



REGENT PACIFIC GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 575

2018 Annual Report

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PERFORMANCE OVERVIEW

PERFORMANCE OVERVIEW

A summary of the financial performance and other notable events for 2018 include:

- A loss attributable to shareholders of the Company of US\$31.09 million, which was mainly attributable to: (i) a non-cash amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™; (ii) the operating expenses of US\$8.77 million; and (iii) a marked-to-market loss of US\$3.30 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss; while being offset somewhat by the signature payment, milestone and royalty income from Recordati S.p.A. ("**Recordati**"), Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**") and Orient EuroPharma Co., Ltd ("**Orient EuroPharma**") of US\$6.24 million.
- Shareholders' equity of US\$126.62 million, a decrease of approximately 20.27% as compared at 31 December 2017, with the decrease being mainly attributable to the loss attributable to shareholders of the Company.
- As announced on 13 February 2018, Recordati, the Group's European commercial partner, informed the Company on 12 February 2018 that Fortacin™ was officially launched, by way of first commercial sales from Recordati to wholesalers in Italy on 9 February 2018, with first Fortacin™ sales following in France and Spain on 16 and 19 February 2018, respectively, and thereafter in Germany and Portugal from March 2018.
- The first commercial sale of Fortacin™ took place on schedule in Italy, France, Spain, Germany and Portugal. A total of EUR 4.12 million (or approximately US\$4.72 million) was duly received by the Group from Recordati for the year ended 31 December 2018. This was without any withholding and the Group now looks forward to working towards receiving further payments under its licence agreement with Recordati, pursuant to which the Group is eligible to receive remaining payments of up to EUR 33 million (or approximately US\$37.79 million) plus royalties after hitting certain milestones.
- Subsequent to year end, Recordati launched Fortacin™ in the United Kingdom in February 2019, with planned launches in Romania and Greece to follow later in 2019 and it will be rolled out in their other countries over the coming years.
- From a business development standpoint and as announced on 3 and 21 December 2018, respectively, exciting new out-licensing deals were also signed in respect of out-licensing Fortacin™ to: (i) Wanbang Pharmaceutical, a wholly controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd, in respect of the rights to commercialise Fortacin™ in The People's Republic of China, excluding Taiwan, Hong Kong Special Administrative Region ("**HK**") and Macau Special Administrative Region ("**Macau**"); and (ii) Orient EuroPharma, a company registered in Taiwan, in respect of the rights to commercialise Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million, excluding royalties after hitting certain milestones related to the Wanbang Pharmaceutical roll-out; and (ii) US\$1.45 million excluding royalties after hitting certain milestones related to the Orient EuroPharma roll-out.
- As announced on 6 November 2018, the Group is pleased to report that on 4 November 2018 the Company was advised by its regulatory agent that it had successfully registered Fortacin™ in Hong Kong with the Hong Kong Department of Health - Drug Office. The Hong Kong registration will run for an initial period of 5 years expiring on 18 October 2023 and thereafter for periods of five years at a time on renewal. This registration, together with the import licence already obtained in Macau from the Macau Government - Health Bureau, will allow Fortacin™ to be sold, offered for sale and distributed in these regions by our partner Orient EuroPharma, which is expected in 2019.

PERFORMANCE OVERVIEW

- In parallel with the European and Asian roll-out efforts of Fortacin™, the Group has further progressed the approval process with The Food and Drug Administration of the United States (the “US”) Department of Health and Human Services (the “FDA”). In this respect the Phase II validation study of Fortacin™ in respect of the FDA approval process was officially registered on 6 July 2018, with patients being enrolled into the study from December 2018. Currently, there are 12 test centres open for recruitment of patients in the US, with eight more test centres to be opened for facilitating recruitment. The phase II clinical trial is estimated to complete by Q1 2020. On the assumption that the trial is sufficient to convince the FDA that the Premature Ejaculation Bothersome Evaluation Questionnaire (PEBEQ) serves as an appropriate measure for support of a label claim, pivotal Phase III work could commence in the Q1 2021, with New Drug Application (“NDA”) submission possible in Q1 2022, giving a Prescription Drug User Fee Act (PDUFA) date in 2022. These dates are the most recent guidance received and update all previous estimates on the FDA process set out by the Company in its announcements, annual and interim reports and investor presentations but are ultimately dependent for example on the timing it takes to enrol patients in the trials, the feedback received from the FDA and time taken to address any issues that have been received from the FDA. Formal commencement of the Phase II validation study of Fortacin™ in the US in December 2018 was a critical and positive step towards making the NDA submission and ultimately achieving all necessary FDA and other US regulatory approvals needed to commercialise Fortacin™ in the US, its most significant potential market.
- Maintaining and actively monitoring its existing and strategic investment in Venturex Resources Limited (“Venturex”), representing approximately 15.16% of the share capital of the company as at 31 December 2018.
- As at 31 December 2018, the Company had no long-term debt, having cash and listed and unlisted securities of US\$6.81 million.
- With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, with the European roll-out with Recordati successfully launched in March 2018, as well as in the remaining key markets for ‘out licensing’ Fortacin™ of the US, the Middle East and Latin America; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

Following year end and as announced on 18 March 2019, the Company entered into a settlement agreement with the Australian Taxation Office (“ATO”) in respect of its dispute with the Australian tax authorities in connection with a disposal by the Group of an investment in BC Iron Limited, a company listed on the Australian Securities Exchange. The ATO considered that capital gains tax was payable in the amount of approximately A\$11.85 million (or approximately US\$8.39 million), which, together with the interest also claimed, amounted to A\$19.12 million (or approximately US\$13.55 million) as of 1 March 2019. The settlement reached was in respect of a fixed amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement. While the expert and independent Australian advice received did not change throughout the dispute and at no stage did the Directors consider that any tax was payable (and therefore no provision for taxation regarding this matter was previously provided within the audited financial statements of the Company and the Group), as part of the dispute resolution process the Board was compelled to consider the inherent litigation risk associated with pursuing the matter through the Australian courts. Consequently, it was decided that the aforementioned settlement was in the best interests of the Group and its shareholders as a whole. The settlement amount was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

CHAIRMAN'S STATEMENT

Dear Shareholders

2018 was a significant year for the Group and one marked by a number of significant achievements, including the successful launch of Fortacin™ in France, Germany, Italy, Spain and Portugal. This was a notable and critical achievement for the Group and one that we hope will help create a steady stream of recurring cash flow for the years to come. Against this backdrop I now to report the Group's results for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS AND REVIEW

The Group recorded a loss attributable to shareholders of the Company of US\$31.09 million, which was mainly attributable to: (i) a non-cash amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™; (ii) the operating expenses of US\$8.77 million; and (iii) a marked-to-market loss of US\$3.30 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("FAFVPL"); while being offset somewhat by the signature payment, milestone and royalty income from Recordati S.p.A. ("Recordati"), Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("Wanbang Pharmaceutical") and Orient EuroPharma Co., Ltd ("Orient EuroPharma") of US\$6.24 million.

Disappointing that profitability could not be achieved for 2018, this was due to the investment and resources allocated to the commercial launch of Fortacin™ in certain countries in the European Union earlier in the year coupled with the large amortisation cost of US\$28.05 million. While Fortacin™ has only now been in the market for a relatively short period of time, we see its potential to create a steady stream of recurring cash flow leading to profitability for the Group in the years to come. We are continuing to work diligently with our partners, on the further commercial roll-out of Fortacin™.

Following the first commercial sale of Fortacin™ in each of France, Germany, Italy, Portugal and Spain, a total of EUR 4.12 million (or approximately US\$4.72 million) was paid from Recordati to the Group for the year ended 31 December 2018, including royalty income, without any withholding, and the Group now looks forward to working towards receiving further payments under its licence agreement with Recordati, pursuant to which the Group is eligible to receive remaining payments of up to EUR 33 million (or approximately US\$37.79 million) plus royalties after hitting certain milestones related to the European roll-out.

The Group's portfolio of FAFVPL incurred a net realised and unrealised loss of approximately US\$3.30 million for the year ended 31 December 2018. The total value of our portfolio of FAFVPL was approximately US\$5.50 million as at 31 December 2018, down from approximately US\$8.78 million in 2017, which was mainly a result of the correction experienced in the global stock markets in the latter half of 2018.

CHAIRMAN'S STATEMENT

HEALTHCARE AND LIFE SCIENCES FOCUS

The Group's healthcare and life sciences investments portfolio remain its core focus and the Group believes that investments in this sector will create substantial returns for our shareholders in the medium to longer term. As part of this focus, we have worked diligently to further strengthen our relationships with key commercial partners and stakeholders in this sector.

The Group's efforts are now starting to bear fruit, with the Group having teamed with, Recordati, its commercial partner for the successful launch of Fortacin™ in France, Germany, Italy, Spain and Portugal in Q1 2018, ahead of schedule. Subsequent to year end, Recordati launched Fortacin™ in the United Kingdom in February 2019 with planned launches in Romania and Greece to follow later in 2019 and it will be rolled out in their other countries over the coming years, which is fantastic news.

Through strengthening relationships within the sector, the Group was also able to enter into exciting new out-licensing deals in respect of out-licensing Fortacin™ into previously untapped markets, being to: (i) Wanbang Pharmaceutical, a wholly controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd, in respect of the rights to commercialise Fortacin™ in The People's Republic of China, excluding Taiwan, Hong Kong Special Administrative Region ("HK") and Macau Special Administrative Region ("Macau"); and (ii) Orient EuroPharma, a company registered in Taiwan, in respect of the rights to commercialise Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million, excluding royalties after hitting certain milestones related to the Wanbang Pharmaceutical roll-out; and (ii) US\$1.45 million excluding royalties after hitting certain milestones related to the Orient EuroPharma roll-out.

In parallel with the business development efforts across Europe and Asia in respect of commercialising Fortacin™, the Group has further progressed the approval process with The Food and Drug Administration of the United States (the "US") Department of Health and Human Services (the "FDA"), with the commencement of clinical trials in US test centres in December 2018. Currently, there are 12 test centres open for recruitment of patients in the US, with eight more test centres to be opened for facilitating recruitment. In this respect, the Group remains hopeful that pivotal Phase III work could commence in the Q1 2021, with New Drug Application submission possible in Q1 2022, giving a Prescription Drug User Fee Act date in 2022. Ultimately achieving all necessary FDA and other US regulatory approvals needed to commercialise Fortacin™ in the US, the market with the most significant potential, is a primary commercial objective of the Group and is being pursued vigorously.

Additionally, the Group was also able to make positive progress with the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau. Fortacin™ has now been successfully registered in both Hong Kong and Macau with the relevant authorities, paving the way for Fortacin™ to be sold, offered for sale and distributed in these regions by Orient EuroPharma, which is expected in 2019.

CHAIRMAN'S STATEMENT

OTHER EXISTING INVESTMENT

Looking at the Group's existing and legacy investments in natural resources (which are non-core and are the focus of its existing divestment programme), energy related investments have stabilised and the Group's not insignificant exposure to base metals (copper and zinc in particular) continues to enjoy a recovery of note. While commodity markets remain volatile, there has been a noticeable shift of investment activity towards exploration and not just producers. We remain confident that on a fundamental basis, demand will be underpinned by urbanisation of emerging and recovery of developed economies globally. We see the potential for the Company's investment in Venturex Resources Limited ("**Venturex**") to see further increases (on a marked-to-market basis), principally due to Venturex de-risking its copper-zinc project at Sulphur Springs and the distinct lack of comparable projects in Australia.

OUTLOOK

The global economy is projected to grow at 3.5% in 2019, having been revised downward in part because of the negative effects of tariff increases enacted in the US and China and also to reflect the effects of softer momentum from the second half of 2018.

If anything, risks to global growth seemingly tilt to the downside. An escalation of trade tensions beyond those already factored in remain a key source of risk to the outlook as does a further tightening of financial conditions, especially given the high levels of public and private debt. These potential triggers include a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China.

Measures to boost potential output growth, enhance inclusiveness, and strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives.

Unlike the Group's legacy investments in natural resources, the Group's healthcare and life sciences investments are far less sensitive to macroeconomic fundamentals and fluctuations and remain its core focus.

