2018 INTERIM REPORT

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

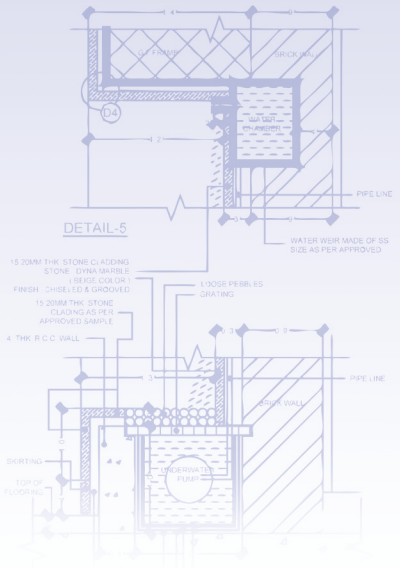
心創造新醫藥
LEADING GENUINE INNOVATION

* For identication purposes only 僅供識別

As one of the sponsors, Kingsley Leung, chairman of Uni-Bio, attended the dinner on behalf of the Group, and granted award to the first runner-up of SOW Asia Media Program 2018 – One-minute Promotional Video for Social Business (心苗亞洲媒體計劃2018－一分鐘社企宣傳片大挑戰).

On 29 May 2018, about 30 investors from Hong Kong and Shenzhen conducted on-site inspections in Shenzhen Watsin Genetech Ltd. (a member of Uni-Bio) and visited the plants and workshops.

On 5 June 2018 (after trading hours), Beijing Genetech Pharmaceutical Co., Ltd. (a wholly-owned subsidiary of Uni-Bio) entered into an agreement with Beijing Baiao to co-develop and market the Acarbose tablets.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kingsley LEUNG
Mr. CHEN Dawei

Non-executive Directors

Ms. LAU Chau In

Independent Non-Executive Directors

Mr. ZHAO Zhi Gang
Mr. CHOW Kai Ming
Mr. REN Qimin

AUDIT COMMITTEE

Mr. CHOW Kai Ming *(Chairman of the Audit Committee)*
Mr. ZHAO Zhi Gang
Mr. REN Qimin

REMUNERATION COMMITTEE

Mr. CHOW Kai Ming *(Chairman of the Remuneration Committee)*
Mr. ZHAO Zhi Gang
Mr. Kingsley LEUNG
Mr. REN Qimin

NOMINATION COMMITTEE

Mr. Kingsley LEUNG *(Chairman of the Nomination Committee)*
Mr. ZHAO Zhi Gang
Mr. CHOW Kai Ming
Mr. REN Qimin

COMPANY SECRETARY

Ms. YAU Suk Yan

AUTHORIZED REPRESENTATIVES

Mr. Kingsley LEUNG
Mr. CHEN Dawei

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Deloitte Touche Tohmatsu
Certified Public Accountants

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LEGAL ADVISERS AS TO HONG KONG LAW

Leung & Lau

STOCK CODE

0690

WEBSITE

www.uni-bioscience.com

KEY FINANCIAL HIGHLIGHTS

For the six months ended 30 June (Unaudited)

	2018	2017	**Change**
Revenue (HK$'000)	**59,626**	62,945	-5.3%
Gross profit (HK$'000)	**51,622**	52,525	-1.7%
R&D expenses (HK$'000)	**14,409**	15,278	-5.7%
LBITA (HK$'000)[1]	**(49,071)**	(17,908)	174.0%
Gross profit margin (%)	**86.6%**	83.4%	3.2%
R&D costs to revenue (%)	**24.2%**	24.3%	-0.1%

As at 30 June/31 December

	2018	2017
Current ratio (times)[2]	**5.60**	4.51
Trade payable turnover days (days)[3]	**98**	111
Trade receivables turnover days (days)[4]	**142**	106
Inventory turnover days (days)[5]	**399**	212
Debt-to-equity ratio (%)[6]	**9.2%**	13.7%
Total assets turnover (%)[7]	**18.8%**	40.1%

Notes for key ratios:

(1) LBITA (Loss before interests, taxes, and amortization): Loss before taxation minus interest expense, impairment loss, depreciation of property, plant and equipment, amortization of intangible assets and prepaid lease payments

(2) Current ratio: Current assets/current liabilities

(3) Trade payables turnover days: Average of opening and closing balances on trade payables (exclude VAT)/cost of sales and multiplied by the number of days of the relevant period

(4) Trade receivables turnover days: Average of opening and closing balances on trade receivables (exclude VAT)/turnover and multiplied by the number of days of the relevant period

(5) Inventory turnover days: Average of opening and closing balances on inventory/cost of sales and multiplied by the number of days of the relevant period

(6) Debt-to-equity ratio: Total liabilities/total equity

(7) Total assets turnover ratio: Total revenue/total assets

The board (the "**Board**") of directors (the "**Directors**") of the Uni-Bio Science Group Ltd. (the "**Company**", together with its subsidiaries, the "**Group**" or "**Uni-Bio**") is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018 (the "**1H2018**" or the "**Period**") as follows:

KEY FINANCIAL HIGHLIGHTS

UNAUDITED FINANCIAL FIGURES BASED ON REPORTABLE SEGMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2018

	Period ended 30 June		
	2018	2017	**Change**
	HK$'000	HK$'000	
Revenue from sales of marketed pharmaceutical products	**59,626**	62,945	-5.3%
Cost of sales	**(8,004)**	(10,420)	-23.2%
Gross profit	**51,622**	52,525	-1.7%
Other net loss	**(1,372)**	(11)	12,372.7%
Selling and distribution expenses	**(59,481)**	(27,067)	119.8%
General and administrative and other expenses	**(10,933)**	(11,275)	-3.0%
Operating income/(loss) from marketed biological and chemical pharmaceutical products	**(20,164)**	14,172	-242.3%
Other income & other loss	**2,595**	3,181	-18.4%
Expenses incurred for pipeline products and future projects	**(14,409)**	(27,681)	-47.9%
Other administration expenses	**(28,984)**	(18,809)	54.1%
Finance costs	**–**	(174)	-100.0%
Equity-settled share based payment expenses	**(2,261)**	(4,201)	-46.2%
Loss before taxation	**(63,223)**	(33,512)	88.7%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Uni-Bio – A Fully Integrated Biopharmaceutical Company

Uni-Bio is a fully integrated biopharmaceutical company focusing on diabetes and related metabolic disorders, dermatology and ophthalmology. From research and development ("**R&D**"), production and manufacturing to sales and distribution of biopharmaceutical and chemical medicines, the Group has established a fully integrated business platform covering the entire value chain. As of 30 June 2018, the Group has commercially launched 4 products, namely GeneTime®, GeneSoft®, Pinup® and Bokangtai.

