external customers	727,817,762	47,845,236	775,662,998
Reportable segment profit	159,474,528	26,296,905	185,771,433

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

	2017 *HK$*	2016 HK$
Reportable segment profit	**214,373,882**	185,771,433
Unallocated corporate income and expenses, net	**(6,179,885)**	(12,574,808)
Equity-settled share-based payments	**(1,648,282)**	(1,272,561)
Finance costs	**(9,499,843)**	(9,686,016)
Profit before income tax	**197,045,872**	162,238,048

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

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

(b) Geographical information

For the years ended 31 December 2017 and 2016, the Group's revenue from external customers is derived solely from its operations in the People's Republic of China (the "PRC") (place of domicile), where all of the Group's non-current assets (other than available-for-sale financial assets and pledged bank deposit) are located in the PRC.

The geographical location of external customers is based on the location at which the goods are delivered and services rendered. Geographical location of non-current assets is based on the physical locations of the respective assets. For goodwill and other intangible assets, geographical location is based on the area of the group entities' operations.

(c) Information about major customers

For the year ended 31 December 2017, revenue of HK$226,950,494 and HK$91,842,987 (2016: HK$183,421,572) was derived from sales by the pharmaceutical products segment to two (2016: one) customers, which individually accounted over 10% of the Group's total revenue.

5. OTHER REVENUE, AND OTHER GAINS AND LOSSES

	2017	2016
	HK$	HK$
Gain on disposal of trading securities	**–**	3,772,836
Fair value gain on available-for-sale financial assets (transfer from equity on disposal)	**341,550**	–
Licensing income	**10,879,801**	–
Interest income from convertible loan receivables	**3,622,668**	3,230,461
Government grants *(Note)*	**6,797,842**	949,519
Interest income from bank deposits	**2,993,822**	218,327
Sundry income	**31,975**	78,932
Change in fair value of derivative component of convertible loan receivables	**(20,521)**	(854,574)
	24,647,137	7,395,501

Note:

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

6. PROFIT BEFORE INCOME TAX

This is arrived at after charging/(crediting):

	2017	2016
	HK$	HK$
Amortisation of land use rights	**155,217**	157,274
Amortisation of other intangible assets	**4,935,220**	1,834,615
Auditor's remuneration	**1,018,700**	912,000
Cost of inventories	**157,937,369**	133,634,058
Cost of services	**2,569,322**	19,002,253
Depreciation of property, plant and equipment	**12,835,851**	10,934,795
Employee costs excluding directors' emoluments:		
Salaries and other benefits	**99,407,791**	75,926,401
Pension fund contributions	**7,057,484**	4,327,933
Equity-settled share-based payments to the employees *(Note)*	**1,548,282**	572,047
Equity-settled share-based payments to the consultant of the Group *(Note)*	**100,000**	500,000
Exchange (gains)/losses, net	**(7,651,606)**	1,233,468
Write-off of inventories	**1,481,068**	2,685,773
Loss on disposal of property, plant and equipment	**26,710**	36,487
Research and development costs recognised as expenses	**6,431,465**	5,652,020

Note:

During the year ended 31 December 2017, equity-settled share-based payments recognised as administrative expenses in relation to share options granted by the Company to a consultant and employees were HK$100,000 (2016: HK$500,000) and HK$1,548,282 (2016: HK$572,047) respectively.

During the year ended 31 December 2016, equity-settled share-based payments recognised as administrative expenses in relation to share options granted by the Company to directors were HK$200,514.

7. INCOME TAX

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

	2017	2016
	HK$	HK$
Current tax – the PRC		
– Provision for the year	**26,873,488**	25,630,461
Deferred tax	**2,873,731**	323,206
	29,747,219	25,953,667

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

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprise. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% for the years ended 31 December 2017 and 2016.

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

8. DIVIDENDS

	2017	2016
	HK$	HK$
Interim dividend – HK$0.025 per share	**14,055,525**	–
Proposed final dividend – HK$0.025 (2016: HK$0.032) per share	**14,087,325**	17,988,768
	28,142,850	17,988,768

The directors propose a final dividend of HK$0.025 (2016: HK$0.032) per ordinary share to be paid. The amount of proposed final dividend is based on the number of issued ordinary shares as at the end of the reporting period. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

9. EARNINGS PER SHARE

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

Earnings

	2017	2016
	HK$	HK$
Profit attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share	**167,298,653**	136,284,381

Number of shares

	2017	2016
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**562,315,266**	560,113,557
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	**7,615,298**	6,983,566
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**569,930,564**	567,097,123