Our strategy remains the same and our balance sheet means we are well positioned to deliver on this. The Company has every intention of continuing with its existing business of investing in companies engaged in the health care and life sciences sectors. With the ongoing commercialisation of Fortacin™ across targeted markets, our progress with the FDA and ongoing discussions with other possible commercial partners, we remain tremendously excited about the future prospects for the Group.

On behalf of the Board, I want to thank our shareholders for their continued support and our employees for their hard work in another challenging but rewarding year.

James Mellon
Chairman

22 March 2019

CEO'S REPORT

2018 was a significant year for the Group, having successfully teamed with Recordati S.p.A. ("**Recordati**"), our commercial partners for the launch by Plethora Solutions Limited ("**Plethora**"), an indirect wholly-owned subsidiary of the Company, of Fortacin™ in France, Germany, Italy, Spain and Portugal. Subsequent to year end, Recordati launched Fortacin™ in the United Kingdom ("**UK**") in February 2019 with planned launches in Romania and Greece to follow later in 2019 and it will be rolled out in their other countries over the coming years.

Following the first commercial sale of Fortacin™ in each of France, Germany, Italy, Portugal and Spain, a total of EUR 4.12 million (or approximately US\$4.72 million) was paid from Recordati to the Group for the year ended 31 December 2018, including the royalty income, without any withholding, and the Group now looks forward to working towards receiving further payments under its licence agreement with Recordati, pursuant to which the Group is eligible to receive remaining payments of up to EUR 33 million (or approximately US\$37.79 million) plus royalties after hitting certain milestones related to the European roll-out.

From a business development standpoint, exciting new out-licensing deals were also signed in respect of out-licensing Fortacin™ to: (i) Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**"), a wholly controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in respect of the rights to commercialise Fortacin™, by way of the sale and, among other things, distribution of Fortacin™ in The People's Republic of China, excluding Taiwan, Hong Kong Special Administrative Region ("**HK**") and Macau Special Administrative Region ("**Macau**"); and (ii) Orient EuroPharma Co., Ltd ("**Orient EuroPharma**"), a company registered in Taiwan, in respect of the rights to commercialise Fortacin™, by way of the sale and, among other things, distribution of Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million (or approximately HK\$296.4 million), excluding royalties after hitting certain milestones related to the Wanbang Pharmaceutical roll-out; and (ii) US\$1.45 million (or approximately HK\$11.31 million) excluding royalties after hitting certain milestones related to the Orient EuroPharma roll-out.

In parallel with the European and Asian roll-out efforts of Fortacin™, the Group has further progressed the approval process with The Food and Drug Administration of the United States (the "**US**") Department of Health and Human Services (the "**FDA**"). In this respect the Phase II validation study of Fortacin™ in respect of the FDA approval process was officially registered on 6 July 2018, with patients being enrolled into the study from December 2018. Currently, there are 12 test centres open for recruitment of patients in the US, with eight more test centres to be opened for facilitating recruitment. The phase II clinical trial is estimated to complete by Q1 2020. On the assumption that the trial is sufficient to convince the FDA that the Premature Ejaculation Bothersome Evaluation Questionnaire (the "**PEBEQ**") serves as an appropriate measure for support of a label claim, pivotal Phase III work could commence in the Q1 2021, with New Drug Application ("**NDA**") submission possible in Q1 2022, giving a Prescription Drug User Fee Act (the "**PDUFA**") date in 2022. These dates are the most recent guidance received and update all previous estimates on the FDA process set out by the Company in its announcements, annual and interim reports and investor presentations but are ultimately dependent for example on the timing it takes to enrol patients in the trials, the feedback received from the FDA and time to taken to address any issues that have been received from the FDA. Formal commencement of the Phase II validation study of Fortacin™ in the US in December 2018 is a critical and positive step towards making the NDA submission and ultimately achieving all necessary FDA and other US regulatory approvals needed to commercialise Fortacin™ in the US, its most significant potential market.

CEO'S REPORT

In the financial year ended 31 December 2018, the Group also made significant and positive progress with the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau. On 4 November 2018 the Company was advised by its regulatory agent that it had successfully registered Fortacin™ in Hong Kong with the Hong Kong Drug Office. The Hong Kong registration will run for an initial period of 5 years expiring on 18 October 2023 and thereafter for periods of five years at a time on renewal. This registration, together with the import licence already obtained in Macau from the Macau Health Authority, will allow Fortacin™ to be sold, offered for sale and distributed in these regions by our partner Orient EuroPharma, which is expected in 2019.

During the year of 2018, the Group recorded a loss attributable to shareholders of the Company of US\$31.09 million, which was mainly attributable to: (i) a non-cash amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™; (ii) the operating expenses of US\$8.77 million; and (iii) a marked-to-market loss of US\$3.30 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("FAFVPL"); while being offset somewhat by the signature payment, milestone and royalty income from Recordati, Wanbang Pharmaceutical and Orient EuroPharma of US\$6.24 million.

Shareholders' equity decreased by 20.27% to US\$126.62 million as at 31 December 2018 from US\$158.82 million as at 31 December 2017.

As at 31 December 2018, the Company had no long-term debt, having cash and listed and unlisted securities of US\$6.81 million.

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, with the European roll-out with Recordati successfully launched in March 2018, as well as in the remaining key markets for 'out licensing' Fortacin™ in the US, the Middle East and Latin America; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A review of the Group's associated investments, together with the results of its main listed investments, are set out below.

CEO'S REPORT

PLETHORA

Operations Update

Management's focus remains squarely on the commercialisation of Fortacin™. Recordati commenced the launch of Fortacin™ in Italy, France, Spain in February 2018 and thereafter rolled out the launch of Fortacin™ in Portugal and Germany from March 2018. The Company received US\$6.24 million in signature payment, milestone and royalty income in 2018.

Recordati has informed the Company that the sales of Fortacin™ uptake was lower than expected for the period, with the key issue being the low number of premature ejaculation ("PE") patients seeking advice and visiting a specialist for treatment (with key reasons being given due to the embarrassment and lack of awareness about treatments available for PE). However, preliminary feedback from physicians from Italy, Germany, Spain, Portugal and France has been very positive about Fortacin™. The initial feedback from physicians is that Fortacin™ is perceived as something that fills a prescription need and it is a definite improvement of what is currently available in the market place (e.g. EMLA cream, a topical anaesthetic cream frequently prescribed for PE although off-label, and Priligy, an SSRI). Recordati reported that many physicians are willing to use Fortacin™ and also in combination with an SSRI (declaring not for efficacy reasons, but to cope with the anxiety component of PE). In addition, the few collected patients' feedback were very positive as well, with the most frequently asked question is about how to use Fortacin™. However, a full picture of patients' feedback is not yet available. During the period, no efficacy or safety issues were reported to Recordati. Each launch country is undertaking various promotional activities to increase the awareness of patients that there is a new treatment for PE. In addition, Recordati is considering the opportunity to perform a new market research focused on patients (Italy could be a pilot country), in order to understand if PE patients are aware of the availability of Fortacin™, if and why they used (or not used) Fortacin™, and if and why they didn't purchase from a pharmacy despite having a prescription. Recordati is hopeful that the market research results could be useful to assist with their launch plan with the ultimate aim of driving underlying sales.

Regulatory Submissions

On 2 November 2017, Plethora received a favourable Commission Implementing Decision from the European Commission on the proposed transfer of the European Marketing Authorisation ("EU MA") of Fortacin™ to Recordati, from Plethora. After receipt of the European Commission ("EC") Decision, a six-month implementation period followed in which all responsibilities transferred from Plethora to Recordati as the new EU MA Holder.

Regulatory submissions to update the commercial manufacturing process and controls, with the aim of improving the process and ensure continuity of commercial supply, will be completed by Recordati in 2018.

Recordati completed submission of the renewal application in advance of the deadline of 19 February 2018, 9 months prior to the 5-year anniversary of the date of notification of the EC decision granting the original marketing authorisation ("MA"). The assessment of the renewal application completed with a favourable opinion from the European Medicine Agency (EMA) Committee for Medicinal Products for Human Use ("CHMP") in July 2018, concluding that the overall benefit/risk profile of the product remains positive. The final procedural step will be an EC Decision endorsing the favourable opinion issued by CHMP and resulting in an extension in validity of the MA.

CEO'S REPORT

PLETHORA (Continued)

Marketing Authorisation in Hong Kong and Macau

The Group has received approval from the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau for an import licence to allow for the sale of Fortacin™ in Hong Kong and Macau. It is expected that the Company's partner, Orient EuroPharma will commence its sales activities in 2019.

Update on Commercial Partners in the PRC and Other Key Markets

As previously announced, the Company completed two new 'out-licensing' deals in respect of Fortacin™ with: (i) Wanbang Pharmaceutical, a wholly controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in respect of the rights to commercialise Fortacin™ in The People's Republic of China, excluding Taiwan, HK and Macau; and (ii) Orient EuroPharma, a company registered in Taiwan, in respect of the rights to commercialise Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million (or approximately HK\$296.4 million), excluding royalties after hitting certain milestones related to the Wanbang Pharmaceutical roll-out; and (ii) US\$1.45 million (or approximately HK\$11.31 million) excluding royalties after hitting certain milestones related to the Orient EuroPharma roll-out.

The Company is in discussions with our commercial strategic partners for the Middle East, North America and Latin America (LATAM) region. However, it is not possible to determine with accuracy the timing of completion of such agreements, and no assurance can be given that negotiations will lead to a binding licencing agreement(s) in the aforementioned jurisdictions or at all. Plethora will continue to work closely and diligently with its commercial partners and will keep shareholders and potential investors informed of any new developments as and when they occur.

Update on New Drug Application with FDA in the US

Plethora continues to make positive progress with the FDA on its NDA for Fortacin™ with the Phase II validation study of Fortacin™ in respect of the FDA approval process being officially registered on 6 July 2018. Recruitment of subjects (100) for the trial commenced in December 2018, with the study estimated to complete by Q1 2020.

The study is being conducted to test the effect of Fortacin™ (the study medication) compared to placebo in subjects with PE. Fortacin™ is a topical (applied to skin) anaesthetic spray containing a mixture of two drugs called lidocaine and prilocaine that will be applied to the penis. Half of the subjects will receive Fortacin™ and half will receive placebo. The study will also measure the effect of Fortacin™ on the Intravaginal Ejaculatory Latency Time (IELT).

CEO'S REPORT

PLETHORA (Continued)

Update on New Drug Application with FDA in the US (Continued)

On the assumption that the trial is sufficient to convince the FDA that the PEBEQ serves as an appropriate measure for support of a label claim, a pivotal Phase III work could commence in Q1 2021, with NDA submission possible in Q1 2022, giving a PDUFA date in 2022. These dates update all previous dates given by the Company in its announcements, annual and interim reports and investor presentations.

Formal registration of the Phase II validation study of Fortacin™ in the US is a critical and positive step towards making the NDA submission and ultimately achieving all necessary FDA and other US regulatory approvals needed to commercialise Fortacin™ in the US, its most significant potential market.

Trading Update for the financial year ended 31 December 2018

Plethora recorded an operating profit of GBP 2.24 million (or approximately US\$3.00 million) for the financial year ended 31 December 2018 (2017: GBP 1.68 million (or approximately US\$2.16 million)).

The operating profit for the financial year ended 31 December 2018, included the signature payment, milestone and royalty income of GBP 4.67 million (or approximately US\$6.24 million) (2017: GBP 4.09 million (or approximately US\$5.27 million)) which being offset somewhat by: (i) R&D costs related to the regulatory and commercial manufacturing scale up activities of Fortacin™ of GBP 1.76 million (or approximately US\$2.35 million) (2017: GBP 1.91 million (or approximately US\$2.46 million)) and (ii) administrative expenses of GBP 0.53 million (or approximately US\$0.71 million) (2017: GBP 0.40 million (or approximately US\$0.52 million)).

Underlying R&D costs and administrative expenses for the financial year ended 31 December 2018 were broadly lower than the Board's expectations as the costs for clinical work for the US NDA were delayed. R&D costs were driven by the development and commercial manufacturing scale up activities with the Company's manufacturing partner. Manufacturing set up costs are expected to fall significantly following the year ended 31 December 2018, but the overall level of R&D expenditure is expected to increase significantly as the FDA approval process begins to gather pace over the next three years.