KEY ACCOMPLISHMENTS IN THE FIRST HALF OF 2018

As a biopharmaceutical company, the Group is well aware that strong R&D capability is the key for long-term sustainable development. Anchoring our philosophy of "Leading Genuine Innovation", the Group pushed forward the strategic cooperation with Beijing Baiao Pharmaceutical Co., Ltd. ("**Beijing Baiao Pharmaceutical**", a subordinate of Beijing Cavir Bio-Pharmaceutical Science & Technology Group Co., Ltd.* (北京卡威生物(集團)醫藥科技有限公司) "**Beijing Cavir**") to co-develop and market the Acarbose tablets project. Meanwhile, the Group also work closely with HeungKong Group Limited ("**HeungKong Group**"), one of the Top 50 private enterprises in the People's Republic of China ("**PRC**") to explore acquisition and merger and acquisition ("**M&A**") opportunities at a global level.

Co-develop Acarbose Tablets Project with Beijing Baiao Pharmaceutical

In June 2018, Uni-Bio and Beijing Baiao Pharmaceutical entered into a strategic cooperation agreement ("**Agreement**") on the joint development and marketing of Acarbose tablets project. Acarbose tablet is an oral anti-diabetic drug. It is used to treat Type 2 diabetes and is reimbursed under the National Reimbursement Drug List ("**NRDL**") Class A. The market value of Acarbose tablet is estimated to as high as US$3.2 billion. Pursuant to the Agreement, Beijing Baiao Pharmaceutical will invest to acquire interests in Acarbose tablets products and be entitled to future marketing revenue. Both parties shall jointly bear the relevant expenses on project research. In the marketing stage, the Group shall be responsible for the management of pre-launch declaration and registration and the arrangement of post-launch production and sales, while Beijing Baiao Pharmaceutical shall be responsible for the post-launch promotion of the products in the markets of designated provinces.

This cooperation was the first launched project of a series of drug co-development agreement signed between the Group and Beijing Sun-Novo Pharmaceutical Research Co., Limited ("**Beijing Sun-Novo**", a subordinate of Beijing Cavir) on December 2016. The Group expects that the cooperation will attain synergy by fully consolidating the Group's experience in the research and development of metabolic drugs as well as the solid platform of Beijing Baiao Pharmaceutical has made in the biopharmaceutical field.

Expand Marketing Channels

In the Period, the Group's core marketed drugs namely, GeneSoft®, GeneTime®, Pinup®, and Bokangtai, have successfully won additional provincial tendering amid the tightened pressure on pricing. In particular, Pinup® successfully tapped into the Guizhou market, bringing its national network coverage to 33 provinces. Bokangtai, on the other hand, entered into Shandong, Guangxi and Xinjiang provinces, bringing the total distribution coverage to 12 provinces. Besides, the Group's rhEGF products GeneTime® 15ml, GeneTime® 5ml and GeneSoft® has secured a distribution channel covering 34, 22 and 33 provinces respectively. The above newly gained markets will contribute to the Group's revenue and further enhance the market share and brand awareness of our products.

R&D and Product Pipeline

The Group continues to concentrate on the development of innovative and proprietary products with the potential to deliver significant commercial value to its business. Endocrinology, ophthalmology and dermatology are three main areas the Group is focusing on. During the Period, the Group has made some significant progress in the development of the following new patented pharmaceuticals:

Products/ Compound	Indication	Description	Pre-clinical	Phase 1	Phase 2	Phase 3	Pre-registration	Marketed
IN-HOUSE								
Endocrinology								
Bokangtai	Type 2 diabetes	Bokangtai (oral antidiabetic drug - Mitiglinide) belongs to the meglitinide (glinide) class of blood glucose-lowering drugs. Mitiglinide modulates blood glucose level by binding to and blocking certain potassium channels in pancreatic cells. Closure of potassium channels causes a series of electrochemical reactions which effectively triggers the secretion of insulin from pancreas.						
Uni-E4 – Innovative liquid formulation	Type 2 diabetes	A class of anti-diabetic treatments called GLP-1 agonists, is a non-insulin treatment candidate that stimulates the incretin pathway. It is intended as twice-daily injection. This class of drug has been shown to be effective and well accepted in treatment of Type 2 diabetes and is one of the only classes causing weight loss, lower risk of hypoglycemia and increase in β-cell regeneration.						
Uni-PTH – Powder formulation	Endocrinology	Uni-PTH (Parathyroid hormone analogue) is an effective anabolic (bone growing) agent treating osteoporosis. Uni-PTH improves bone density and reduces bone fracture through stimulating new bone formation. It is also effective in managing ostealgia (pain in the bone) when compared with standard treatments. Uni-PTH requires injection once daily.						
Uni-PTH – Innovative liquid formulation	Endocrinology	Uni-PTH (Parathyroid hormone analogue) is an effective anabolic (bone growing) agent treating osteoporosis. Uni-PTH improves bone density and reduces bone fracture through stimulating new bone formation. It is also effective in managing ostealgia (pain in the bone) when compared with standard treatments. Uni-PTH requires injection once daily.						
Uni-E4-Fc	Type 2 diabetes	Uni-E4-Fc (rExendin-4 Fc) is the long-acting version of Uni-E4 as a next generation rExendin-4 treatment. Uni-E4 half-life in the body is significantly extended by attaching a FC fragment. As a result, Uni-E4-Fc will only require injection once every 2 or 3 weeks, greatly improving the treatment convenience to patients.						
Ophthalmology								
GeneSoft®	Ophthalmic wound healing	GeneSoft® (recombinant human epidermal growth factor derivative, also known as rEGF derivative) is a prescription biologic drug for ophthalmic wound healing (e.g. corneal ulcer). rEGF derivative directly acts on epidermal cell to treat skin injury and accelerate healing through cellular proliferation, differentiation, and survival. rEGF derivative has three extra amino acids in the N-terminus that increases the stability of molecule. As a result, GeneSoft can be stored in room temperature.						
Dermatology								
GeneTime®	Dermalogical wound healing	GeneTime® (recombinant human epidermal growth factor, also known as rEGF) is a prescription biologic drug for wound healing. rEGF directly acts on epidermal cell to treat skin injury and accelerate healing through cellular proliferation, differentiation, and survival. GeneTime is the only rEGF in spray formulation in China. It is administered once daily after debridement.						