The computation of diluted earnings per share for the years ended 31 December 2017 and 2016 does not assume the conversion of potential ordinary shares in relation to certain share options granted and the convertible loan payable as they have anti-dilutive effect.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements *HK$*	Plant and machinery *HK$*	Furniture, fixtures and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Cost:					
At 1 January 2016	120,348,486	68,994,808	5,222,929	3,639,688	198,205,911
Additions	1,045,580	8,208,219	2,080,687	434,793	11,769,279
Disposal	–	(84,552)	–	–	(84,552)
Exchange adjustment	(7,780,276)	(4,792,056)	(381,795)	(253,071)	(13,207,198)
At 31 December 2016	113,613,790	72,326,419	6,921,821	3,821,410	196,683,440
Additions	1,531,941	3,475,180	3,045,043	–	8,052,164
Disposal	–	(183,728)	(36,371)	–	(220,099)
Exchange adjustment	8,628,627	5,589,335	591,294	288,081	15,097,337
At 31 December 2017	123,774,358	81,207,206	10,521,787	4,109,491	219,612,842
Accumulated depreciation:					
At 1 January 2016	4,754,334	13,782,466	2,506,989	2,826,287	23,870,076
Charge for the year	2,361,506	7,337,349	829,060	406,880	10,934,795
Disposal	–	(48,065)	–	–	(48,065)
Exchange adjustment	(409,638)	(1,207,058)	(158,748)	(199,568)	(1,975,012)
At 31 December 2016	6,706,202	19,864,692	3,177,301	3,033,599	32,781,794
Charge for the year	2,341,001	8,909,980	1,344,351	240,519	12,835,851
Disposal	–	(162,393)	(30,996)	–	(193,389)
Exchange adjustment	602,946	1,861,441	246,012	238,696	2,949,095
At 31 December 2017	9,650,149	30,473,720	4,736,668	3,512,814	48,373,351
Carrying amount:					
At 31 December 2017	114,124,209	50,733,486	5,785,119	596,677	171,239,491
At 31 December 2016	106,907,588	52,461,727	3,744,520	787,811	163,901,646

As at 31 December 2016, the Group's buildings and leasehold improvements were pledged as security for bank borrowings and banking facilities.

11. OTHER INTANGIBLE ASSETS

	Development expenditure HK$	Distribution rights HK$	Total HK$
Cost:			
At 1 January 2016	49,585,574	2,456,052	52,041,626
Additions	24,289,512	22,047,944	46,337,456
Exchange adjustment	(4,257,353)	(1,193,922)	(5,451,275)
At 31 December 2016	69,617,733	23,310,074	92,927,807
Additions	22,412,399	38,079,303	60,491,702
Exchange adjustment	6,110,813	3,341,447	9,452,260
At 31 December 2017	98,140,945	64,730,824	162,871,769
Accumulated amortisation and impairment losses:			
At 1 January 2016	15,973,745	1,700,014	17,673,759
Amortisation	–	1,834,615	1,834,615
Exchange adjustment	(1,026,551)	(254,284)	(1,280,835)
At 31 December 2016	14,947,194	3,280,345	18,227,539
Amortisation	–	4,935,220	4,935,220
Exchange adjustment	1,126,811	452,610	1,579,421
At 31 December 2017	16,074,005	8,668,175	24,742,180
Carrying amount:			
At 31 December 2017	82,066,940	56,062,649	138,129,589
At 31 December 2016	54,670,539	20,029,729	74,700,268

12. CONVERTIBLE LOAN RECEIVABLES

During the year ended 31 December 2015, the Group entered into a convertible loan agreement with an independent third party, 武漢伢典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.*) ("Adv. Dental"), with principal amount of RMB10,000,000 (approximately HK$11,937,448) which carries interest at 5% per annum payable quarterly in arrears with maturity on 13 December 2019 at redemption amount of 100% of the principal amount ("Convertible Loan A"). The principal amount of Convertible Loan A can be converted into such equity interest representing 30% of the entire equity interest of Adv. Dental at any time from the date of issue to the maturity date. The principal activities of Adv. Dental are manufacturing and selling of dental treatment techniques in the PRC. Convertible Loan A is secured by 100% equity interest in Adv. Dental.

During the year ended 31 December 2016, the Group entered into another convertible loan agreement with an independent third party, 廣西萬壽堂藥業有限公司 (Guangxi Medictop Pharmaceutical Company Limited*) ("Guangxi Medictop"), with principal amount of RMB15,000,000 (approximately HK$17,528,115) which carries interest at 6% per annum payable quarterly in arrears with maturity on 8 January 2019 at redemption amount of 100% of the principal amount ("Convertible Loan B"). Guangxi Medictop is principally engaged in manufacture, research and development and sale of Chinese patent medicines for gynecology and cardiovascular. Convertible Loan B is secured by 20% equity interest in Guangxi Medictop.

The components of Convertible Loan B, other than the debt component, are set out below:

(1) The Group shall have the right to convert the principal amount of the Convertible Loan B into such equity interest representing 10% of the entire equity interest of Guangxi Medictop at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the conversion option ("Conversion Option").

(2) The Group shall have the right to demand early repayment of the entire principal amount of the Convertible Loan B together with the accrued interest in accordance with the terms and conditions of the convertible loan agreement at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the redemption option ("Redemption Option").

(3) In the event that the Convertible Loan B is converted into equity interest of Guangxi Medictop in accordance with the Conversion Option above whilst the shares of Guangxi Medictop fail to be listed on a stock exchange as specified in the agreement of Convertible Loan B before 31 October 2018, the Group is entitled to sell its converted equity interest to the existing equity holders of Guangxi Medictop at a price determined at principal amount of Convertible Loan B plus 10% interest since the date of the request of exercise of this option by the Group up to the execution. This option of the Group as the holder of the convertible loan is referred to the put option ("Put Option"). The Put Option can only be exercised for the period between 31 October 2018 and 30 November 2018.