On the basis that all R&D expenditure is expensed, there were no significant balance sheet movements to comment upon during the financial year ended 31 December 2018. As at 31 December 2018 Plethora had cash resources of GBP 0.72 million (31 December 2017: GBP 57,000), with ongoing financial support being provided by the Group.

Outlook

Our strategy remains the same, in that we are devoting our efforts with Recordati to a successful commercial launch in Europe and the UK, completing our clinical trial work and submitting our NDA with the FDA and bringing Fortacin™ to market through other new strategic commercial partners in the remaining key markets of the US, the Middle East and Latin America.

CEO'S REPORT

THE DIABETIC BOOT COMPANY LIMITED

The Company sold its interest (shares and warrants) to Galloway Limited and the proceeds of GBP 266,462 (or approximately US\$0.34 million) was received on 7 December 2018.

VENTUREX RESOURCES LIMITED ("VENTUREX")

The Company actively monitored and maintained its strategic position in Venturex, representing approximately 15.16% of its issued share capital as at 31 December 2018, which for the year ended 31 December 2018, booked a marked-to-market loss of US\$2.97 million.

During 2018, Venturex has taken several positive steps towards demonstrating a definitive project development pathway with improved economics, reduced risk profile and lower capital cost compared to previous work done on the company's core project at Sulphur Springs, Western Australia. If developed on a stand-alone basis, the Sulphur Springs Project could produce the first copper and zinc concentrate by FY 2020 and have a pre-tax net present value of A\$472 million with an internal rate of return (IRR) of 52% based on total projected capital expenditures of A\$183 million.

Key milestones for 2018 included:

- Continued strong progress towards the company's goal of advancing the Sulphur Springs Copper-Zinc Project with a Definitive Feasibility Study ("DFS") completed in October 2018.
- Environmental review document (ERD) submitted to the Environmental Protection Authority (EPA), representing a key milestone in the approvals process with a positive decision now expected in Q1 of 2019.
- The Sulphur Springs DFS being completed through a thorough analysis that included: (i) detailed metallurgical test work; (ii) optimized plant design, mine design and scheduling works; (iii) identification of long-lead items and initial discussions with essential contractors and equipment manufacturers;
- Commencement of a new drilling program focused on several high-priority targets located on the western flank of the Sulphur Springs volcanogenic massive sulfide (VMS) deposit;
- Receipt of positive Expressions of Interest ("EOI's") from domestic and international banks and other financiers in relation to project debt finance, with further EOI's expected to be received during Q1 2019;
- Advanced discussions have been undertaken with potential off-take counterparties who have expressed a strong interest in the company's copper and zinc concentrates. Potential off-take funding would be complementary to the senior debt facilities currently being considered; and
- Agreement to purchase existing mining camp facilities that will deliver significant capital savings as compared to previous project cost estimates.

CEO'S REPORT

VENTUREX RESOURCES LIMITED (“VENTUREX”) (Continued)

The Sulphur Springs DFS provides a clear pathway to development and funding of the project, with detailed technical work providing the foundation for near-term project execution. Comprehensive plant design work has been completed, as has metallurgical test work on the open pit transitional and supergene material from Sulphur Springs. Opportunities to reduce pre-production capital costs have been evaluated and several such measures have been incorporated into the final project design and mine plan. Venturex management would ideally like to fund the Sulphur Springs Project on a simple debt/equity basis (60:40), which would see the company access approximately A\$120 million in debt and A\$80 million via equity markets and/or strategic partner(s) to satisfy estimated capital requirements. However, as discussed above, other options that exist regarding funding include avenues such as prepayments, offtake finance and hybrids. Each of these are actively being investigated as part of the funding process. Strategic partners and financiers are also possible given the relative scarcity of new base metals projects both in Australia and globally.

REVENUE AND PROFIT

The Company recorded a loss attributable to the shareholders of the Company of US\$31.09 million in 2018 (2017: US\$27.36 million).

The Corporate division (revenue and fair value gain on financial assets at fair value through profit or loss and derivatives) recorded a gain of US\$2.84 million (2017: US\$9.49 million).

The main elements of the loss are analysed as follows:

	US\$ million
Signature payment, milestone and royalty income	6.24
Amortisation of an intangible asset, Fortacin™	(28.05)
Research and development expenditure incurred by Plethora	(2.35)
Fair value loss on financial assets at fair value through profit or loss and derivatives	(3.30)
Tax credit	2.67
Operational expenses	(6.30)
Total loss attributable to shareholders of the Company	(31.09)

CEO'S REPORT

FINANCIAL POSITION

Shareholders' equity decreased by 20.27% to US\$126.62 million as at 31 December 2018 from US\$158.82 million as at 31 December 2017. The decrease was mainly due to: (i) loss attributable to shareholders of the Company of US\$31.09 million for the year ended 31 December 2018; and (ii) the decrease of investment revaluation reserve of US\$1.43 million due to the unrealised loss of financial assets at fair value through other comprehensive income and these were offset against the increase of foreign currency exchange reserve of US\$0.32 million.

The Group's assets also comprised: (i) an intangible asset of US\$137.08 million, being Fortacin™; (ii) listed and unlisted investments of US\$5.78 million and (iii) cash and bank balances of US\$1.02 million; (iv) trade receivables of US\$0.3 million; and (v) property, plant and equipment and other receivables of US\$0.58 million.

The Group's liabilities comprised: (i) deferred tax liabilities of US\$13.71 million; and (ii) payables and accruals of US\$4.49 million.

STRATEGIC PLAN

The Board and the Company's senior management play an active role in the Company's strategy development and planning process. The Chief Executive Officer regularly interacts with the Board in respect of the strategic plan and direction of the Company, during which an agreed approach for the Company to generate and preserve its long-term value was determined, while agreeing shorter term priorities and objectives. In addition, the risks associated with the current operations and strategy of the Company are currently being tested by way of an internal audit process conducted through an independent service provider, with the aim of identifying ways in which the Company can better identify and manage its risks.

In order to generate or preserve value over the longer term, the Group is committed to:

- the divestment of non-core assets and investments to enable the Company to pursue growth and opportunistic investments in the life sciences sector;
- utilising international and local expertise to tackle difficult markets, deliver results and achieve global recognition; and
- employing the Company's Hong Kong listing through strong liquidity and access to international capital markets, together with maintaining our corporate governance and social responsibility standards in line with the policies set down by the HK Stock Exchange and best practice.

The Company is committed to creating shareholder value and returns through accretive acquisitions and returning surplus capital to shareholders by way of an effective dividend policy and share repurchase programme.

The current strategy of the Group can be seen in the latest Company presentation available on the Company's website (www.regentpac.com).

CEO'S REPORT

FUNDING

As at 31 December 2018, the Group had US\$1.02 million in cash that represented 0.81% of its total shareholders' equity, which does not take into account the Group's holding of securities of FAFVPL that amounted to US\$5.50 million.

GEARING RATIO

No gearing ratio (being long-term debts over total equity and long-term debts) was calculated as there was no long-term debt as at 31 December 2018.

CONTINGENT LIABILITIES

Save as those disclosed in notes 28 and 32 to the consolidated financial statements, the Group had no other material contingent liabilities as at 31 December 2018.

AUSTRALIAN TAX ON BCI SALE

As at 31 December 2018 and as has been previously disclosed, the Company was in dispute with the Australian tax authorities in connection with a disposal by the Group of an investment in BC Iron Limited ("**BCI**"), a company listed on the Australian Securities Exchange. The Australian Taxation Office ("**ATO**") considered that capital gains tax was payable in the amount of approximately A\$11,845,454 (as amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI). This excluded interest that had accrued on this amount since 2 December 2013 (which, as at 7 January 2019, was approximately A\$7 million). On 24 January 2013, the Company received orders from the Federal Court of Australia in relation to a notice of assessment issued by the ATO (as amended, the "**Assessment**"), which stated that the tax was due and payable on 2 December 2013 and provided that the Company could not remove from Australia or dispose of, deal with or diminish the value of its assets in Australia up to the unencumbered value of the amount assessed.

Following orders from the Federal Court of Australia, the Company granted a specific security deed to the ATO in respect of certain of the Company's holding of 518,103,930 shares (later representing 34,540,262 shares after the 15:1 share consolidation effective in August 2018) in Venturex, 10,854,568 shares in Bannerman Resources Limited and 12,700,000 shares in Tigers Realm Coal Limited, of which the aggregate market value (as at 31 December 2018) was approximately A\$6.97 million (or approximately of US\$4.91 million), as security against the Assessment. In consideration for granting this security, the ATO stayed recovery action in respect of the Assessment until the matter is resolved.

The Company had received independent tax advice that, based on a valuation of BCI's real property (including mining tenements) and non-real property assets, the Company had a basis for challenging the assessment in its entirety and, accordingly, there was no longer a provision in the Company's financial statements relating to this dispute. The Company had shared its independent tax advice with the ATO. The Company had received a copy of a report produced by an external consultant for the ATO and understood that there were a number of matters of material disagreement, or on which a materially different view were held, between the ATO's external consultant and the Company and its Australian tax advisers.

CEO'S REPORT

As previously disclosed, the Company had envisaged entering into a formal dispute resolution process with the ATO. As at 31 December 2018, this process had taken place, and the parties had been unable to reach agreement as to an appropriate way in which to resolve the matter, culminating in the ATO determining the Company's previously lodged objection against it on 1 September 2016. As at 31 December 2018, the Company's position had not changed and it remained resolute in that it would continue to challenge the assessment in its entirety, consistent with expert and independent Australian advice received throughout, and had lodged an appeal against the ATO's determination of the objection in the Australian Federal Court. A trial date of 18 March 2019 had been set, with the matter set down to be heard over three (3) days in the Australian Federal Court.

As announced on 18 March 2019, the Company entered into a settlement agreement with the ATO in respect of the aforementioned dispute for an amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement. The settlement amount was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

While the expert and independent Australian advice received did not change throughout the dispute and at no stage did the Directors consider that any tax was payable (and therefore no provision for taxation regarding this matter was previously provided within the audited financial statements of the Company and the Group), as part of the dispute resolution process the Board was compelled to consider the inherent litigation risk associated with pursuing the matter through the Australian courts. Consequently, it was decided that the aforementioned settlement was in the best interests of the Group and its shareholders as a whole. Having reached the settlement, the Group is now able to divert more resources to our exciting operational matters referred to below.

The aforementioned security over the above-mentioned Australian securities held by the Company, previously granted to the ATO, will remain unless such securities are sold to discharge the settlement amount or the settlement is otherwise paid in full.

The impact of the settlement amount of A\$9.5 million (or approximately US\$ 6.73 million) to the Group's financial performance in 2019 will be partially offset by: (i) any unrealised marked-to-market gains on the securities portfolio which, as at close of market on 18 March 2019, stood at US\$2.05 million; and (ii) any positive performance of the Group's other assets and investments, including West China Coking & Gas Company Limited. In recognising this, shareholders should note that the listed equity portfolio changes on a daily basis as it is marked-to-market and the contributions from the Group's other assets and investments, if equity accounted, rely on the monthly financial performance of that asset or investment.

In light of the above, no tax liability in respect of this matter has been recognised as at 31 December 2018 and 2017.

Jamie Gibson
Chief Executive Officer

22 March 2019

DIRECTORS' REPORT

The Directors (the “**Directors**” or the “**Board**”) of Regent Pacific Group Limited (the “**Company**” and collectively with its subsidiaries, the “**Group**”) are pleased to submit their report and the audited financial statements of the Company and the Group for the year ended 31 December 2018 (the “**Financial Statements**”).

PRINCIPAL ACTIVITIES

The Company’s principal activity is investment holding, and the Group’s principal activities consist of investments in biopharma companies, resources and other corporate investments.

Principal activities of the respective subsidiaries of the Company during the year are set out in note 33 to the Financial Statements.

RESULTS AND DIVIDENDS

The Group’s results for the year ended 31 December 2018 are set out in the Consolidated Statement of Comprehensive Income on pages 103-104.