Products/ Compound	Indication	Description	Pre-clinical	Phase 1	Phase 2	Phase 3	Pre-registration	Marketed
IN-HOUSE								
Infectious Disease								
Pinup®	Fungal infection	Pinup® (Voriconazole) is a prescription oral drug treating fungal infection. Voriconazole works acts by blocking fungal cell wall growth, which results in death of the fungus. Pinup® is administered twice daily and is mainly used in immune compromised patients after chemotherapy or organ transplant.						
Hematology								
rhEPO-Fc	Anemia	rhEPO-Fc (Recombinant Human Erythropoietin-Fc) can be used for treatment of anemia associated with renal diseases, cancer related therapies and surgical blood loss. rhEPO-Fc is a next generation EPO treatment. rhEPO half-life in the body is significantly extended by attaching a FC fragment. As a result, rhEPO-Fc will only require injection once biweekly, greatly improving the treatment convenience to patients.						

PARTNERING			STATUS	PARTNER
Endocrinology				
Acarbose	Type 2 diabetes	Acarbose is a small molecule drug used to treat diabetes mellitus type 2 and, in some countries, prediabetes. Acarbose inhibits a class of enzymes, known as glycoside hydrolases, required for digesting carbohydrates into glucoses. With the inhibition of enzyme, the patient would effectively absorb less glucose because the carbohydrates are not broken down into glucose molecules. For patients with Type II Diabetes, the therapeutic effect of Acarbose decreases blood glucose levels, achieving a reduction in HbA1c levels.	Undergoing CMC study	SUNSHINE

Uni-PTH

Uni-PTH is a biosimilar of Forteo (Teriparatide), which is used to treat osteoporosis. It is more effective in managing pain in bones when compared with peers and is the only class of anabolic agent to actively increases bone mass density at present. The PRC is ranked as the 5th largest market in the world with an estimated market size reaching approximately Renminbi ("**RMB**") 15.5 billion. With the increasing aging population and enhancing awareness on bone health, it is expected that the market size will continue to grow. Uni-PTH has come to the last stage of China Food and Drug Administration ("**CFDA**") approval and is expected to be launched in 2019, aiming to be the 2nd of such products to launch in the PRC.

Meanwhile, the clinical trial exemption of the liquid formulation of Uni-PTH is scheduled to be reviewed by the Centre for Drug Evaluation ("**CDE**") in the 4th quarter of 2018. The Group is optimistic about the results and the launching time of the liquid formulation of Uni-PTH is expected to be advanced significantly.

Uni-E4

Uni-E4 is a GLP-1 receptor agonists, a proprietary innovative drug for the treatment of Type II Diabetes developed by the Group. It's the only class of anti-diabetes drug proved to have positive effect of weight loss which is favorable to diabetes patients with obesity. With the peculiar efficacy, Uni-E4 was expected to hit a new high in sales once marketed.

In July 2018, the CDE conducted a meeting to review the liquid formulation of Uni-E4, which yielded very positive results. Instead of starting the whole clinical trial from Phase I, it is highly likely that the formulation will be allowed to conduct the bioequivalence study ("**BE**" study) and Phase III clinical study directly, which lowers the risk by saving significant time and capital. The Group is expected Uni-E4 will be marketed in 2023.

Uni-EPO-Fc

EPO is a glycoprotein which can increase the maturation of red blood cell. As a long acting version of EPO, Uni-EPO-Fc greatly improves delivery convenience to patients who live with Anemia associated with Chronic kidney disease ("**CKD**"). The market size of EPO-Fc is estimated to reach USD539 million and demonstrates rapid growth globally.

The Group is developing Uni-EPO-Fc using recombinant DNA techniques, which potentially has once-fortnightly treatment frequency. The proprietary fusion protein technique has the potential to overcome the shortcomings of the traditional fusion technique using IgG1-Fc. The project has been supported by the PRC Ministry of Science and Technology following its selection as a "New Key Drug Formulation" in the State's Major Science and Technology Project under the "Eleventh Five-Year Plan".

The Group had completed Pre-clinical trials of Uni-EPO-Fc and will continue the pre-clinical Phase I study as soon as CDE conducts drug review in the 3rd quarter of 2018. As announced earlier, the Group has completed a single ascending dose component of the phase I clinical study of Uni-EPO-Fc. The study showed that Uni-EPO-Fc was extremely well tolerated with no significant adverse events. Three out of the forty participants who completed the clinical trial experienced low fever and minor injection site irritation that disappeared within 24 hours. Moreover, Uni-EPO-Fc facilitated the increase in both absolute value and percentage of blood reticulocytes in healthy participants who underwent testing. It is expected that Uni-EPO-Fc could be launched in 2023 and the Group strives to be one of the earliest domestic long acting Uni-EPO-Fc products provider in the PRC.

Acarbose Tablets

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

The Group's Acarbose project has completed the stability research as well as applying for the approval from Ethnic Committee ("**EC application**") in the 1st quarter of 2018. The BE online registration was submitted in May 2018 and the BE study has commenced in July 2018. The Group is expected to complete the BE study and submit the application for abbreviated new drug registration ("**ANDA**") in the 1st half of 2019.

BE study of Pinup®

With objective of improving the quality of generic drugs and enhance the transparency of drug review, CFDA reformed the review and approval system for drugs in 2016. Under the new policy, generic drugs that have been approved for marketing in the PRC prior to the reform would be required to conduct consistency evaluation on quality and efficacy compared to the originator drug. Currently, Pinup® is in the midst of conducting the BE study. BE on-line application will be submitted in the 3rd quarter of 2018. Approval is expected by 2020, and securing this approval would open up more opportunities for the Group to introduce Pinup® to the market and hence boosting sales in the coming future.

BE study of Bokangtai

Currently, the Group is collaborating with Jiangsu Hansoh Pharmaceutical Group Co., Ltd. to conduct the BE study on Bokangtai. The preparation work was commenced in the 2nd quarter of 2018 and the BE on-line registration is scheduled to submit in the 3rd quarter of 2018. Approval is expected to be obtained in 2020, which will further enhance the competitiveness of Bokangtai in the Mitiglinide market.