The above Conversion Option, Redemption Option and Put Option are collectively known as the derivative component, which lapsed during the year.

* *For identification purpose only*

The initial fair value of the debt component is the residual value after separating out the initial fair value of derivative component. Subsequent to initial recognition, the debt component is carried at amortised cost using the effective interest method and the derivative component is carried at fair value. The fair value of derivative component as at the end of the reporting period is determined by the directors of the Company with reference to the valuation performed by International Valuation Limited, an independent firm of professionally qualified valuers.

The Group's convertible loan receivables are recognised as follows:

	Debt component	**Derivative component**	**Total**
	HK$	*HK$*	*HK$*
At 31 December 2017			
– Convertible Loan A	8,883,577	7,318,415	16,201,992
– Convertible Loan B	16,860,066	–	16,860,066
Total, classified under non-current assets	25,743,643	7,318,415	33,062,058
At 31 December 2016			
– Convertible Loan A	7,071,906	5,074,373	12,146,279
– Convertible Loan B	14,870,496	1,750,887	16,621,383
Total	21,942,402	6,825,260	28,767,662
Less: Current portion	–	(1,750,887)	(1,750,887)
Non-current portion	21,942,402	5,074,373	27,016,775

The movements in fair value of the derivative component of the Group's convertible loan receivables are as follows:

	2017	2016
	HK$	HK$
At the beginning of the year	**6,825,260**	5,316,069
Additions	**–**	2,850,947
Change in fair value recognised in profit or loss	**(20,521)**	(854,574)
Exchange differences	**513,676**	(487,182)
At the end of the year	**7,318,415**	6,825,260
Net loss for the year included in profit or loss at the end of the reporting period	**(20,521)**	(854,574)

As at 31 December 2017, the fair value of the derivative component of Convertible Loan A is calculated using Binomial Share Option Model with the following key assumptions:

Stock price	RMB6.32
Exercise price	RMB4.667
Dividend yield	Nil
Expected volatility	41%
Expected life	1.92 years
Risk-free interest rate	3.767%

The fair value of the derivative component is Level 3 recurring fair value measurement. There is no transfer under the fair value hierarchy classification for the years ended 31 December 2017 and 2016.

The key significant unobservable inputs to determine the fair value of the derivative component are the stock price and expected volatility. A higher in the stock price and expected volatility would result in an increase in the fair value of the derivative component, and vice versa.

During the loan period and where applicable following the conversion of the Convertible Loan A, the Group was entitled to appoint 1 out of 3 directors or 2 out of 5 directors of Adv. Dental in accordance with the agreement of the Convertible Loan A. Accordingly, given the potential voting right and the right to appoint directors, the Group has significant influence on Adv. Dental, which is recognised as an associate of the Group. As at 31 December 2017 and up to the date of approval of these financial statements, as the Group has not converted the Convertible Loan A into equity interest of Adv. Dental, the Group is not entitled to share any profit or loss of Adv. Dental and accordingly, the Group has no interest in associate. The directors are of the opinion that no further disclosure is considered meaningful in this regard.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$	HK$
Unlisted equity investments, at cost *(Note (a))*	**36,149,489**	31,183,750
Listed equity securities, at fair value *(Note (b))*	**54,243,771**	52,213,684
	90,393,260	83,397,434

(a) The balance represents two unlisted equity investments, namely the investment in the series B preferred stock of a private company and series C preferred stock and warrants of another private company, both of which are incorporated in the United States of America. The directors have concluded that no impairment loss is necessary.

(b) The balance represents the equity interest in AC Immune SA ("ACI"), the shares of which were listed on the NASDAQ Stock Market of the United States of America. Further details are set out in the Company's announcements dated 11 April and 26 September 2016. Accordingly, the fair value of the Group's investment in ACI became measurable, which was based on quoted market price.

As at 31 December 2017, the Group held 543,307 common shares of ACI which was carried at fair value. During the year ended 31 December 2017, a gross gain recognised in other comprehensive income amounted to HK$609,477 (2016: HK$13,440,257), of which HK$341,550 (2016: Nil) was reclassified from other comprehensive income to profit or loss for the year upon disposal.

14. DEPOSITS AND PREPAYMENTS

	2017	2016
	HK$	HK$
Deposits paid for acquisition of property, plant and equipment	**2,805,718**	382,385
Prepayments for purchase of finished goods	**1,214,475**	31,307,263
Other deposits	**302,154**	420,910
Other prepayments	**5,991,404**	3,599,627
Total	**10,313,751**	35,710,185
Less: Current portion	**(7,508,033)**	(35,327,800)
Non-current portion	**2,805,718**	382,385

Deposits and prepayments do not contain impaired assets and their carrying amounts approximate their fair values.

15. INVENTORIES

	2017	2016
	HK$	HK$
Raw materials	**7,339,149**	6,405,183
Work in progress	**5,503,679**	4,899,572
Finished goods	**90,026,994**	94,911,315
	102,869,822	106,216,070

During the year, the Group has carried out regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption, physical condition and management judgement. As a result, inventories of HK$1,481,068 (2016: HK$2,685,773) have been written off and recognised in profit or loss.

16. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$	HK$
Trade receivables	**319,788,212**	251,914,385
Value-added tax recoverable	**12,789,499**	2,245,272
Other receivables	**3,405,291**	1,847,423
Total	**335,983,002**	256,007,080

The Group's policy is to allow a credit period of 90 days to its trade customers.

The directors have considered the track records of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2017 and 2016.

The ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$	HK$
0-60 days	**188,510,122**	141,085,757
61-90 days	**44,654,100**	38,987,186
Over 90 days	**86,623,990**	71,841,442
	319,788,212	251,914,385

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$	HK$
Neither past due nor impaired	**233,164,222**	180,072,943
Less than 3 months past due	**70,774,702**	63,200,025
Over 3 months past due	**15,849,288**	8,641,417
	319,788,212	251,914,385

Trade receivables that are not past due are not considered impaired. Receivables that were neither past due nor impaired related to a wide range of customers that have a good track record. Balances that are past due but not impaired relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral over these balances.

17. TRADE AND OTHER PAYABLES

	2017	2016
	HK$	HK$
Trade payables	**1,265,806**	496,139
Other payables and accruals *(Note)*	**223,924,241**	194,631,926
	225,190,047	195,128,065

Note:

Other payables and accruals included the accruals for sales and marketing costs of HK$203,324,862 (2016: HK$180,555,883).

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$	HK$
0-60 days	**1,239,916**	496,139
61-90 days	**–**	–
Over 90 days	**25,890**	–
	1,265,806	496,139

18. CONVERTIBLE LOAN PAYABLE

On 6 July 2016 ("Issue Date"), the Group entered into a convertible loan agreement with International Finance Corporation ("IFC"), pursuant to which IFC agreed to lend, and the Group agreed to borrow, a convertible loan in an aggregate principal amount of HK$150,000,000 at an interest rate of 1.9% per annum (the "Convertible Loan Payable").

Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at a conversion price of HK$5.90 per share (subject to anti-dilutive adjustments as set out in the convertible loan agreement) at any time after the date of disbursement and prior to the maturity date. The maturity date is the date falling on the fifth anniversary of the date of the disbursement.

The Company shall repay the outstanding principal amount of the Convertible Loan Payable on the maturity date, together with a make whole premium (if any). Make whole premium is an amount calculated by IFC which would yield a return for IFC on the principal amount of the Convertible Loan Payable of (i) 6% per annum; or (ii) 8% per annum if there exists a change of control which occur when, among others, (a) there is a decrease in the shareholdings of the Company's certain shareholders as a group under specified conditions as stipulated in the convertible loan agreement; (b) certain shareholders of the Company as a group cease to be the single largest direct and indirect shareholder of the Company; or (c) any person (other than certain shareholders as a group) by itself or through its affiliates have obtained the power to appoint a majority of the board of directors of the Company.

Pursuant to the convertible loan agreement, unless otherwise agreed in writing by IFC, the Company shall, within 10 days following the occurrence of a change of control defined in the convertible loan agreement, prepay the outstanding principal amount of the Convertible Loan Payable, together with accrued interest, the make whole premium (if any), increased costs (if any) thereon and all other amounts payable under the convertible loan agreement, including the amount of unwinding costs payable if the prepayment is not made on an interest payment date.

The fair value of the debt component and the equity conversion component were determined at the issuance of the Convertible Loan Payable. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At Issue Date and at 31 December 2017, the fair value of the make whole premium was determined by directors of the Company to be minimal.

The movements of the Convertible Loan Payable are as follows:

	Debt component	**Conversion component**	**Total**
	HK$	*HK$*	*HK$*
At Issue Date	116,676,782	33,323,218	150,000,000
Imputed interest expense	6,009,224	–	6,009,224
Interest paid	(1,251,666)	–	(1,251,666)
As at 31 December 2016	121,434,340	33,323,218	154,757,558
Imputed interest expense	10,302,723	–	10,302,723
Interest paid	(2,762,917)	–	(2,762,917)
As at 31 December 2017	128,974,146	33,323,218	162,297,364

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The vision of the Group is to be a great and socially responsible corporation. Strategically, the Group develops, manufactures and commercialises genetically engineered therapeutic recombinant bovine basic fibroblast growth factor (“rb-bFGF”), with established mechanism of action in cellular proliferation, differentiation and migration.

Currently the Group has five commercialised bio-pharmaceutical products, formulated with rb-bFGF, in the People’s Republic of China (the “PRC”), out of which three were approved by 國家食品藥品監督管理總局 (China Food and Drug Administration (the “CFDA”)) as Category I drugs. The products are being marketed and sold as Beifushu for treatment of ocular wounds, Beifuji and Beifuxin for treatment of topical (skin) surface wounds.

The Company focuses on two main therapeutic areas: (i) ophthalmology; and (ii) surgical arena of topical (skin) surface wounds which primarily covers dermatology, stomatology and obstetrics and gynaecology, while selectively pursuing therapeutics in neurology, oncology and orthopaedics. The Company maintains a pipeline of multi-projects in research and development and on various stages of clinical programmes, of which several projects involve growth factors and antibody and a handful of projects are on unit dose for ophthalmic and respiratory disease.