No interim dividends were paid for the years ended 31 December 2018 and 2017.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

DIRECTORS' REPORT

RESULTS AND DIVIDENDS (Continued)

Policy on payment of dividends

The Company intends to pursue a dividend policy, pursuant to which it will make semi-annual distributions in an aggregate amount per year not to exceed 35% of the anticipated consolidated annual profits of the Company, taking into consideration the criteria described below and the directors' fiduciary duties. The Company may also declare special distributions from time to time in addition to the semi-annual distributions.

It is anticipated that these distributions will be declared semi-annually following the announcement of the half-year results and following the announcement of the full year results. Dividends will be declared and paid in Hong Kong dollars, with an election offered to the shareholders to receive the dividends in United States dollars.

The Company will evaluate its distribution policy and distributions made in any particular year in light of its financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to make distributions will be made at the discretion of the Board and will be based upon the Company's operations and earnings, investment requirements, cash flow, financial condition, future prospects, capital and other reserve requirements and surplus, general financial conditions, contractual restrictions and any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties. The payment of distributions may also be limited by legal restrictions and any financing agreements that the Company may enter into in the future. The Company's ability to pay dividends will also depend upon dividends received from the Company's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend.

The Company's ability to make distributions is also subject to the requirements of Cayman Islands law and the Company's Memorandum and Articles of Association. In this respect, the Company's Articles of Association provide that dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with The Companies Law (Revised) of the Cayman Islands and every modification thereof.

The Board has complete discretion on whether to pay a dividend, subject to shareholders' approval, where applicable. This policy reflects the Company's views on the financial and cash-flow position of the Group prevailing at the time of its adoption. The Board will review this policy from time to time and may adopt changes as appropriate at the relevant time.

DIRECTORS' REPORT

SUMMARY FINANCIAL INFORMATION

The results and the assets and liabilities of the Group for the current year and the last four financial years (extracted from the audited financial statements and reclassified as appropriate) are set out below:

Results:

	2018 US\$'000	2017 US\$'000	2016 US\$'000	2015 US\$'000	2014 US\$'000
Total income	2,843	9,493	3,436	(5,685)	(11,007)
Income less expenses before impairment losses and provision	(33,971)	(27,403)	(31,902)	(14,715)	(17,738)
Reversal of impairment	—	—	364	1,386	250
Impairment losses	—	(1,875)	(97)	(194)	(267)
Operating loss	(33,971)	(29,278)	(31,635)	(13,523)	(17,755)
Gain on disposal of an associate	209	—	—	8,938	—
Loss on deemed disposal of associates	—	—	(5,805)	(3,560)	(6,017)
Gain from bargain purchase of an associate	—	—	1,356	—	25,809
Gain from bargain purchase of a subsidiary	—	—	31,686	—	—
Share of results of associates	—	(1,067)	(831)	(1,193)	(10,604)
Loss before taxation	(33,762)	(30,345)	(5,229)	(9,338)	(8,567)
Tax credit	2,669	2,982	2,765	—	—
Loss for the year	(31,093)	(27,363)	(2,464)	(9,338)	(8,567)
Non-controlling interests	6	4	4	5	4
Loss attributable to shareholders of the Company	(31,087)	(27,359)	(2,460)	(9,333)	(8,563)

DIRECTORS' REPORT

SUMMARY FINANCIAL INFORMATION (Continued)

Assets and liabilities:

	2018 US\$'000	2017 US\$'000	2016 US\$'000	2015 US\$'000	2014 US\$'000
Property, plant and equipment	77	63	84	48	108
Intangible asset	137,084	165,131	193,178	3,441	—
Interests in associates	1	2	3,055	17,295	30,206
Financial assets at fair value through other comprehensive income	282	—	—	—	—
Available-for-sale financial assets	—	1,925	1,726	5,367	2,130
Current assets	7,318	11,710	8,477	16,684	19,871
Total assets	144,762	178,831	206,520	42,835	52,315
Current liabilities	(4,487)	(3,543)	(5,874)	(3,790)	(3,604)
Non-current liabilities	(13,708)	(16,513)	(19,318)	—	—
Total liabilities	(18,195)	(20,056)	(25,192)	(3,790)	(3,604)
Net assets	126,567	158,775	181,328	39,045	48,711

BUSINESS REVIEW

Fair review of the Company's business

The Company, a limited liability company incorporated under the laws of the Cayman Islands whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and are also traded on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange, is a diversified investment group currently holding various corporate and strategic investments across the healthcare and life sciences sectors, which has become its core focus, as well as legacy investments in the natural resources sector. The Company's headquarters are in Hong Kong and the Group (including subsidiaries but excluding associates) employed 19 employees as at 31 December 2018.

2018 was a significant year for the Group, having successfully teamed with its commercial partners for the launch by Plethora Solutions Limited ("Plethora"), an indirect wholly-owned subsidiary of the Company, of Fortacin™ in France, Germany, Italy, Spain and Portugal. Sequent to year end, Recordati S.p.A.'s ("Recordati") launched Fortacin™ in the United Kingdom ("UK") in February 2019 with planned launches in Romania and Greece to follow later in 2019 and it will be rolled out in their other countries over the coming years.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Fair review of the Company's business (Continued)

Following the first commercial sale of Fortacin™ in each of France, Germany, Italy, Portugal and Spain, a total of EUR 4.12 million (or approximately US\$4.72 million) was paid from Recordati to the Group for the year ended 31 December 2018, including the royalty income, without any withholding, and the Group now looks forward to working towards receiving further payments under its licence agreement with Recordati, pursuant to which the Group is eligible to receive remaining payments of up to EUR 33 million (or approximately US\$37.56 million) plus royalties after hitting certain milestones related to the European roll-out.

From a business development standpoint, exciting new out-licensing deals were also signed in respect of out-licensing Fortacin™ to: (i) Wanbang Pharmaceutical, a wholly controlled company of Shanghai Fosun Pharma, in respect of the rights to commercialise Fortacin™, by way of the sale and, among other things, distribution of Fortacin™ in The People's Republic of China, excluding Taiwan, Hong Kong Special Administrative Region ("HK") and Macau Special Administrative Region ("Macau"); and (ii) Orient EuroPharma, a company registered in Taiwan, in respect of the rights to commercialise Fortacin™, by way of the sale and, among other things, distribution of Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million (or approximately HK\$296.4 million), excluding royalties after hitting certain milestones related to the Wanbang Pharmaceutical roll-out; and (ii) US\$1.45 million (or approximately HK\$11.31 million) excluding royalties after hitting certain milestones related to the Orient EuroPharma roll-out.

In parallel with the European and Asian roll-out efforts of Fortacin™, the Group has further progressed the approval process with The Food and Drug Administration of the United States (the "US") Department of Health and Human Services (the "FDA"). In this respect the Phase II validation study of Fortacin™ in respect of the FDA approval process was officially registered on 6 July 2018, with the phase II clinical trial estimated to complete by Q1 2020. On the assumption that the trial is sufficient to convince the FDA that the Premature Ejaculation Bothersome Evaluation Questionnaire (the "PEBEQ") serves as an appropriate measure for support of a label claim, pivotal Phase III work could commence in the Q1 2021, with New Drug Application ("NDA") submission possible in Q1 2022, giving a Prescription Drug User Fee Act (the "PDUFA") date in 2022. These dates are the most recent guidance received and update all previous estimates on the FDA process set out by the Company in its announcements, annual and interim reports and investor presentations. Formal commencement of the Phase II validation study of Fortacin™ in the US in December 2018 is a critical and positive step towards making the NDA submission and ultimately achieving all necessary FDA and other US regulatory approvals needed to commercialise Fortacin™ in the US, its most significant potential market.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Fair review of the Company's business (Continued)

In the financial year ended 31 December 2018, the Group also made significant and positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau. On 4 November 2018 the Company was advised by its regulatory agent that it had successfully registered Fortacin™ in Hong Kong with the Hong Kong Drug Office. The Hong Kong registration will run for an initial period of 5 years expiring on 18 October 2023 and thereafter for periods of five (5) years at a time on renewal. This registration, together with the import licence already obtained in Macau from the Macau Health Authority, will allow Fortacin™ to be sold, offered for sale and distributed in these regions. The Company is in discussions with possible marketing and distribution partners to help facilitate the Macau and Hong Kong roll-out, which is expected in 2019.

During the year of 2018, the Group recorded a loss attributable to shareholders of the Company of US\$31.09 million, which was mainly attributable to: (i) a non-cash amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™; (ii) the operating expenses of US\$8.77 million; and (iii) a marked-to-market loss of US\$3.30 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("FAFVPL").

Shareholders' equity decreased by 20.27% to US\$126.62 million as at 31 December 2018 from US\$158.82 million as at 31 December 2017.

As at 31 December 2018, the Company had no long-term debt, having cash and listed and unlisted securities of US\$6.81 million.

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, with the European roll-out with Recordati successfully launched in March 2018, as well as in the remaining key markets of the US, Latin America and the Middle East; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A review of the Group's associated investments, together with the results of its main listed investments, are set out in the CEO's Report contained in this annual report.

Significant post balance sheet events

Please refer to note 35 to the Financial Statements.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business

As would be appreciated, following the acquisition of Plethora in 2016, much of the Group's attention and resources has been allocated towards pursuing the successful commercialisation of Fortacin™ as quickly as possible with strategic commercial partners, not only in Europe, which was achieved in March 2018, but also in the remaining key markets of the US, Latin America and the Middle East.

While much of the Group's focus for the earlier part of 2018 was on the commercial launch of Fortacin™ in Europe, following its successful launch the Company quickly changed direction to achieving key business development milestones in key Asian markets, culminating in exciting new out-licensing deals with: (i) Wanbang Pharmaceutical, a wholly controlled company of Shanghai Fosun Pharma, in respect of the rights to commercialise Fortacin™ in The People's Republic of China, excluding Taiwan, HK and Macau; and (ii) Orient EuroPharma, a company registered in Taiwan, in respect of the rights to commercialise Fortacin™ in select territories in Asia, being Taiwan, HK, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group will be eligible to receive payments of up to: (i) US\$38 million (or approximately HK\$296.4 million); and (ii) US\$1.45 million (or approximately HK\$11.31 million), respectively and in each case excluding royalties after hitting certain milestones related to the respective roll-outs.

Looking ahead, much of the Group's attention will be directed towards (i) completing the phase II clinical trial in the US with our contract research organisation ("CRO") and submitting the clinical data to the FDA (ii) helping Recordati continue with the successful roll-out across Europe to help maximise the potential payments the Group is eligible to receive under its licence agreement with it, and (iii) working closely with its newly signed partners in Wanbang Pharmaceutical and Orient EuroPharma to help procure the necessary regulatory approvals required for the roll-out of Fortacin™ in the key Asian jurisdictions for which they are now responsible. It has been a long held view of the Group that Asia Pacific, particularly China, would likely become a key component to the eventual marketing and distribution strategy for Fortacin™ and the Company's Hong Kong office will provide an excellent base from which to manage the controlled launch of the product following receipt of relevant regulatory approvals.

Led by Jamie Gibson, the enlarged Group will continue to combine Plethora's scientific expertise, under Michael Wyllie's leadership, with the Company's corporate, management and commercial skills to helping to achieve the Group's commercial objectives.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

The Company strongly supports Plethora's development strategy for Fortacin™ and will continue progressing Fortacin™ to market through strategic commercial partners, not by itself, and therefore it is intended that the Group will continue to outsource sales, marketing and distribution functions to selected partners to maximise the commercial potential of the product. This is a differentiating factor from traditional start-up companies in the pharmaceutical sector.

The Group will continue to dedicate the necessary resource, with the assistance of our CRO and other US regulatory consultants to pursue approval from the FDA in the US as quickly as possible by diligently working through the various regulatory steps, next being the submission of a NDA with the FDA. In this respect, it is expected that the NDA will be filed with the FDA in 2021, and in accordance with mandates set forth by the Prescription Drug User Fee Act (PDUFA date), the FDA will be required to respond to the dossier within a 10-month timescale, which would facilitate approval in the US by the end of 2022 with a commercial launch shortly thereafter.