RESULTS OVERVIEW

For the Period, the Group recorded a turnover of HK$59.6 million, representing a moderate decrease of approximately 5.3% year-on-year ("**YoY**") (for the six months ended 30 June 2017 ("**1H2017**"): HK$62.9 million). The decrease in turnover was mainly attributable to an unexpected one-off incident, which negatively impacted GeneTime®, as well as a decrease in sales of Pinup® due to mounting pressure from the environment. However, if factoring out the above incidents, the Group has secured a relatively stable turnover for the Period, which is in line with our expectation and shows potential for further sales growth.

Cost of sales recorded a decrease of 23.2% YoY, from approximately HK$10.4 million for 1H2017 to approximately HK$8.0 million in 1H2018. During the Period, gross profit slightly decrease by 1.7% to approximately HK$51.6 million (1H2017: HK$52.5 million). Nonetheless, some of the Group's marketed drugs enjoyed limited competitions, which placed the Group at a better position for price negotiation, therefore, the gross profit margin increased by 3.2 percentage points ("**p.p.**") to 86.6% as compared to 83.4% in the same period last year.

During the Period, the Group has continued to expand its sales arm through restructuring and re-organization, aiming to further enlarge its direct sales channel and build solid rapport with more hospitals. In addition, significant marketing expenses were invested to promote Bokangtai, the new product that launched in 2017. The result is promising with Bokangtai successfully entered into three new provinces. With the above mentioned actions, the selling and distribution expenses increased from HK$27.1 million in 1H2017 to HK$59.4 million in 1H2018, representing an increase of 119.8% YoY. Although the selling and distribution expenses saw significant surge in the Period, the Group believes that all the marketing and sales channel restructuring efforts would channel into promising results in the near future and laying a solid distribution foundation for the Group to prosper.

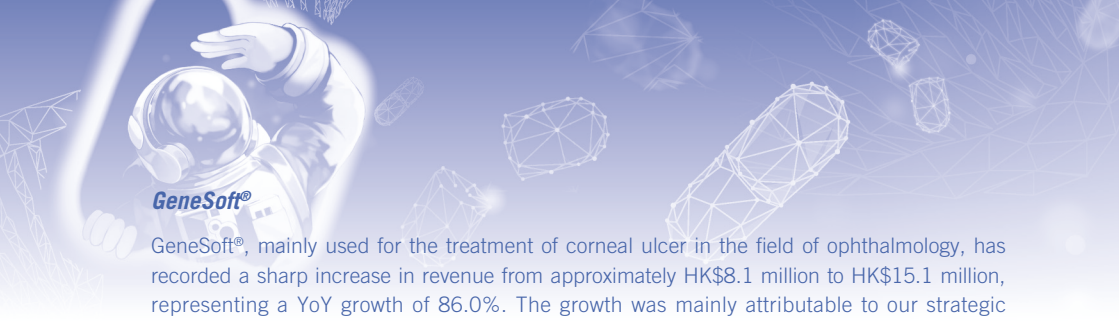
In the first half of 2018, the Group recorded a loss of HK$63.2 million with a basic loss per share of HK$1.02 cents for the Period.

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 Period, revenue generated from GeneTime® totaled HK$31.5 million, representing a double-digit growth of 17.2% YoY, in which the revenue from GeneTime® 15ml enjoyed a solid YoY growth of 25.7%. The substantial growth reflects our strategic shift in focus to selling more GeneTime® 15ml due to its higher margin, which led to wider applications and expanded tendering coverage as a result. Hospital coverage increased 62%, especially tier 3 hospital increased for 20% represents a potential growth in the next half of the year. Benefitted from the reform of provincial essential medicine system, GeneTime® has been allowed to be sold in primary healthcare centres and community hospitals, further spurring its revenue growth.

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



GeneSoft®

GeneSoft®, mainly used for the treatment of corneal ulcer in the field of ophthalmology, has recorded a sharp increase in revenue from approximately HK$8.1 million to HK$15.1 million, representing a YoY growth of 86.0%. The growth was mainly attributable to our strategic cooperation with China Resources Zizhu, who has the sole distribution and promotion rights of GeneSoft® to market and introduce Genesoft® into its existing domestic hospital network. This strategic move has begun to bear fruit and reflected on the Group's revenue in 1H2018.

Pinup®

Tailored to treat severe fungal infection, the Group's self-developed proprietary chemical pharmaceutical product Pinup® (Voriconazole tablets) has recorded a decrease in revenue during the Period. Pinup® faced greater competition in the market during the Period and the average unit selling price witnessed a downward pressure. However, in 2018, Pinup® welcomed another winning bid in Guizhou province, which would add another stream of revenue to the Group in the near future. During the Period, Pinup® contributed HK$11.8 million of revenue.

Bokangtai

The Group's newly launched product Bokangtai (Mitiglinide tablets) concentrates on the treatment of Type 2 diabetes. Bokangtai has entered its second year since launch and the Group has been investing more resources to expend its sales channels, aiming to increase its market penetration for managing chronic diabetes. Building on all these efforts, Bokangtai generated HK$1.3 million of revenue during the Period, representing a promising increase of 30.5% when comparing to the sale generated for the whole year in 2017. Bokangtai was successfully on the NRDL in 2017, and since then, the marketing team has been actively looking for potential tendering opportunities nationwide. For the Period, Bokangtai added three more provinces into its distribution network, namely Shandong, Guangxi and Xinjiang. The Group believes that Bokangtai will soon be a significant revenue and profit contributor.

FINANCIAL PERFORMANCE REVIEW

Revenue

Sales Developments

The Group secured a relatively stable sales development as RMB exchange rate against Hong Kong Dollar maintained relatively stable during the Period. The Group recorded a turnover of approximately HK$59.6 million for the Period, representing a slight decrease of approximately 5.3% 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 Period, proprietary biological pharmaceutical products achieved HK$46.6 million of sales, representing a significant uptick of approximately 33.1% compared to the same period last year. Proprietary biological pharmaceutical products represented approximately 78.0% of total sales in the Period.