The Group’s products and third party products are marketed and sold through more than 5,400 hospitals in the PRC and are managed directly by its 39 regional sales offices (the “RSOs”) with more than 1,410 sales and marketing staff.

The Group’s major third party products include (i) Xalatan eye drops and Xalacom eye drops for lowering raised pressure within the eye; (ii) 適麗順 (Iodized Lecithin Capsules) for treating central serous chorioretinopathy, central exudative chorioretinopathy, vitreous haemorrhage, vitreous opacities and central retinal vein occlusion, etc.; (iii) 伊血安顆粒 (Yi Xue An Granules) for treating postpartum lochiorrhea and bleeding or spotting of uterus after induced abortion; and (iv) Carisolv products for treating dental caries by using minimally invasive techniques.

For the year ended 31 December 2017, the Group achieved a consolidated turnover of approximately HK$899.6 million (2016: approximately HK$775.7 million), representing a growth rate of 16.0%. Profit for the year ended 31 December 2017 increased to approximately HK$167.3 million (2016: approximately HK$136.3 million), representing an increase of 22.8% over the previous year. The Group’s sustaining growth and performance, year-on-year, has repeatedly indicated the well acceptance of its products, supported by its robust and versatile distribution network and resources in the PRC.

In 2015, the Group initiated and implemented an enrichment programme (the "Enrichment Programme") for enhancing its research and development pipeline and expanding its products portfolio, with an objective of enabling the Group to scale further heights in the years to come.

Under the Enrichment Programme, the Group proactively seeks to invest in and forge strategic alliance with companies in the PRC and overseas, which are having first-in-class and novel pharmaceutical projects at various stages of their respective research and development and clinical programmes, primarily focusing on ophthalmology, dermatology, oncology and neurology. As at the date of this announcement, a total of approximately US$27.8 million has been invested in a total of 7 entities.

A summary of the Group's investments and collaboration arrangements made during the year ended 31 December 2017 and up to the date of this announcement is outlined as follows:

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

On 19 May 2017, the Company entered into a research collaboration agreement with ACI to undertake the pre-clinical and clinical co-development of a novel biological therapeutic for the treatment of neurodegenerative diseases (such as Alzheimer's disease and frontotemporal dementia) and neuroinflammation.

In accordance with the aforementioned research collaboration agreement, the parties have agreed to an initial two-year research plan, which intends to develop a basic fibroblast growth factor as a therapeutic for the treatment of neurodegenerative diseases and to generate novel antibody therapeutics. The Group will provide support to the research plan until the selection of a collaboration product mutually agreed by the parties, up to CHF750,000 (equivalent to approximately HK$6.0 million) per year. During the year ended 31 December 2017, an amount of CHF77,500 (equivalent to approximately HK$620,000) for the financial support has been incurred.

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

As at 31 December 2017, the Group held 543,307 common shares of ACI and the carrying amount at fair value of such shares was approximately HK$54.2 million, representing 4.68% of the Group's total assets as at 31 December 2017.

Second Supplemental Agreement to Agency Agreement with Tibet Linzhi Parkson Pharmaceutical Co., Ltd. ("Parkson Pharmaceutical") and Liaoning Wanxin Pharmaceutical Co., Ltd. ("Wanxin Pharmaceutical")

On 29 November 2017, Essex Medipharma (Zhuhai) Company Limited ("Zhuhai Essex Medipharma"), an indirect wholly-owned subsidiary of the Company, entered into a second supplemental agreement with Parkson Pharmaceutical and Wanxin Pharmaceutical to supplement and vary the terms of the original agency agreement (the "Original Agreement") dated 22 December 2015 in relation to the appointment of Zhuhai Essex Medipharma as the exclusive agent for the distribution and marketing of 適麗順 (Iodized Lecithin Capsules). The term of the appointment has been extended for nearly 9 years, expiring on 5 September 2031, by payment of additional licence fees in the amount of RMB35.0 million (equivalent to approximately HK$40.4 million) (inclusive of tax), on top of the initial licence fees of RMB20.0 million paid under the Original Agreement. The extended term covers the patent period of 適麗順 (Iodized Lecithin Capsules) and enables the Group to plan on longer-term visibility for the marketing and selling of 適麗順 (Iodized Lecithin Capsules).

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

On 23 February 2018, Essex Bio-Investment Limited ("Essex Bio-Investment"), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement (the "Subscription Agreement") with MeiraGTx, pursuant to which Essex Bio-Investment agreed to subscribe for the convertible preferred C shares of MeiraGTx (the "Preferred C Shares") at a total consideration of approximately US$5.0 million (equivalent to approximately HK$39.0 million) (the "Subscription"). As at the date of the Subscription Agreement, the number of Preferred C Shares subscribed by Essex Bio-Investment would represent approximately 8.3% of the existing issued Preferred C Shares of MeiraGTx and would represent approximately 7.7% of the issued Preferred C Shares as enlarged by the Subscription. The Group plans to establish a business relationship with MeiraGTx by subscribing for the Preferred C Shares, with a view to creating synergy effect if the Group engages in strategic cooperation with MeiraGTx in the future. MeiraGTx, a company incorporated and registered in England and Wales, is a clinical-stage biotech company developing novel gene therapy treatments for a wide range of inherited and acquired disorders for which there are no effective treatments available.