All other regulatory approvals for territories outside the US, EU, Europe (non-EU countries), Russia, Commonwealth of Independent States, Turkey and certain North African countries will be applied for by the Group's licensing partners for these territories when licensing agreements have been entered into.

The Group has made significant and positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau. On 4 November 2018 the Company was advised by its regulatory agent that it had successfully registered Fortacin™ in Hong Kong with the Hong Kong Drug Office. The Hong Kong registration will run for an initial period expiring on 18 October 2023 and thereafter for periods of five (5) years at a time on renewal. This registration, together with the import licence already obtained in Macau from the Macau Health Authority, will allow Fortacin™ to be sold, offered for sale and distributed in these regions. Consequently, the Company is now in discussions with possible marketing and distribution partners to help facilitate the Macau and Hong Kong roll-out, which is expected in 2019.

If a marketing approval is not obtained in any of these countries, the Group still intends for Recordati, Plethora's licensing partner for the EU, Russia, Commonwealth of Independent States, Turkey and certain North African countries, to launch Fortacin™ in those jurisdictions in which Plethora then has appropriate regulatory approval, currently for the EU.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

The Group's longer term vision is, through its subsidiary, Plethora, to managing economic rights and entitlements flowing from the sales of Fortacin™ by strategic commercial partners (through licensing agreements). The Company and Plethora will not be manufacturing or marketing Fortacin™, as these operational aspects have been and will continue to be completely outsourced to selected commercial partners, and will instead be managing its investment by way of managing the flow of licensing and royalty payments that flow from sales. For these reasons, the Group does not plan to make any fundamental changes to Plethora's business, and the existing business of the Group, being that of an investment company having its core focus on the healthcare and life sciences sectors, would continue unimpeded.

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, not only in Europe with Recordati, but also in the remaining key markets of the US, Latin America and the Middle East; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A summary analysis of the performance and position of the Company's business for the year ended 31 December 2018 is set out below:

	For the year ended 31 December 2018 US\$'000	For the year ended 31 December 2017 US\$'000	Increase/ (Decrease) in absolute value %
Fair value gain/(loss) on financial instruments			
Unrealised (loss)/gain FAFVPL	(3,296)	4,484	N/A
Realised loss on disposal of FAFVPL	—	(42)	(100.00)
Unrealised loss on derivatives	—	(186)	(100.00)
	(3,296)	4,256	N/A

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

The fair value loss on financial instruments was US\$3,296,000 for the year ended 31 December 2018 (2017: gain of US\$4,256,000). The significant adverse change was mainly due to the unrealised loss on FAFVPL of US\$3,296,000 for the year ended 31 December 2018 (2017: gain of US\$4,484,000).

	For the year ended 31 December 2018 US\$'000	For the year ended 31 December 2017 US\$'000	Increase/ (Decrease) in absolute value %
FAFVPL			
As at 1 January	8,778	7,386	18.85
Reclassification (initial application of HKFRS 9)	19	—	N/A
Additions	—	—	—
Disposals	—	(3,092)	N/A
Change in fair value	(3,296)	4,484	N/A
As at 31 December	5,501	8,778	(37.33)

The investment in FAFVPL decreased by 37.33% to US\$5.50 million as at 31 December 2018 from US\$8.78 million as at 31 December 2017. It was mainly due to: (i) the unrealised loss of US\$3.30 million.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

Funding

As at 31 December 2018, the Group had US\$1.02 million in cash that represented 0.81% of its total shareholders' equity, which did not take into account for the Group's holding of securities of the FAFVPL that amounted to US\$5.50 million.

Gearing ratio

No gearing ratio (being long-term debts over total equity and long-term debts) was calculated as there was no long-term debt as at 31 December 2018.

The Group's environmental policies and performance and compliance with relevant laws and regulations

The Group operates two offices, its headquarters in Hong Kong and an office in the UK, and the Group (including subsidiaries but excluding associates) employed only 19 employees as at 31 December 2018. Given its relatively small work force and that it is only an investment company, the Group's environmental footprint is very limited. That said, the Directors believe that the Group's procedures comply with applicable regulations. Moreover, the Group has a number of policies and procedures in place to promote compliance with all relevant laws and regulations, the veracity and adherence to which is independently audited on an annual basis.

Reliance on key personnel, customers and suppliers

In common with many other smaller companies, the Group's future success will be in part dependent on its ability to retain and attract suitable senior and qualified personnel, as well as managing relationships with key customers and suppliers. While the loss of any of these key personnel or the breakdown in the relationships with key customers and suppliers may have a material adverse effect on the future of the Group's business, the Group is comfortable that such risks are being appropriately managed.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company

Below are the principal risks and uncertainties in respect of the Group. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects. If any of the risks described below actually occur, the Group may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. In that case, the market price of the Company's shares could decline, and all or part of an investment in the shares could be lost.

Any references below to the Company's or the Group's business or products (or any risks in connection with such business or products) include the business or products (and risks in connection with such business or products) of investee companies (including Plethora, in particular Fortacin™) in which the Company or Group has invested in the healthcare and life sciences sectors.

Contingent liability in respect of Australian Capital Gains Tax

As previously disclosed, as at 31 December 2018 the Company had been in dispute with the Australian Taxation Office in connection with the disposal by the Group of an investment in BC Iron Limited ("BCI"), a company listed on the Australian Securities Exchange, in respect of a notice of assessment issued to the Company (the "Assessment", as amended), which stated that capital gains tax was due and payable by the Company on 2 December 2013 in the amount of approximately A\$11.85 million (equivalent to approximately US\$8.54 million) (as amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI), which excluded interest that had accrued on this amount since 2 December 2013 which, as at 7 January 2019, was approximately A\$7 million (equivalent to approximately US\$4.93 million). The exchange rates used in this paragraph are the historic exchange rates at the relevant time.

As announced on 18 March 2019, the Company has now entered into a settlement agreement with the ATO in respect of the aforementioned dispute for an amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement. The settlement amount was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

The security over the Australian securities held by the Company, previously granted to the ATO, referred to in the section titled "Charge on Assets" herein, will remain unless such securities are sold to discharge the settlement amount or the settlement is otherwise paid in full.

In the event that the Company is unable to sell such restricted securities at the prices and/or volumes required to discharge the settlement amount, due to such factors as are explained under the risk factor titled "The disposal of legacy investments may face liquidity constraints and/or may decline in value" immediately below, or the Company is otherwise unable to source the necessary funding, such liability could have a material and adverse impact of the Group's financial condition, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

The disposal of legacy investments may face liquidity constraints and/or may decline in value

The Company is a diversified investment group currently holding various corporate and strategic investments across the healthcare and life sciences sectors, as well as legacy investments in the natural resources sector. Where possible and practicable, the Company intends to sell its remaining non-healthcare and non-life sciences assets (“**Non-Core Assets**”) in the near future and focus all its attentions on its new healthcare and life sciences strategy. The liquidity of a security relates to the ability to readily dispose of that security and the price to be obtained upon disposition of the security, which may be lower than the prevailing market price. The Company may not be able to dispose of illiquid Non-Core Assets in a timely fashion or at their expected prices. Additionally, a longer time period may lead to the market value of an investment declining before the Company is able to complete a disposal which may have a material and adverse effect on the Group’s business, financial condition, trading performance and prospects.

The Company is exposed to fluctuating prices of crude oil, gold, uranium, copper, zinc and coal

The Company is exposed to fluctuating prices of crude oil, gold, copper, zinc, uranium and coal in relation to its Non-Core Assets. The prices of crude oil, gold, copper, zinc, uranium and coal are affected by supply and demand, both globally and regionally. Factors that influence supply and demand include operational issues, natural disasters, weather, political instability, conflicts, economic conditions and actions by major commodity producing countries. Price fluctuations could have a material adverse effect on the value of the Non-Core Assets in the natural resources sector. The Company’s assets have in the past been impaired, and there could be impairments in the future which may have a material and adverse effect on the Group’s business, financial condition, trading performance and prospects.

Plethora depends to a material extent on the success of its lead product candidate, Fortacin™, which it is developing for the treatment of premature ejaculation. If Plethora is unable to obtain regulatory approval beyond the EU, or to commercialise Fortacin™, or experiences significant delays in doing so, this would have a material adverse effect on its business

Plethora has invested a significant portion of its financial and other resources in the development of Fortacin™ for the treatment of premature ejaculation. As a result of the acquisition of Plethora, the Group’s prospects, financial condition and results of operations for the foreseeable future, including its ability to achieve profitability, will depend heavily on whether Fortacin™ is successfully developed and commercialised. The success of Fortacin™ will depend on a number of factors, including those generally affecting biopharmaceutical products, and more specifically: the successful manufacturing of Good Manufacturing Practice batches of the reduced fill can by its manufacturing partners, being Pharmaserve (North West) Limited and/or Catalent Pharma Solutions, LLC (RTP); the receipt of the NDA from the FDA; the successful negotiation of “out licensing” agreements for territories outside of Europe; and the successful launching of commercial sales of Fortacin™ by Plethora’s commercials partners at expected prices.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Commercialised product risk

The businesses of the Group will depend both on the successful commercialisation of existing but yet to be commercialised products and further out-licensing and/or development, obtaining and maintaining of marketing authorisations and subsequent successful commercialisation of any new products. There can be no assurance in respect of anticipated product sales from products yet to be marketed. Product sales may be affected by adverse market developments, including the market for a particular product not developing in the manner predicted by the Company, downward pressure on pricing from governments and other third parties to limit healthcare costs, increased competition and the withdrawal of a product for regulatory reasons or otherwise. Failure to commercialise any new products or existing products or adverse market developments could adversely affect the Group's growth prospects, financial condition and results of operations.

Development risk

The Group currently has a number of products for which marketing authorisations have been, will be or are being, sought in various territories. The Group anticipates filing applications to obtain further marketing authorisations in the future. There can be no assurance that any products for which marketing authorisation application is made will receive such authorisation and price reimbursement (if applicable) in those territories for which marketing authorisations are sought, or if they do, that they will be successfully commercialised in those territories. There can also be no assurance that such marketing authorisations will be obtained in a timely manner.

The Group's future success will depend in part on its ability to identify products and product candidates for acquisition and licensing and the development and commercialisation of those products and product candidates. There can be no assurance that the Group will be successful in identifying suitable new products and product candidates for commercialisation or that it will succeed in acquiring products or product candidates on commercial terms. Any failure of these products to obtain marketing authorisation, or to be successfully commercialised, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Reliance on third parties

The strategy of the Group is to use partners to assist in commercialising its products in the largest markets. Therefore, the Group will be, and will continue to be, reliant on third parties for the successful commercialisation of its products. There can be no assurance that the Group will be able to secure such partners or that, once secured, the Group's partners will continue to commit the necessary resources to achieve commercial success. The Group's ability to penetrate the markets that they serve is highly dependent upon the level of customer service provided by, and the quality and breadth of the other product lines carried by, its commercial partners, which may change from time to time, and over which the Group has little or no control.

The Group is reliant upon third parties for the manufacture of raw materials and components of current and future products. Its ability to procure their manufacture in a manner which complies with regulatory requirements may be constrained, and its ability to develop and deliver such material on a timely and competitive basis may be adversely affected.

From time to time the Group will rely on third-party contract research organisations to conduct its clinical trials. If these third parties do not successfully carry out their contractual duties or regulatory obligations, the Group's clinical trials may be extended, delayed, suspended or terminated, and the Group may not be able to obtain regulatory approval for or successfully commercialise its products.

Reimbursement and product price uncertainty

In some territories, the Group's products may be or become subject to a regime of reimbursement and/or pricing by government health authorities, private health insurers or other organisations. In some territories, the pricing of pharmaceutical products seeking reimbursement status is subject to government control. The government may fix the price according to set factors or may negotiate the prices of products. There is increasing pressure from governments and other third party payers to limit healthcare costs by limiting both the price level and reimbursement status for new products, and by refusing reimbursement status in some cases. There can be no assurance that when future price levels of targeted cost savings are set, the pricing of the Group's products will not be materially adversely affected.