Proprietary Chemical Pharmaceutical Products

The Group's proprietary chemical pharmaceutical product includes Pinup® (voriconazole tablet to treat severe fungal infections) and Bokangtai (Mitiglinide tablets that Uni-Bio launched in 2017 pinpointing Type 2 diabetes treatment). The segment achieved a turnover of HK$13.1 million in the Period, in which the sales generated from Bokangtai was promising. During 1H2018 Bokangtai achieved HK$1.3 million of sales for the Group. Since Pinup® is still undergoing the consistency evaluation introduced by the CFDA and the evaluation is expected to finish by 2020, we expect sales to rebound by obtaining CFDA approval.

Gross Profit and Gross Profit Margin

Gross Profit for the Period was approximately HK$51.6 million, representing a slight decrease of 1.7% as compared with approximately HK$52.5 million for the same period in 2017. Gross profit margin increased by 3.2% to 86.6%. The substantial increase in gross profit margin was resulted from the increasing contribution from the higher margin GeneTime® 15ml. In addition, the Group is converting some of the sales channels to direct sales, by selling through the Group's in-house team, products can be marketed at a higher average selling price, which also contributed to the increase in gross profit margin.

Sales and Distribution Expenses

Sales and distribution expenses have witnesses a major increase during the Period, from approximately HK$27.1 million in 1H2017 to approximately HK$59.4 million in 1H2018. During the Period, the Group has continued to expand its sales team by increasing direct sales personnel and through restructuring and re-organization. The Group's goal is to further enlarge its direct sales channel, build solid rapport with more hospitals and adapt to the "two-invoice" system. In addition, significant marketing expenses were invested to promote Bokangtai, the new product that launched in 2017. The result is promising with Bokangtai successfully entered into three new provinces. Moreover, the Group decided to make an one-off expense to minimize any potential impact may have been caused by the incident of GeneTime® mention above. Although the selling and distribution expenses saw significant surge in the Period, the Group believes that all the marketing and sales channel restructuring efforts would channel into promising results in the near future and laying a solid distribution foundation for the Group to prosper.

R&D Costs

R&D costs for 1H2018 was approximately HK$14.4 million, representing a decrease of 5.7% from the same period of 2017. We have initiated and carried on with R&D projects during the Period, including that of Uni-E4 and Uni-PTH and Acarbose. Building on last year's development of liquid formulations in an effort to increase the competitive advantages of our products, we continued to invest resources into these areas this year. R&D expenses may experience fluctuations if calculated on a YoY basis as drugs development, research and development enter different phases at different time, but the Group always exercise stringent cost control to make sure resources are invested appropriately and adequately. The Group will continue to build on its strategy to focus on endocrinology in the future.

G&A Expense

Against the backdrop of sales channel restructuring and sales platform building, General and Administrative ("**G&A**") Expenses still saw a decrease during the Period. G&A decreased from HK$42.5 million in 1H2017 to HK$40.0 million 1H2018, representing a decrease of 6.0%. Such decrease was mainly attributable to the decrease in one-off legal and professional fees arose from conducting listco's legal and compliance action (i.e. Share Subscription) as well as stringent cost control with effective operational streamlining (i.e. new IT communication tools which reduce the frequency to travel).

Other Income

Other income for the Period was approximately HK$2.7 million, representing a decrease of 14.1% compared to the same period last year. Other income represents income from non-core businesses, such as leasing and interest received from bank deposit, and a one-off government grant for developing our product. During the Period, the Group received government funding and tax exemptions to support the R&D and commercialization of the Group's projects. These supports represent an important recognition from the government on the research and innovation capability of the Group.

Loss for the Period

Loss for the Period widened by 87.7% from approximately HK$33.7 million in 1H2017 to approximately HK$63.2 million for the same period 2018. The increase in loss was caused mainly by two reasons. Firstly, we have seen mounting pressure on the pricing of Pinup®, hence the Group has been optimizing its salesforce since last year in an effort to achieve maximum sales efficiency. The sales team has been expanding rapidly, and the distribution channels has also expanded significantly leading to a higher cost in the short term. By the time the Group secure the threshold of drug consistency evaluation, which should be by 2020, more resources will be deployed on marketing and distributing Pinup®. This should bring promising revenue in the near future. Furthermore, given that the Group has been restructuring the salesforce, enlarging direct sales channels expanding and increasing sales and marketing expenses on the promotion of Bokangtai, therefore, selling and distribution expenses saw substantial increment. The Group is confident that the investment into the building a sales platform should begin to payoff with more hospitals were being secured in 1H2018.

PROSPECT

Outlook

Looking forward to the second half of 2018, the PRC's drug manufacturers are still facing challenges in several aspects, namely, pricing pressure from the zero price mark-up policy and the provincial tender price cuts, as well as the approaching deadline for chemical generics quality and efficacy consistency. However, with the sustainable organic growth in some sub-segments like diabetes market and favorable national environment supporting innovation, the Group believes that potential growth opportunities still existed. Pharmaceutical enterprises, especially the drug manufacturers with advanced R&D capability and first-mover advantage, are still in favor of a promising future.

According to the information released by Provincial tendering offices in the PRC, price cuts are getting more severe in recent new tenders, for instance, Fujian province announced a price cut for over 30%, which might benchmark a lower price standard for the tenders in the other provinces during tendering. In the meantime, most of the provinces yet to announce the new round of tenders in the 1H2018, risk of price cut is still a challenge for pharmaceutical manufactures in the future.

Furthermore, the CFDA issued guidelines relating to the evaluation of consistent quality and efficacy of generics, which apply to domestically-produced and imported generic drugs. In particular, CFDA has required drugs launched before 1 Oct, 2007 and have been included in National Essential Drug List ("**NEDL**") to start the evaluation with a target completion date by the end of 2018. Meanwhile, for those generics marketed after 2007 and haven't been listed in NEDL, only if one brand has completed the consistent evaluation, the remaining other generic brands must finish the evaluation within three years. It requires pharmaceutical manufacturers to better allocate and utilize their resources and R&D capability by focusing on compelling products.

Though the Group is not required to complete the quality and efficacy consistency evaluation of our marketed generics by the end of 2018, the Group has pursued the strategy of accelerating the BE study of Pinup®, Bokangtai and Acarbose tablets, in view to strengthen our competitiveness in the future. Such move will also pose a higher entry barrier for followers. The BE study of Pinup® and Bokangtai is scheduled to be completed in 2020 and 2021 respectively, which will enhance the Group's bargaining power in mitigating the price cut pressure and therefore securing the profitability of our compelling products.