MAJOR POLICIES UNDER HEALTHCARE REFORM LAUNCHED IN THE PRC IN 2017

The State Council of the PRC launched several major policies in 2017, which created new challenges in the sales and distribution of pharmaceutical products. We summarise the most significant policies as follows:

兩票制 (Two-Invoice System)

On 9 January 2017, the Medical Reform Office of the State Council of the PRC officially published the "Notice on the Opinions on Implementation of Advancement of Two-Invoice System in the Drug Procurement of the Public Medical Institutions (Trial)". It is expected that the reform will further improve the quality and efficiency of the healthcare industry in the PRC in long-run.

零加成 (Zero-Markup Policy)

Zero-markup policy for essential drugs was mainly set up to serve the purpose of reducing the medical expense for patients.

MARKET DEVELOPMENT

As at 31 December 2017, the Group maintains 39 RSOs and a total number of about 1,410 sales and marketing representatives, out of which approximately 770 people are full-time staff and approximately 640 people are being hired on contract basis or engaged from appointed agents.

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

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

During the year under review, the Group's pharmaceutical products are being prescribed in over 5,400 hospitals in the PRC, which are mainly located in the major cities and provinces. The Group has expansion plan for its products to reach out to major county cities in the PRC in 2018.

The Group had conducted or participated in over 660 seminars and 2,200 market promotion activities in major cities and provinces in the PRC during the year ended 31 December 2017.

Three of our flagship bio-pharmaceutical products, namely Beifushu eye drops, Beifushu eye gel and Beifuji lyophilized powder were included in the 2017版國家藥品目錄 (2017 National Insurance Drug List).

RESEARCH AND DEVELOPMENT

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

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

On 22 January 2016, Essex Bio-Investment entered into a collaboration and license agreement, a share subscription agreement and a warrant subscription agreement with Abpro Corporation ("Abpro"). Abpro is a USA-based biotech company focusing on the field of industrial biotechnology and is principally engaged in business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets. After the entering into of the collaboration and license agreement, Abpro offered the Group an opportunity to develop a new range of therapeutic products, using certain antibody candidates of Abpro, for the Group's ophthalmology and surgical businesses as well as new drugs for oncology business.

In addition, a production technology platform, namely the BFS platform, has been established in 2014 and further enhanced in 2015. The establishment of the BFS platform has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single-dose drugs. The Group currently has 10 categories of drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the research and development pipeline. Approval from the CFDA for the commercialisation of one of these products, namely Tobramycin Eye Drops, has been obtained in 2017 and the Good Manufacturing Practices ("GMP") certification is expected to be obtained in 2018. It is expected that the other products of the Group would be approved over the next 3 years.

The Group has submitted five invention patent applications in 2017. Two of them were filed under the Patent Cooperation Treaty, two of them were filed in the PRC and the remaining one was filed in Australia.

The Group has obtained seven patent certificates or authorisation letters from The State Intellectual Property Office of the PRC in 2017. The Group currently has fourteen patent certificates or authorisation letters in total, including eleven 發明專利 (invention patents) and three 實用新型專利 (utility model patents) as at the date of this announcement.

Approval from The Ministry of Human Resources and Social Security of the PRC as a 國家級博士後科研工作站 (National Post-doctoral Scientific Research Workstation) has been obtained for the Group's research and development centre in 2017.

OUR PRODUCTION CAPABILITY

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

The Group has started the application for the European Union's GMP ("EU GMP") and it is expected that the EU GMP certificate will be obtained in 2019.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group achieved a turnover of approximately HK$899.6 million (2016: approximately HK$775.7 million), representing a growth rate of 16.0% as compared to the turnover for the year ended 31 December 2016.

Composition of turnover for the years ended 31 December 2017 and 2016, respectively, is shown in the following table:

		2017			2016	
Expressed in HK$'million	**Ophthalmology products**	**Surgical products**	**Total**	Ophthalmology products	Surgical products	Total
Own products						
– Beifushu series	**301.0**	**–**	**301.0**	272.5	–	272.5
– Beifuji series	**–**	**423.4**	**423.4**	–	331.3	331.3
	301.0	**423.4**	**724.4**	272.5	331.3	603.8
Third party products						
– Sales of pharmaceutical products	**123.1**	**27.7**	**150.8**	99.5	24.6	124.1
– Provision of marketing services	**13.7**	**10.7**	**24.4**	31.3	16.5	47.8
	136.8	**38.4**	**175.2**	130.8	41.1	171.9
Total	**437.8**	**461.8**	**899.6**	403.3	372.4	775.7

The overall ophthalmology products contributed approximately HK$437.8 million to the Group's revenue for the year ended 31 December 2017, representing an increase of 8.6% as compared to that of the previous year. The increase was attributable to Beifushu series which recorded a steady growth in revenue of 10.5%, while the sales of third party's ophthalmic products recorded an increase in revenue of 23.7% but was weighed down by a decrease of 56.2% in revenue from the provision of marketing services resulting from the non-supply of one of the ophthalmic products due to the expiration of import permit. It is expected that the supply of the affected product will resume in 2018.