The ability of the Group to commercialise its products successfully will depend, in part, on the extent to which reimbursement will be available from such authorities, private health insurers and other organisations. It is not certain that reimbursement status will be obtained for the Group's new products or that the Group will maintain or obtain satisfactory price levels for such products.

Failure to obtain or maintain reimbursement for any products could have a material adverse effect on the Group's financial condition and results of operations.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Achievement of commercial success or acceptance

The Group's products under development are targeted at medical conditions for which a number of marketed products already exist and where other companies also have new products in development. The products may also experience competition from the products of other companies which have greater research, development, marketing, financial and personnel resources than the Group has or will have.

Market acceptance of the Group's products under development will largely depend on the Group's ability to demonstrate their relative safety, efficacy, cost-effectiveness and ease of use. The Directors believe that the Group's products will not be used unless it is proven that, based on experience, clinical data and recommendations from opinion leaders, these products are both safe and effective.

The products of the Group may include new technologies that have not been previously used and must compete with more established treatments currently accepted as the standard form of treatment. The attributes of some of those products may require some changes in treatment techniques that have become standard within the medical community, and there may be resistance to change. Many clinicians may not switch to the products of the Group until there is sufficient, long-term clinical evidence to convince them to alter their existing treatment methods. In addition, clinicians may be slow to change their medical treatment practices because of perceived liability risks arising from the use of new products. Similarly, changes in attitudes towards forms of treatment amongst clinicians or patients may adversely affect the commercial prospects and success of the Group's products. Any failure to gain market acceptance of the Group's products could adversely affect the sales of its products and its ability to achieve profitability.

Manufacturing

The Group contracts out the manufacture of its current products and sales will depend upon, among other things, the continuance of suitable manufacturers being available to the Group on commercial terms.

The manufacture of the Group's products is subject to regulation and periodic inspection by various regulatory bodies for compliance with quality standards. There can be no assurance that the regulatory authorities will not, during the course of an inspection of existing or new facilities, identify what they consider to be deficiencies in meeting the applicable standards and request or seek remedial action that could interrupt or prevent the continued manufacture of the Group's products or significantly increase the cost of manufacturing such products. In addition, the Group is exposed to the risk of failure of the manufacturing facilities or production stoppages as a consequence of fire, equipment failure and other accidents. If such failure occurs, the Group could be exposed to non-production. Non-production could result in a material adverse effect on the Group's sales, financial condition, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Competition

The specialty pharmaceutical industry is highly competitive. The competitors of the Group have and will continue to develop products and product candidates which directly compete with the Group's products. Competing products could prove to be superior treatment alternatives to any or all of the Group's products and/or product candidates, thus reducing or eliminating the Group's potential revenues from such product or products, or resulting in the decision to cease development of a product candidate. Even if the Group is successful in developing effective products, new products introduced after the Group commences marketing of any product may be safer, more effective, less expensive or easier to administer than the Group's products. Competitors may also enjoy a significant competitive advantage if they are able to achieve patent protection, obtain data or market exclusivity, market authorisations and/or commence commercial sales of their products before the Group. A further risk is that competitors can offer products of similar quality below the price level at which the Group can make an appropriate return. Since competitors of the Group may have significantly greater resources than the Group itself, or may be more advanced in the development of their products, the Group may not be able to compete successfully. This would have a material adverse effect on the Group's financial condition, results of operations and prospects.

Acquisitions and joint ventures

The Group has in the past made acquisitions and entered into joint ventures. The Group may enter into acquisitions, joint ventures or strategic alliances. There can be no guarantee that future cash flows will be sufficient to fund future acquisitions, joint ventures or strategic alliances which have not yet been identified by the Group.

The allocation of the price paid to acquire a business usually leads to the revaluation of its existing assets, as well as the identification and recognition of new intangible assets which result in additional amortisation expenses or, in subsequent years, in charges related to the impairment of redundant or overvalued assets. Furthermore, acquisitions and joint ventures may also result in costly and disruptive restructurings. These events have had, and similar events in the future may have, a material effect on the operating performance and financial situation of the Group and/or the price of the Company's shares.

Acquisitions involve numerous other risks relating to integration, including the failure to achieve the expected benefits and synergies, the diversion of management's attention from other business concerns and the loss of key employees. Joint ventures present the risk of conflicts of interest or strategy. Joint venture partners may also be unable to fulfil their obligations under the joint venture agreement or experience financial or other difficulties. If the Group is unable to manage all of these risks efficiently, it may be forced to incur extraordinary expenses or charges which may have an adverse effect on its financial condition, results, operations and prospects.

There can be no guarantee that in the future the Group will be able to source appropriate acquisitions to grow the business alongside its organic development.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Financing requirements and access to capital

The amount and timing of the expenditures required to carry out the product development activities of the Group are uncertain and will depend on numerous factors, some of which are outside the Group's control. Factors that could increase the Group's funding requirements include, but are not limited to:

- higher costs and slower progress than expected to develop products or obtain regulatory approvals;
- slower progress than expected in securing development and commercialisation partners for the Group's products; and
- costs incurred in relation to the protection of the Group's intellectual property.

Greater than expected expenditure requirements may materially and adversely affect the Group's financial results and their ability to introduce new products profitably.

Protection of patents and proprietary rights

The ability of the Group's products to compete effectively with those developed by other companies will depend, amongst other things, on the Group's ability to secure and enforce valid patents and other proprietary rights. No assurance can be given that any patent applications will proceed to grant or that any granted patents will be enforceable and, if enforceable, will be sufficiently broad in their scope to provide commercially valuable protection for the Group's products. Even if the Group is able to secure enforceable, commercially valuable, intellectual property protections, the costs associated with enforcement against a third party infringing the Group's rights may be substantial, and the outcome of any associated litigation may be uncertain.

The commercial success of the Group's products will also depend upon non-infringement of patents granted to third parties who may have filed applications or who have obtained, or may obtain, patents which might inhibit the Group's ability to develop and exploit its own products. As patent applications are not normally published until 18 months after the date of priority applications (or, in the case of the US, until grant), the Group cannot be certain that it was the first to make the innovation covered by each pending application. If this is the case, the Group may need to obtain alternative technology or reach commercial terms on the licensing of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain such alternative technology or be able to license, on commercially acceptable terms or at all, such intellectual property rights.

In addition, third parties may allege infringement by the Group of their intellectual property. Even if the Group is ultimately able to successfully defend itself against such allegations, the costs associated with such defence may be significant and the Group may endure a long period of uncertainty regarding the outcome of such allegations.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Protection of patents and proprietary rights (Continued)

The commercial success of some of the Group's products will also depend to a degree on being able to use and enforce certain trademarks. There can be no assurance that these trademarks will not be challenged and, if challenged, that the trade mark would not be found to be invalid.

The commercial success of the Group's products may also depend on third parties not enforcing their trade mark rights. If a third party is successful in enforcing its trade mark, the Group, or its licensees, may need to abstain from using a mark, obtain an alternative mark or reach commercial terms on the in-licensing of such third parties' intellectual property rights. There can be no assurance that the Group, or its licensees, will be able to obtain such alternative mark or be able to license, on commercially acceptable terms or at all, such intellectual property rights.

To develop and maintain its competitive position, the Group also relies on unpatented trade secrets and improvements, unpatented confidential knowhow and continuing technological innovation. The trade secrets and confidential knowhow represent the practical knowledge base which the Group has acquired in developing its products. Trade secrets and knowhow can only be protected by keeping the information secret and confidential and the Group achieves this with security measures it considers to be reasonable, including confidentiality agreements with its collaborators, consultants and employees. The Group may not have adequate remedies if these agreements are breached, and the Group's competitors may independently develop any of the proprietary information.

If the Group fails to obtain adequate protection for its intellectual property, its competitors may be able to take advantage of the Group's research and development efforts. The Group has in-licensed and acquired intellectual property rights from third parties and the Group may do so in the future. There can be no assurance that such intellectual property rights are, or will be, free from the rights and interests of further third parties and that such further third parties will not challenge the rights of the Group to such intellectual property.

Where registered intellectual property rights are licensed to, but not maintained by, the Group, there can be no assurance that the licensor will adequately maintain and protect the underlying intellectual property rights in which the Group has an interest. Such further third party interests, or any failure by a licensor to maintain and protect underlying intellectual property rights, could materially and adversely affect the business and/or financial position of the Group.

Reliance on key personnel

In common with many other smaller companies, the Group's future success will be in part dependent on its ability to retain and attract suitable senior and qualified personnel. The loss of any of these key personnel may have a material adverse effect on the future of the Group's business.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Regulation and regulatory environment

The activities of the Group are and will be subject to regulation from a number of regulatory authorities in different countries, which can range from regulation impacting the authorisation of a new product, the manufacturing processes for new and existing products and the pricing of new and existing products. The international speciality pharmaceutical and medical device industries are highly regulated by numerous governmental authorities in the UK, Europe and the US, and by regulatory agencies in other countries where the Group intends to test or market products it may develop. National regulatory authorities administer a wide range of laws and regulations governing the testing, approval, manufacturing, labelling, marketing and pricing of drugs and devices and also review the quality, safety and effectiveness of pharmaceutical products and devices. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. Government regulation imposes significant costs and restrictions on the development of pharmaceutical products for human use, including those the Group is or will be developing. The development, clinical evaluation, manufacture and marketing of the Group's products and on-going research and development activities are subject to regulation by governments and regulatory agencies in all territories within which the Group intends to manufacture and market its products (whether itself or through a partner or licensee). No assurance can be given that any of the Group's products under development will successfully complete the clinical trial process or that regulatory approvals to manufacture and market these products will ultimately be obtained or maintained in all or any territories.

The time taken to obtain regulatory approval varies between territories and no assurance can be given that any of the Group's products under development will be approved in any territory within the timescale envisaged, or at all. This may result in a delay, or make impossible, the commercialisation of its products.

Furthermore, each regulatory authority may impose its own requirements (for instance, by restricting the product's indicated uses) and may refuse to grant, or may require additional data before granting, an approval, even though the relevant product candidate may have been approved by another territory's authority.

If regulatory approval is obtained, the product and its manufacture will be subject to continual review and this approval may be withdrawn or restricted. Changes in applicable legislation or regulatory policies, or discovery of problems with the product, or its restrictions on the product, its sale, manufacture or use, including withdrawal of the product from the market or otherwise, may have an adverse effect on the Group's business, results of operations and prospects. Changes to regulation and the regulatory environment could materially impact the ability of the Group to bring new products to the market or could materially impact the profitability and cash flows of the Group if it is unable to adjust accordingly or may require the Group to incur significant additional expenditure to ensure its products and product candidates comply with new and increased regulation.

Failure of any one of the Group's products to meet regulatory standards could result in failure of the Group to bring a product to market or the withdrawal of an existing product from the market. This would have an adverse effect on the Group's business, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Maintenance of products' regulatory status in relevant territories

The activities of the Group rely on regulatory expertise to ensure products meet regulatory requirements and to monitor changes in legislation to ensure that product licences and CE marks can be maintained in the future. There can be no assurance that products will continue to meet regulatory requirements if these change after the original regulatory approval has been granted.

Failure of any one of the Group's products to meet regulatory standards could result in the withdrawal of an existing product from the market. This would have an adverse effect on the Group's business, results of operations and prospects.

Market perceptions and negative publicity

The business of the Group is and will be highly dependent upon market perceptions of the Group, its brands and the safety and quality of the products. The Group's businesses could be adversely affected if the Group or its brands are subject to negative publicity. The Group could also be adversely affected if any of its products or any similar products distributed by other companies prove to be, or are asserted to be, harmful to consumers. Also, because of the Group's dependence upon market perceptions, any adverse publicity associated with illness or other adverse effects resulting from consumers' use or misuse of the Group's products or any similar products distributed by other companies could have a material adverse impact on the Group's results of operations.

Furthermore, government bodies and regulatory agencies require that potential pharmaceutical products are subject to preclinical studies, prior to conducting human trials. The Group may place contracts for such work either itself or through its collaborators. Such work can be subject to adverse public opinion and has attracted the attention of special interest groups. Such special interest groups have not had a significant impact on the Group's operations to date. There can, however, be no assurance that such groups will not, in the future, have a significant impact on the Group's activities or those of its licensees or collaborators, or that any such public opinion would not adversely affect the Group's operations.