Meanwhile, the Group also noticed the fast and continuing organic growth in some sub-segments these years, such as the diabetes market. According to Research and Markets, Global diabetes care devices and drugs market is expected to reach USD85.6 billion by 2022, supported by a compound annual growth rate ("**CAGR**") of 5.2% during the forecast period of 2017 to 2022. Currently, the anti-diabetics market in China is dominated by insulins and α-glucosidase inhibitors, which accounted for 46% and 17% market share respectively.

Acarbose tablet, one of the major compounds of α-Glucosidase inhibitors with limited competitors in China, is the Group's key R&D project in the second half of 2018. In May 2017, the Group has established partnership with Beijing Baiao Pharmaceutical to co-develop Acarbose tablet and has completed the testing processes on production technique. Meanwhile, the related BE study of our Acarbose tablet will be initiated shortly. As an expert in product R&D, the Group expects itself to be the first batch of manufacturers to apply for production approvals for this compound. Acarbose has already completed the process development and the Group is expecting the application for marketing to be submitted in the first half of 2019.

Looking forward to the second half of 2018, Uni-Bio will continue to solidify its distribution platform through channel expansion, in which the Group will keep a keen eye on opportunities to expand into new regions such as Northeast and Central China.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's bank deposits, bank balances and cash amounted to approximately HK$70,163,000. The Group had total assets of approximately HK$317,560,000 (as at 31 December 2017: HK$390,189,000), and current assets of approximately HK$141,054,000 (as at 31 December 2017: HK$205,822,000), while current liabilities were at HK$25,181,000 as at 30 June 2018 (as at 31 December 2017: HK$45,628,000). The total liabilities to total assets ratio is 8.4% (as at 31 December 2017: 12.1%).

The Group's major interest and operations are in the PRC. The Group also contracts with suppliers for goods and services that are denominated in 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.

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

As at 30 June 2018, the aforesaid net proceed has been applied as follows:

		Intended use of proceeds HK$'000	Utilised amount (as at 30 June 2018) HK$'000	Unutilised amount (as at 30 June 2018) HK$'000
(i)	In-licensing new products for the PRC market	38,300	3,295	35,005
(ii)	R&D expenses over the Group's pipeline products	97,600	34,021	63,579
(iii)	General working capital	5,600	5,600	–
		141,500	42,916	98,584

The above mentioned uses are consistent with the intended use of proceeds as disclosed in 2017 annual report. The Group will constantly evaluate its business plan and may change or modify plan against the changing market condition to attain sustainable business growth of the Group. All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of 30 June 2018, the Group did not have any assets pledged for any loan facilities granted to the Group and any material contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICY

As of 30 June 2018, the Group employed 373 staff, including 89 staff in the PRC R&D department, 85 staff in the PRC production department, 182 staff in the PRC commercial office and 17 staff in the Hong Kong headquarters. In addition to the full-time employees in the PRC sales offices, the Group has over 200 regional distributors. The Group has adopted a competitive remuneration package for its employees to attract and retain top talent. Promotion and salary increments are assessed based on performance. Share options may also be granted to staff with reference to the individual's performance.

EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events after the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Revenue	3	**59,626**	62,945
Cost of sales		**(8,004)**	(10,420)
Gross profit		**51,622**	52,525
Other income		**2,734**	3,181
Other gains and losses		**(1,511)**	(11)
Selling and distribution costs		**(59,481)**	(27,067)
General and administrative expenses		**(39,917)**	(42,487)
Research and development costs		**(14,409)**	(15,278)
Equity-settled share based payment expenses		**(2,261)**	(4,201)
Loss from operation		**(63,223)**	(33,338)
Finance costs		**–**	(174)
Loss before taxation	4	**(63,223)**	(33,512)
Income tax expense	6	**–**	(178)
Loss for the period		**(63,223)**	(33,690)
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation on foreign operations		**8,709**	14,927
Other comprehensive income for the period		**8,709**	14,927
Total comprehensive expenses for the period		**(54,514)**	(18,763)
Loss per share (HK cents) – Basic and diluted	7	**(1.02)**	(0.66)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment	8	**54,861**	60,257
Investment properties		**27,428**	26,605
Prepaid lease payments		**11,321**	11,398
Intangible assets	9	**62,057**	63,313
Deposits paid for the acquisition of property, plant and equipment		**15,028**	17,855
Deposits paid for the acquisition of intangible assets		**5,811**	4,939
		176,506	184,367
Current assets			
Inventories		**21,561**	13,548
Trade and other receivables	10	**48,470**	70,159
Prepaid lease payments		**860**	834
Time deposit		**32,693**	87,104
Structured deposit		**–**	11,412
Bank balances and cash		**37,470**	22,765
		141,054	205,822
Current liabilities			
Trade and other payables	11	**22,786**	43,206
Income tax payable		**2,395**	2,422
		25,181	45,628
Net current assets		**115,873**	160,194
Total assets less current liabilities		**292,379**	344,561

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2018

	Notes	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Non-current liability			
Deferred tax liability		**1,479**	1,408
NET ASSETS		**290,900**	343,153
Capital and reserves			
Share capital	12	**61,650**	61,650
Reserves		**229,250**	281,503
TOTAL EQUITY		**290,900**	343,153

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 HK$'000	 2017 HK$'000
Net cash used in operating activities	(52,726)	(31,687)
Net cash generated from investing activities	64,937	24,937
Net cash used in financing activities	–	(11,548)
Net decrease in cash and cash equivalents	12,211	(18,298)
Cash and cash equivalents at the beginning of the period	22,765	47,344
Net effect of foreign exchange rate changes	2,494	4,280
Cash and cash equivalents at the end of the period, represented by bank balances and cash	37,470	33,326

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Distributable reserve (Note a) HK$'000	Exchange reserve (Note b) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017 (audited)	51,375	593,812	11,310	1,291,798	21,451	(1,523,342)	446,404
Other comprehensive expense for the period	–	–	–	–	14,927	–	14,927
Loss for the period	–	–	–	–	–	(33,690)	(33,690)
Total comprehensive expense for the period	–	–	–	–	14,927	(33,690)	(18,763)
Recognition of equity-settled share based payments	–	–	4,201	–	–	–	4,201
At 30 June 2017 (unaudited)	51,375	593,812	15,511	1,291,798	36,378	(1,557,032)	431,842
At 1 January 2018 (audited)	**61,650**	**725,329**	**18,174**	**1,291,798**	**48,853**	**(1,802,651)**	**343,153**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**8,709**	**–**	**8,709**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(63,223)**	**(63,223)**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**8,709**	**(63,223)**	**(54,514)**
Recognition of equity-settled share based payments	**–**	**–**	**2,261**	**–**	**–**	**–**	**2,261**
At 30 June 2018 (unaudited)	**61,650**	**725,329**	**20,435**	**1,291,798**	**57,562**	**(1,865,874)**	**290,900**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

Notes:

(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.