Surgical products recorded a total revenue of approximately HK$461.8 million for the year ended 31 December 2017, representing an increase of 24.0% as compared to that of the previous year. The increase was attributable to Beifuji series which recorded a healthy growth in revenue of 27.8%, while the sales of third party's surgical products recorded an increase in revenue of 12.6% but was impacted by a decrease of 35.2% in revenue from the provision of marketing services resulting from the newly launched two-invoice system in the PRC in 2017.

The revenue from the sale of the Group's flagship bio-pharmaceutical products represented 80.5% of the Group's overall revenue, with an increase of 20.0% for the year ended 31 December 2017 as compared to the previous year. The balance of 19.5% of the Group's revenue was contributed by the sale of third party products, with an increase of 1.9% as compared to the previous year.

Combining the Group's two flagship bio-pharmaceutical products and third party products, the overall revenue contributions from the two main therapeutic areas represented 48.7% and 51.3% of the ophthalmology and surgical segments, respectively.

The Group's gross profit has grown in tandem with the expanded sales. The gross profit for the year ended 31 December 2017 was approximately HK$737.6 million (2016: approximately HK$623.0 million), representing an increase of 18.4%.

During the year under review, the Group achieved a profit of approximately HK$167.3 million as compared to that of approximately HK$136.3 million in the previous year, representing an increase of 22.8%.

The distribution and selling expenses for the year under review were approximately HK$515.3 million as compared to approximately HK$410.5 million in the previous year, representing an increase of 25.5%. Such expenses primarily consisted of remuneration, advertising costs, travelling and transportation costs, costs for organisation of seminars and conferences for product training and awareness, etc. Overall distribution and selling expenses increased in 2017 mainly for the purposes of expanding the sales and marketing function, boosting the sales of the Group's flagship bio-pharmaceutical products, Beifuxin and third party products.

The increase in remuneration and staff costs was due to (i) salary scales adjustment in the PRC in the third quarter of 2016 in accordance with the change of the relevant national policy in the PRC, inflation and local labour market conditions; and (ii) increase in headcount as at 31 December 2017 as compared to that as at 31 December 2016.

Other selling and marketing expenses for the year ended 31 December 2017 increased due to the increase in marketing activities carried out for the Group's flagship products and third party products, in particular for Beifuxin and 適麗順 (Iodized Lecithin Capsules).

The administrative expenses for the year under review were approximately HK$40.4 million as compared to approximately HK$48.0 million in the previous year. The decrease in administrative expenses was mainly due to the gain on exchange difference of approximately HK$7.7 million for the year under review whereas loss on exchange difference of approximately HK$1.2 million was recorded in the previous year. Removing the effect of exchange differences, administrative expenses slightly increased by 2.8% for the year ended 31 December 2017.

Research and development expenditures incurred during the year ended 31 December 2017 increased to approximately HK$27.1 million from which approximately HK$20.7 million were capitalised, whereas total expenditures incurred during the year ended 31 December 2016 were approximately HK$30.0 million from which approximately HK$24.3 million were capitalised. Hence the research and development expenses incurred as administrative expenses increased to approximately HK$6.4 million as compared to approximately HK$5.7 million in 2016.

The Group had cash and cash equivalents of approximately HK$240.6 million as at 31 December 2017 (2016: approximately HK$156.2 million).

The Group's bank borrowings as at 31 December 2017 were approximately HK$29.0 million (2016: approximately HK$38.8 million), among which 66.7% was repayable within 1 year and 33.3% was repayable in more than 1 year but within 5 years. All of the Group's bank borrowings were denominated in US Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 2.5% as at 31 December 2017.

The total finance costs of the Group for the year ended 31 December 2017 were approximately HK$9.5 million (2016: approximately HK$9.7 million), including an imputed interest expense on the convertible loan amounting to approximately HK$10.3 million (2016: approximately HK$6.0 million) of which approximately HK$1.7 million (2016: Nil) was capitalised during the year.

The Proposed Korean Depositary Receipt Programme (the "KDR Programme")

Reference is made to the announcements of the Company dated 8 March 2017, 16 May 2017 and 16 October 2017, respectively, in relation to the KDR Programme. After taking into consideration various factors including the uncertain market conditions, the management of the Company is of the view that it may not be the best timing for the Company to proceed with the proposed KDR Programme. In order to protect the interest of the shareholders, the Company has decided to terminate the proposed KDR Programme. Please refer to the announcement of the Company dated 16 October 2017 for details.

Convertible loan from International Finance Corporation ("IFC")

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

Use of net proceeds from the convertible loan

The net proceeds from the convertible loan (after deducting the fees and expenses in relation to the obtaining of the convertible loan) are approximately HK$145.0 million, which were intended to be utilised for the Company's strategic investment in and development of the Group's bio-pharmaceutical business and general working capital requirements. As at 31 December 2017 and as at the date of this announcement, the net proceeds had been used for:

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

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

(iii) the research and development expenditure of approximately HK$12.2 million on the Group's bio-pharmaceutical business.

The balance of approximately HK$26.7 million is expected to be utilised for research and development expenditure on the Group's bio-pharmaceutical business.