Product liability and product liability insurance

The activities of the Group expose it to potential product liability and professional indemnity risks that are inherent in the research, development, manufacturing, marketing and use of pharmaceutical products and medical devices. The Group faces the risk that the use of its products in human clinical trials will result in adverse effects, including deaths, or that long-term adverse effects may emerge following marketing approval of its products. There can be no assurance that the insurances necessary to mitigate the exposure to such risks will be available to the Group at an acceptable cost or at all, or that, in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially adversely affect the Group's business. If the Group is not able to adequately protect itself against potential liability claims, it may find it difficult or impossible to secure commercialisation of its products.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Environmental and safety regulation

The Group is and will be subject to environmental and safety laws and regulations, including those governing the use of hazardous materials. The cost of compliance with these and similar future regulations could be substantial. Although the Directors believe that the Group's procedures comply with applicable regulations, the Group cannot eliminate the risk of accidental contamination or injury from such materials. In the event of an incident, the resulting liabilities could have an adverse impact on the Group. Similarly, many of the Group's suppliers, collaborators and customers are subject to similar laws and regulations. Contravention of such laws and regulations by these groups could have an adverse impact on the Group.

International activities

Given the international nature of its business, the Group will be subject to a number of political, regulatory and trade risks, including:

- unexpected regulatory reforms;
- customs duties, export controls and other trade barriers;
- longer account receivable payments cycles and difficulties in collecting accounts receivable in certain countries;
- limited legal protection of intellectual property rights in certain countries;
- social and political instability; and
- regulations relating to withholding taxes on payments made by distributors in overseas territories.

The Group cannot guarantee that it will be able to manage these risks, many of which are outside its control, or that it will be able to ensure compliance with applicable regulations without incurring additional costs.

The Group must manage the growth of its operations effectively

The Group's ability to manage its growth effectively will require it to continue to improve its operations and procedures and to train, motivate and manage its employees as appropriate for a growing organisation. Any failure to manage current and planned growth by making the requisite improvements to its operations and proceedings may have a material and adverse effect on the Group's business, financial condition, trading performance and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Exchange rate fluctuations

As a consequence of the international nature of the Group, it will be exposed to risks associated with changes in foreign currency exchange rates. The Group's future sales operations will be affected by fluctuations in exchange rates to the extent that its sales and purchases are denominated in currencies other than its reporting currency. Movements in exchange rates to translate foreign currencies may have a significant impact on the Group's results of operations, financial position and cash flows from year to year.

Non guarantee of tax treatment

Any changes to applicable tax legislation may have an adverse effect on the Group's tax status and/or the Group's financial results. Any changes may also affect the return on an investor's investment in the Group and result in changes in tax rates and relief.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates are set out in notes 33 and 14 respectively to the Financial Statements.

GOODWILL

Goodwill of the Group was fully impaired in prior years as set out in note 11 to the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the Financial Statements.

DIRECTORS' REPORT

SHARE CAPITAL AND OPTIONS

Details of the Company's share capital and outstanding share options under the Share Option Scheme (2016) are set out below and in note 22 to the Financial Statements.

(1) Share capital

During the year ended 31 December 2018 and prior to the date of this report, there were no changes in the authorised share capital of the Company.

As at 1 January 2018, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares. During the year ended 31 December 2018 and prior to the date of this report, no new shares were issued and allotted by the Company, and no shares were repurchased by the Company.

Accordingly, as at 31 December 2018 and the date of this report, the total issued ordinary share capital of the Company consisted/consists of 1,837,251,182 shares.

(2) Share Option Scheme (2016)

A new share option scheme, named "Share Option Scheme (2016)" (the "**Share Option Scheme (2016)**"), was adopted on 10 June 2016, with shareholders' approval at the Company's extraordinary general meeting held on 8 June 2016, which was followed by the grant by the Listing Committee of the HK Stock Exchange on 10 June 2016 of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of the options to be granted under the scheme.

Details of the Share Option Scheme (2016) are set out in note 22 to the Financial Statements.

Since the commencement of the Share Option Scheme (2016) (being 10 June 2016) and prior to the date of this report, no options were granted under the scheme.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 23 to the Financial Statements. The Company considers that only profits and share premium are distributable to shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS' REPORT

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

A general mandate was granted to the Directors at the Company's annual general meeting held on 2 June 2017 to repurchase, on the HK Stock Exchange, shares up to a maximum of 183,725,118 shares (the "2017 Repurchase Mandate"). Since 2 June 2017, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2017 Repurchase Mandate.

The 2017 Repurchase Mandate expired upon close of the Company's annual general meeting held on 14 June 2018, at which a new general mandate was granted to the Directors to repurchase, on the HK Stock Exchange, shares up to a maximum of 183,725,118 shares (the "2018 Repurchase Mandate"). Since 14 June 2018 and prior to the date of this report, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2018 Repurchase Mandate.

Save for the above, the Company or its subsidiaries did not purchase, sell or redeem any of their listed securities, whether on the HK Stock Exchange or otherwise, during the year ended 31 December 2018 or subsequent to the year end date and prior to the date of this report.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at all times during the year ended 31 December 2018 and prior to the date of this report, the Company has complied with the public float requirement prescribed in The Rules Governing the Listing of Securities on the HK Stock Exchange (the "HK Listing Rules") for the Company.

DIRECTORS

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

James Mellon (*Chairman*)*

Jamie Alexander Gibson (*Chief Executive Officer*)

Charles David Andrew Comba[#]

Julie Oates[#]

Stawell Mark Searle[#]

Jayne Allison Sutcliffe*

* Non-Executive Directors

[#] Independent Non-Executive Directors

DIRECTORS' REPORT

DIRECTORS (Continued)

Biographical details of the Directors who hold office as at the date of this report are as follows:

- I. **James Mellon (alias: Jim Mellon)**, aged 62, British, was appointed as an Executive Director of the Company in July 1991, and was re-designated as a Non-Executive Director in May 2002, and is currently Non-Executive Chairman of the Board of Directors. He holds a Master's degree in Politics, Philosophy and Economics from Oxford University and, since graduating in 1978, his entire career has been spent in asset management. Mr Mellon worked for GT Management Plc from 1978 to 1984. In July 1984, he joined the Thornton Group where he was Managing Director of the Asian operation. From 1988 to 1990, he was an executive director of Tyndall Holdings Plc responsible for business expansion and corporate development. In 1990, Mr Mellon co-founded and became Chief Executive of Regent Pacific Group. In 1994, he became Chairman of Regent Pacific Group. Mr Mellon has over 20 years' investment experience in Asia. He specialises in the development and restructuring of international investment vehicles, and travels extensively across the region on company visits and fact-finding missions. He is also director of certain subsidiaries of Regent Pacific Group. Mr Mellon is also: (i) a non-executive director of Condor Gold plc, the executive co-chairman of the board of Fast Forward Innovations Limited, the executive chairman of the board of Manx Financial Group plc, the non-executive chairman of the board of Port Erin Biopharma Investments Limited and the non-executive chairman of the board of SalvaRx Group Plc, all of which are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange; (ii) a non-executive director of Bradda Head Limited (having changed its name on 20 March 2018 from "Life Science Developments Limited", which was de-listed from AIM on 6 October 2017); (iii) a non-executive director of Portage Biotech Inc (which is dually listed on the Over the Counter Bulletin Board of NASDAQ of the United States and the Canadian Securities Exchange); and (iv) the non-executive chairman of the board of Speymill Deutsche Immobilien Company plc (which was de-listed from AIM on 31 May 2011. He was formerly: (1) a non-executive director of Charlemagne Capital Limited ("CCL", which was de-listed from AIM on 15 December 2016), having ceased his directorship upon completion of the 100% acquisition of CCL by Fiera Capital Corporation (which is listed on the Toronto Stock Exchange) by a scheme of arrangement on 14 December 2016; (2) the non-executive chairman of the board of Plethora Solutions Holdings plc (which became a wholly owned subsidiary of the Company upon completion of a scheme of arrangement on 9 March 2016 and was de-listed from AIM on 11 March 2016), having resigned on 9 March 2016; (3) the non-executive chairman of the board of Rivington Street Holdings Limited (which was de-listed from ICAP Securities and Derivatives Exchange (ISDX) in the United Kingdom on 3 April 2014 and was dissolved on 20 October 2017); (4) the executive chairman of the board of Speymill plc (which was de-listed from AIM on 2 February 2015 and was dissolved on 20 October 2017); and (5) a non-executive director of West African Minerals Corporation (an AIM-listed company), having resigned on 13 November 2017.

DIRECTORS' REPORT

DIRECTORS (Continued)

2. **Jamie Alexander Gibson**, aged 52, British, joined Regent Pacific Group in April 1996 and was appointed as an Executive Director and Chief Operating Officer of the Company in January 2002. In May 2002, he became Chief Executive Officer of the Company. Mr Gibson has spent most of his professional career with the Company specialising in corporate finance, direct equity investments and structuring emerging market investment products. Prior to joining the Company, he worked at Clifford Chance, Coopers & Lybrand and KPMG. Mr Gibson has a law degree from Edinburgh University. He is also director of a number of subsidiaries of Regent Pacific Group, including: (i) Amerinvest Coal Industry Holding Company Limited, which in turn holds a 25% equity interest in West China Coking & Gas Company Limited; and (ii) Plethora Solutions Holdings plc, which became a wholly owned subsidiary of the Company upon completion of a scheme of arrangement on 9 March 2016 and was de-listed from AIM on 11 March 2016.
3. **Charles David Andrew Comba**, aged 75, Canadian, has been an Independent Non-Executive Director of the Company since October 2005. Until his retirement in May 2005, he held senior staff positions as Director Issues Management and more recently as Director of Regulatory Affairs with the Prospectors and Developers Association of Canada. Mr Comba obtained two geological degrees from Queen's University Kingston, Ontario, Canada, an MSc (1975) and a Hon BSc (1972). He served on or led mineral exploration teams that have made eleven significant discoveries of base and precious metals, primarily for Falconbridge Group companies. Five discoveries were taken to production. He ceased to be a director of North American Palladium Ltd (listed on the Toronto Stock Exchange and the American Stock Exchange) on 23 June 2014 by mandatory retirement upon the age of 71. Mr Comba was a director and chairman of the board of First Nickel Inc (listed on the Toronto Stock Exchange), which agreed on 20 August 2015 to enter into receivership with its two principal debt holders. He resigned as a director of CR Capital Corp, a Canadian company listed on the NEX board of Toronto Venture Exchange, on 31 January 2018.
4. **Julie Oates (former name: Julie Nixon; and maiden name: Julie Wild)**, aged 57, British, has been an Independent Non-Executive Director of the Company since September 2004. She trained with PKF (Isle of Man) LLC and qualified in 1987 as a member of The Institute of Chartered Accountants in England and Wales. Mrs Oates later joined the international firm of Moore Stephens, and was appointed partner in the Isle of Man firm in 1997. In 2002, she joined a local trust company as Managing Director and in 2003 established her own accountancy practice. Mrs Oates has experience in both the general practice areas of accounting and business assurance as well as offshore corporate and trust administration. Mrs Oates acts as director for a number of companies and is licensed by the Isle of Man Government Financial Services Authority.
5. **Stawell Mark Searle (alias: Sam Searle)**, aged 75, British, has been an Independent Non-Executive Director of the Company since October 2001. He has over 30 years' experience in the investment management industry. Having trained with Jardine Matheson, the Far Eastern trading house in London, he was seconded to Samuel Montagu where he worked for two years in their Investment Department. Subsequently, Mr Searle joined Investment Intelligence Limited becoming Investment Director responsible for management of a stable of open ended funds. Between 1982 and 1987, he was Managing Director of Richards Longstaff Limited, a privately owned investment consultancy. In the following ten years, he was Investment Director of Gerrard Asset Management. Mr Searle has been a director of a number of closed-ended funds during his career.