(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 translation reserve. Such exchange differences accumulated in the exchange translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANISATION

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 its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Unit 502, 5/F, No. 20 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The Group is principally engaged in bioscience related business with focus on the research, development and commercialization of biopharmaceutical products through recombinant DNA and other technologies.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on Stock Exchange (the "**Listing Rules**") and Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The condensed consolidated financial statements are unaudited but have been reviewed by the Audit Committee of the Company.

The accounting policies adopted and the basis of preparation used in the preparation of the condensed consolidated financial statement of the Group are consistent with those followed in the preparation of the Group's annual financial statements for the twelve months ended 31 December 2017.

In the Period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Income Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Annual improvements to HKFRSs 2014–2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts and/or disclosures reported in these condensed consolidated financial statements. Amendments to IFRS effective for the financial year ending 31 December 2018 do not have a material impact on the Group's interim financial information.

3. 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. During the six months ended 30 June 2018, 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) industrialization of pipeline products. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The information of the reportable segment results are as follows:

For the six months ended 30 June 2018 (unaudited)

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	13,068	46,558	–	59,626
Result				
Segment loss	(17,229)	(3,006)	(24,332)	(44,567)
Other income				2,734
Finance costs				–
Equity-settled share based payment expense				(2,261)
Unallocated administration expenses				(19,129)
Loss before taxation				(63,223)

3. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2017 (unaudited)

	Chemical pharmaceutical products HK$'000	Biological pharmaceutical products HK$'000	Pipeline products HK$'000	Consolidated HK$'000
Segment revenue				
External sales	27,972	34,973	–	62,945
Result				
Segment gain/(loss)	9,654	4,518	(27,681)	(13,509)
Other income				3,181
Finance costs				(174)
Equity-settled share based payment expense				(4,201)
Unallocated administration expenses				(18,809)
Loss before taxation				(33,512)

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Unaudited Six months ended 30 June	
	2018 HK$'000	2017 HK$'000
Amortisation of intangible assets	**3,247**	2,395
Amortisation of prepaid lease payments	**434**	398
Cost of inventories recognised as an expenses	**8,004**	10,420
Depreciation	**10,471**	12,637
Less: Depreciation included in research and development costs	**(2,769)**	(3,133)
	7,702	9,504
Research and development costs	**14,409**	15,278
Less: Capitalisation on intangible assets	**–**	–
	14,409	15,278

5. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Salaries, wages and other benefit	**29,575**	23,396
Retirement benefit scheme contribution	**5,756**	3,602
Equity-settled share based payments	**2,261**	4,201
	37,592	31,199

6. INCOME TAX EXPENSE

The amount of taxation charged to the condensed consolidated statement of comprehensive income represents:

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
The PRC Enterprise Income Tax ("**EIT**")	–	178
Deferred taxation	–	–
	–	178

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

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

Beijing Genetech Pharmaceutical Co., Limited and Shenzhen Watsin Genetech Pharmaceutical Co., Limited, wholly owned subsidiaries of the Company, were approved as "high-new technology enterprise" and were eligible to enjoy a preferential enterprise income tax rate of 15% for the six months ended 30 June 2017 and 2018.

7. LOSS PER SHARE

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

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**(63,223)**	(33,690)

7. LOSS PER SHARE (Continued)

	Unaudited Six months ended 30 June 2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for basic and diluted loss per share calculation	**6,171,847**	5,137,488

No adjustment has been made to basic loss per share amounts presented for the six months ended 30 June 2017 and 2018 in respect of a dilution as the impact of the share options and warrants outstanding would decrease basic loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
Cost	
At January 2018	419,870
Additions	3,309
Disposals	(68)
Written off	–
Exchange realignment	12,919
At 30 June 2018	436,030
Accumulated depreciation and impairment	
At 1 January 2018	359,613
Charge for the period	10,471
Eliminated on disposals	(62)
Eliminated on written off	–
Exchange realignment	11,147
At 30 June 2018	381,169
Net book value	
At 30 June 2018 (unaudited)	54,861
At 31 December 2017 (audited)	60,257

9. INTANGIBLE ASSETS

Carrying amount

	Trademarks and certificates (Note a) HK$'000	Technical know-how (Note b) HK$'000	Capitalised development costs (Note c) HK$'000	Total HK$'000
At 30 June 2018 (unaudited)	**–**	**31,232**	**30,825**	**62,057**
At 31 December 2017 (audited)	–	33,412	29,901	63,313

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

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

Notes:

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

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

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

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

(e) The directors of the Company conducted an impairment review of the Group's intangible assets annually. During the six months ended 30 June 2017 and 2018, no impairment loss on technical know-how and capitalised development costs were recognised to profit or loss.

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Trade receivables	**42,244**	66,119
Less: Allowance for doubtful debts	**(4,904)**	(3,813)
	37,340	62,306
Bill receivables	**4,485**	1,600
Rental deposit	**1,146**	1,291
Advance to staff	**1,082**	906
Prepayments	**1,452**	1,539
Other	**3,889**	3,326
Less: impairment loss recognised	**(924)**	(809)
	48,470	70,159

(i) The Group allows an average credit period of 120 days (31 December 2017: 120 days) to its customers. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted.

(ii) An ageing analysis of trade receivables, net of impairment loss recognised, presented based on invoice date which approximated the respective revenue recognition dates, is as follows:

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
0–60 days	**16,028**	42,466
61–120 days	**9,619**	13,094
121–180 days	**10,379**	3,896
Over 180 days	**1,314**	2,850
	37,340	62,306

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits for the customer. Limits attributed to customers are reviewed once a year. As at 30 June 2018, approximately 61% (31 December 2017: 84%) of the trade receivables is neither past due nor impaired.