Dilution effect of the conversion of the convertible loan

As at 31 December 2017, no part of the outstanding principal amount of the convertible loan of HK$150.0 million has been converted into Conversion Shares.

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

The following table sets out the total number of shares of the Company to be issued upon full conversion of the convertible loan as at 31 December 2017:

Shareholders	**As at 31 December 2017**		**Immediately upon full conversion of the convertible loan at the conversion price of HK$5.90 per share**	
	No. of shares	*Approximate %*	*No. of shares*	*Approximate %*
Ngiam Mia Je Patrick	146,479,000	26.00	146,479,000	24.87
Ngiam Mia Kiat Benjamin	144,854,000	25.71	144,854,000	24.60
Dynatech Ventures Pte Ltd *(Note 1)*	6,666,667	1.18	6,666,667	1.13
Directors (other than Ngiam Mia Je Patrick) *(Note 2)*	5,714,450	1.01	5,714,450	0.97
IFC	–	–	25,423,728	4.32
Other shareholders	259,778,883	46.10	259,778,883	44.11
	563,493,000	100	588,916,728	100

Notes:

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

(2) Amongst these 5,714,450 shares, 4,738,300 shares were registered in the name of Fang Haizhou and 976,150 shares were registered in the name of Zhong Sheng.

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

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

Based on the cash and cash equivalents as at 31 December 2017 and the cash flow from the operations of the Company for the year then ended, the Company has the ability to meet its repayment obligations under the convertible loan which remained unconverted to Conversion Shares as at 31 December 2017.

CAPITAL INCREASE OF ZHUHAI ESSEX BIO-PHARMACEUTICAL COMPANY LIMITED ("ZH ESSEX")

ZH Essex, an indirect wholly-owned subsidiary of the Company, is in the process of applying for an increase in share capital of RMB100.0 million (equivalent to approximately HK$120.1 million), which is expected to be completed by the end of March 2018 or early April 2018. The capital injection by its immediate holding company, Essex Bio-Pharmacy Limited ("EBP"), will be in the form of reinvestment of dividend payable to EBP by ZH Essex.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, as at 31 December 2017, the Group did not have any immediate plan for material investments or acquisition of material capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group obtained banking facilities of approximately HK$149.1 million, of which approximately HK$38.8 million was utilised. All of the banking facilities were secured by the corporate guarantees provided by the Company and a subsidiary within the Group and a pledged deposit which amounted to approximately HK$28.2 million.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$240.6 million as compared to approximately HK$156.2 million as at 31 December 2016. Among the cash and cash equivalents of the Group as at 31 December 2017, 91.5% was denominated in Renminbi, 7.7% was denominated in Hong Kong Dollar and 0.8% was denominated in US Dollar.

The Group monitors its capital structure on the basis of a gearing ratio which is defined as the ratio of total liabilities to total assets. The gearing ratio as at 31 December 2017 was 36.2% (2016: 40.3%).

CHARGES ON GROUP ASSETS

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

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments which amounted to approximately HK$31.4 million (2016: approximately HK$13.4 million).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

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

There were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2017.

SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this announcement, the Group did not hold any significant investments as at 31 December 2017.

FOREIGN EXCHANGE EXPOSURE

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

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

TREASURY POLICY

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

EMPLOYEES

As at 31 December 2017, the Group had a total of 1,024 full-time employees (2016: 966 full-time employees). The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK$111.9 million and approximately HK$85.6 million, respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group.

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

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

DIVIDENDS

An interim dividend of HK$0.025 per ordinary share was paid on 20 October 2017. The Directors have recommended the payment of a final dividend of HK$0.025 per ordinary share for the financial year ended 31 December 2017 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 21 May 2018. Subject to shareholders' approval, the final dividend will be payable on Friday, 1 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 8 May 2018 to Friday, 11 May 2018 (both days inclusive) for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Friday, 11 May 2018. During this period, no transfer of shares will be registered. In order to be entitled to attend the aforesaid annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 7 May 2018.

The register of members of the Company will be closed from Thursday, 17 May 2018 to Monday, 21 May 2018 (both days inclusive) for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to be qualified for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Friday, 11 May 2018, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 16 May 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year under review.

EVENT AFTER THE REPORTING PERIOD

On 23 February 2018, Essex Bio-Investment entered into the Subscription Agreement with MeiraGTx, pursuant to which Essex Bio-Investment agreed to subscribe for the Preferred C Shares at a total consideration of approximately US$5.0 million (equivalent to approximately HK$39.0 million). Please refer to the announcement of the Company dated 23 February 2018 for details.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's results for the year ended 31 December 2017 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary results announcement.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2017 had been reviewed by the audit committee of the Board (the "Audit Committee") before they were duly approved by the Board under the recommendation of the Audit Committee.

On behalf of the Board
Essex Bio-Technology Limited
Mr. Ngiam Mia Je Patrick
Chairman

Hong Kong
15 March 2018

Executive directors of the Company as at the date of this announcement are Mr. Ngiam Mia Je Patrick, Mr. Fang Haizhou and Mr. Zhong Sheng. Independent non-executive directors of the Company as at the date of this announcement are Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Ms. Yeow Mee Mooi.