11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Trade payables	**1,080**	9,002
Accrued expenses and other payables:		
Advance and deposits from customers	**13,412**	14,082
Payables for acquisition of equipment	**904**	918
Payables for research and development costs	**2,050**	3,319
Other tax payables	**169**	1,628
Accrued audit fee	**9**	1,787
Accrued payroll	**3,198**	4,462
Accrued selling expenses	**763**	7,107
Others	**1,201**	901
	22,786	43,206

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

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
0–30 days	**364**	7,648
31–60 days	**126**	1,043
61–90 days	**126**	61
Over 90 days	**464**	250
	1,080	9,002

The average credit period on purchases of goods is 120 days (31 December 2017: 120 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit time frame.

12. SHARE CAPITAL

Ordinary share of HK$0.01 each

	Number of shares	Amount HK$'000
Authorised:		
At 31 December 2017 and 30 June 2018	500,000,000,000	5,000,000
Issued and fully paid:		
At 1 January 2018	6,164,968,147	61,650
Exercise of warrants	–	–
Exercise of share options	–	–
At 30 June 2018	6,164,968,147	61,650

13. SHARE OPTIONS

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 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 303,430,000 (At 31 December 2017: 266,620,000), representing 4.92% (At 31 December 2017: 4.32%) of the ordinary shares in issue at that date.

13. SHARE OPTIONS (Continued)

Details of the share option movements during the six months ended 30 June 2017 and 2018 are as follows:

Share options grant date	Outstanding at 1.1.2018 '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000	Cancelled during the period '000	Outstanding at 30.06.2018 '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 Employee	–	**36,810**	–	–	–	**36,810**
	266,620	**36,810**	–	–	–	**303,430**
Exercisable at the end of the period						**236,936**
Weighted average exercise price	**HK$0.22**	**HK$0.15**	–	–	–	**HK$0.21**

Share options grant date	Outstanding at 1.1.2017 '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000	Cancelled during the period '000	Outstanding at 30.06.2017 '000
12 September 2014 Directors	8,560	–	–	–	–	8,560
12 September 2014 Others	360	–	–	–	–	360
23 January 2015 Employees	10,880	–	–	–	–	10,880
23 January 2015 Others	33,100	–	–	–	–	33,100
10 July 2015 Directors	7,260	–	–	–	–	7,260
17 August 2015 Others	120,000	–	–	–	–	120,000
27 January 2016 Employees	20,700	–	–	–	–	20,700
27 January 2016 Others	1,300	–	–	–	–	1,300
7 October 2016 Directors	10,880	–	–	–	–	10,880
3 April 2017 Employees	–	36,960	–	–	–	36,960
	213,040	36,960	–	–	–	250,000
Exercisable at the end of the period						81,159
Weighted average exercise price	HK$0.22	HK$0.15	–	–	–	HK$0.21

14. OPERATING LEASE

The Group as lessor

Property rental income earned during the six months ended 30 June 2018 was approximately HK$1,371,000 (six months ended 30 June 2017: HK$1,312,000). The investment properties held have committed tenants for the next one year (2017: one years). At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Within one year	**2,223**	2,411
In the second to fifth years inclusive	**–**	–
	2,223	2,411

The Group as lessee

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

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Within one year	**4,009**	4,112
In the second to fifth years inclusive	**4,854**	6,475
	8,863	10,587

15. CAPITAL COMMITMENT

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– purchase of property, plant and equipment	**5,119**	5,109
– purchase of intangible asset	**23,200**	22,504
	28,319	27,613

16. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

17. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares ("**Shares**"), underlying Shares and debentures of the Company or any of the its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of issued ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 8)
Kingsley LEUNG	Beneficial owner and interest of a controlled corporation (Note 2)	1,530,877,026 (L)	16,600,000 (L)	1,547,477,026 (L)	25.04%
CHEN Dawei	Beneficial owner (Note 3)	330,955,516 (L)	64,060,000 (L)	395,015,516 (L)	6.39%
LAU Chau In	Beneficial owner (Note 6)	–	1,640,000 (L)	1,640,000 (L)	0.03%
ZHAO Zhi Gang	Beneficial owner (Note 4)	–	6,140,000 (L)	6,140,000 (L)	0.10%
CHOW Kai Ming	Beneficial owner (Note 5)	–	3,420,000 (L)	3,420,000 (L)	0.06%
REN Qimin	Beneficial owner (Note 6)	–	1,640,000 (L)	1,640,000 (L)	0.03%

Notes:

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

2. These interests consist of: (i) 616,301,016 Shares held by Automatic Result Limited ("**Automatic Result**") 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) 10,600,000 underlying shares relating to the share options granted by the Company to Mr. Kingsley LEUNG.

3. These interests consist of (i) 330,955,516 Shares held by Mr. CHEN Dawei; (ii) 60,000,000 Service Shares under the terms of his service agreement with the Company (please refer to Directors' Report on P.34 section "Directors' Service Contracts" for details); and (iii) 4,060,000 underlying Shares relating to the share options granted by the Company to Mr. CHEN Dawei.

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

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

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

7. The percentage of shareholding is calculated on the basis of 6,179,968,147 Shares in issue as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executive of the Company, or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SECURITIES

To the best knowledge of the Directors after making reasonable enquiry, as at 30 June 2018, shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company were as follows:

Name	Capacity	Number of ordinary shares	Number of underlying Shares	Total	Approximate percentage of shareholding (Note 6)
Automatic Result (Note 2)	Beneficial owner	616,301,016 (L)	–	616,301,016 (L)	9.97%
Lord Profit (Note 3)	Beneficial owner	914,576,010 (L)	–	914,576,010 (L)	14.80%
Overseas Capital Assets Limited (Note 4)	Beneficial owner	657,180,000 (L)	–	657,180,000 (L)	10.63%
Vital Vigour Limited (Note 5)	Beneficial owner	873,360,000 (L)	218,340,000 (L)	1,091,700,000 (L)	17.67%
Mr. CHEN Dawei	Beneficial owner	330,955,516 (L)	64,060,000 (L)	395,015,516 (L)	6.39%

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 6,179,968,147 Shares in issue as at 30 June 2018.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any other persons who have relevant interests or short positions in the Shares or underlying Shares in the Company as at 30 June 2018 which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange throughout the Period. All the directors of the Company (including the non-executive Directors) are subject to retirement by rotation and re-election at the Company's annual general meeting in compliance with the Company's articles of association.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

REVIEW OF INTERIM REPORT

This interim report encompassing the condensed consolidated financial statements for the Period has been reviewed by the Audit Committee of the Company.

Hong Kong, 24 August 2018