DIRECTORS' REPORT

DIRECTORS (Continued)

6. **Jayne Allison Sutcliffe (maiden name: Jayne Allison Wigley)**, aged 55, British, was appointed as the Group Corporate Finance Director in August 1991 and was re-designated as a Non-Executive Director in June 2000. Mrs Sutcliffe has spent most of her professional career in the fund management industry specialising in sales and marketing initially at Thornton Management and then at Tyndall Holdings Plc. Mrs Sutcliffe co-founded Regent Pacific Group in 1990 where she established, and was responsible for, the Group's corporate finance activities. She has a Master's degree in Theology from Oxford University. Mrs Sutcliffe is also director of a subsidiary of Regent Pacific Group. She was formerly the Group Chief Executive of CCL (which was de-listed from AIM on 15 December 2016 upon completion of the 100% acquisition of CCL by Fiera Capital Corporation (which is listed on the Toronto Stock Exchange) by a scheme of arrangement on 14 December 2016), having retired on 29 June 2018.

It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company. All Directors are aware of the required levels of fiduciary duties and duties of skill, care and diligence under Rules 3.08, 3.09 and 3.09A of the HK Listing Rules, so that they must, in performance of his duties as a director:

- (a) act honestly and in good faith in the interests of the Company as a whole;
- (b) act for proper purpose;
- (c) be answerable to the Company for the application or misapplication of its assets;
- (d) avoid actual and potential conflicts of interest and duty;
- (e) disclose fully and fairly his interests in contracts with the Company; and
- (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the Company.

In accordance with Article 86(3) of the Company's Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the shareholders in general meeting, as an addition to the existing Board. Any Director so appointed shall retire at the next annual general meeting of the Company but shall then be eligible for re-election. Any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

In accordance with Article 87, at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation, providing that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years (which is in compliance with Code Provision A.4.2 of The Corporate Governance Code). A retiring Director shall be eligible for re-election.

DIRECTORS' REPORT

DIRECTORS (Continued)

No Directors will retire pursuant to Article 86(3) at the annual general meeting to be held by the Company for Year 2019 (the “**2019 Annual General Meeting**”), and Jamie Gibson and Jayne Sutcliffe will retire by rotation pursuant to Article 87 at the 2019 Annual General Meeting. Both of them, being eligible, offer themselves for re-election. Details of the Directors proposed to be re-elected, as required under Rule 13.51(2) of the HK Listing Rules, are set out in the accompanying circular to shareholders. Rotational retirement and re-election of the retiring Directors will be dealt with by a separate resolution for each of the retiring Directors at the 2019 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2019 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment (other than statutory compensation), except that: (i) the advisory agreement of James Mellon specifies that his appointment as an adviser of the Company may be terminated by either party giving one year's notice (as detailed in the paragraph headed “Non-Executive Directors” in the Corporate Governance Report); and (ii) the service agreement of Jamie Gibson may be terminated by either party giving one year's notice.

None of the Directors (including those proposed for re-election at the 2019 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which was entered into on or before 31 January 2004 and was exempt from the shareholders' approval requirement under Rule 13.68 of the HK Listing Rules but is required to be disclosed in the Company's annual report pursuant to Paragraph 14A of Appendix 16 to the HK Listing Rules.

In compliance with Rules 3.10(1) and 3.10A of the HK Listing Rules, the Board currently comprised three Independent Non-Executive Directors, namely David Comba, Julie Oates and Mark Searle, representing more than one-third of the Board.

Pursuant to Rule 3.13 and paragraph 12B of Appendix 16 to the HK Listing Rules, each of the Independent Non-Executive Directors has confirmed by an annual confirmation:

- (i) that he/she (including his/her “immediate family members”, as defined under Rule 14A.12(1)(a) of the HK Listing Rules) complies with each of the independence criteria referred to in Rule 3.13(1) to (8) (having incorporated the changes brought about by the amended Rule 3.13 of the HK Listing Rules, which took effect on 1 January 2019);
- (ii) that he/she has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person (as such term was defined in the HK Listing Rules) of the Company;
- (iii) that he/she does not hold any cross-directorships (which exist when two (or more) Directors sit on each other's boards) or have any significant links with other Directors through involvement in other companies or bodies (having incorporated the newly-introduced Code Provision A.3.3 of The Corporate Governance Code, which took effect on 1 January 2019);
- (iv) that he/she does not hold more than six listed company directorships (having incorporated the changes brought about by the amended Code Provision A.5.5 of The Corporate Governance Code, which took effect on 1 January 2019); and
- (v) that there are no other factors that may affect his/her independence at the same time as the submission of his/her Declaration and Undertaking in Form B of Appendix 5 to the HK Listing Rules.

DIRECTORS' REPORT

DIRECTORS (Continued)

They have undertaken to inform the Company and the HK Stock Exchange as soon as practicable if there are any changes of circumstances which may affect his/her independence.

Each of the non-independent Directors has confirmed that he/she considers that all three Independent Non-Executive Directors continue to be independent under the independence criteria referred to in Rule 3.13(1) to (8) and are capable of efficiently exercising independent judgement. Among them, Julie Oates has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Julie Oates and Mark Searle serve on the Audit Committee, the Connected Transactions Committee, the Nomination Committee and the Remuneration Committee (while Julie Oates is the Chairlady of the first two committees and Mark Searle is the Chairman of the Remuneration Committee), and David Comba is a member of the Technical Committee (as noted below).

Code Provision A.4.3 of the Corporate Governance Code provides that serving for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves for more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be elected. In this particular regard, it is noted that there will be no Independent Non-Executive Directors standing for rotational re-election at the 2019 Annual General Meeting.

Save for disclosed above, none of the Directors (including those proposed for re-election at the 2019 Annual General Meeting):

- (1) holds any directorships in any listed company; or
- (2) has any relationships (either financial or business or family or other material/relevant relationship(s)) with any other Directors, senior management or substantial or controlling shareholders of the Company; or
- (3) has any connections (either being a director or an employee) with any company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or
- (4) has to disclose any issues under Rule 13.51(2)(h) to 2(v) of the HK Listing Rules.

There are no other matters, to the best knowledge of the Directors, that need to be brought to the attention of the holders of securities of the Company.

DIRECTORS' REPORT

DIRECTORS (Continued)

The Directors serve on the various committees of the Board as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee (Note 1)	Connected Transactions Committee (Note 2)	Technical Committee (Notes 3&4)	Inside Information Committee (Notes 5&6)
James Mellon	Member of Audit Committee	Member of Remuneration Committee	Chairman of Nomination Committee	Chairman of Investment Committee			
Jamie Gibson				Member of Investment Committee	Member of Connected Transactions Committee	Chairman of Technical Committee	Member of Inside Information Committee
David Comba						Member of Technical Committee	
Julie Oates	Chairlady of Audit Committee	Member of Remuneration Committee	Member of Nomination Committee		Chairlady of Connected Transactions Committee		
Mark Searle	Member of Audit Committee	Chairman of Remuneration Committee	Member of Nomination Committee		Member of Connected Transactions Committee		
Jayne Sutcliffe							

DIRECTORS' REPORT

DIRECTORS (Continued)

Notes:

1. The Investment Committee oversees the investments of the Group.
2. The Connected Transactions Committee reviews and monitors any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof.
3. The Technical Committee reviews and monitors the compliance of the Company with the requirements of Chapter 18 of the HK Listing Rules (together with associated provisions of the HK Listing Rules).
4. The Technical Committee comprises other members who are not Directors of the Company.
5. The Inside Information Committee reviews and monitors the compliance of the Company with its statutory disclosure obligations under Part XIVA of the SFO, the HK Listing Rules and other applicable laws and regulations in respect of disclosure and transparency relevant to the Company.
6. The Inside Information Committee comprises other members who are not Directors of the Company.

The Company has been informed by James Mellon that there is an arrest warrant in his name, which was originally issued by the South Korean prosecutor's office on 19 December 2000 and subsequently re-issued on 14 January 2004. The warrant was due to remain valid and effective until 12 March 2010. The arrest warrant pertains to Mr Mellon's alleged involvement in a conspiracy to manipulate the share price of Regent Securities Co, Ltd. Mr Mellon has informed the Company that he denies these allegations which are wholly without substance.

DIRECTORS' REPORT

SENIOR MANAGEMENT

1. **David Samuel Church**, Head of Mergers and Acquisitions and General Counsel, aged 44, Australian, joined Regent Pacific Group in 2008. He is also director of a number of subsidiaries of Regent Pacific Group. Mr Church has more than 20 years' experience in mergers and acquisitions and corporate finance in Australia, the UK, Europe and Asia with expertise across multiple sectors. Mr Church has worked on domestic and international corporate transactions as well as major international equity offerings for corporates and investment banks. He has over 13 years' experience in Asia including transactions in Hong Kong, Korea, the PRC, Singapore, Indonesia, Malaysia and the Philippines. Mr Church has acted and advised on some of the most high profile M&A transactions in Europe and Asia. He is qualified and has practiced as a solicitor in Australia, with Clayton Utz, and in the UK and Hong Kong, with Linklaters.
2. **Paul Eric Jones**, Investment Director, aged 54, Canadian, has 28 years of experience in the energy industry and corporate finance. This has included various professional disciplines encompassing fund management, commercial banking and business development. Before joining Regent Pacific Group in April 2011, Mr Jones was employed for six years with a Canadian private equity fund, where he was principally engaged in evaluating investment opportunities on behalf of the firm's investors and managing a portfolio of public and private securities. Prior thereto, Mr Jones was a Director in the energy lending group at the Canadian Imperial Bank of Commerce (CIBC) where he specialised in arranging debt financing and providing advisory services to oil and gas producers. Previous to his banking career, Mr Jones was a financial analyst with TransCanada Corp. (a large Canadian power generation and energy transmission company), where he was responsible for initiatives relating to bond issuance, project finance, capital budgeting and investor relations. Mr Jones holds a Bachelor of Arts and a Master of Business Administration (Finance), both from the University of Calgary.
3. **Professor Michael Grant Wyllie (alias: Mike Wyllie)**, Chief Scientific Officer, aged 68, British, has particular responsibility for the process of securing approvals of the product, regulatory compliance and assisting the Chief Executive Officer in the commercial development of Fortacin™ of Plethora Solutions Holdings plc. Prof Wyllie is a co-founder of Plethora. He has over 30 years of experience in senior management level positions within the pharmaceutical industry, with Wyeth and Pfizer. He has considerable hands-on experience in all aspects of the drug discovery and development process, and has been involved with new project inception, drug discovery and safety testing, early and late stage clinical development, regulatory filing, and the successful commercialisation of products, including Cardura® (doxazosin), Enablex® (darifenacin) and Viagra® (sildenafil). Prof Wyllie sits on the Clinical Trial Design and Future Therapies in BPH Committees of the World Health Organisation International Consultations on Urological Disease and the International Advisory Panel to The University of Strathclyde. He is an assistant editor of the British Journal of Urology in the Sexual Medicine Section. He has over 200 publications and is the named inventor of over 80 patents. He is an independent director on the board of the NASDAQ listed reproductive health company, Repros (RPRX).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS

As at 31 December 2018, the Directors of the Company had the following beneficial interests in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company or of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the Register of Directors' and Chief Executive's Interests and Short Positions required to be kept by the Company under Section 352 of the SFO or which were otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests which the Directors were deemed or taken to have under such provisions of the SFO) or pursuant to The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the HK Listing Rules:

I. Securities of the Company

a. Ordinary shares of US\$0.01 each

Name of Director	Note	Capacity in which the shares are held	Long/Short position	Number of shares	Approximate % holding*
James Mellon		Beneficial owner	Long position	361,594,306	19.68%
	A	Interests held by controlled corporation	Long position	25,791,905	1.40%
Jamie Gibson		Beneficial owner	Long position	69,208,513	3.77%
David Comba		—	—	—	—
Julie Oates	B	Interests held jointly with another person	Long position	1,000,000	0.05%
Mark Searle		Beneficial owner	Long position	471,228	0.03%
	C	Beneficiary of a trust	Long position	2,070,760	0.11%
	C	Family interest	Long position	628,304	0.03%
Jayne Sutcliffe		Beneficial owner	Long position	1,716,046	0.09%

* The total issued ordinary share capital of the Company as at 31 December 2018 consisted of 1,837,251,182 shares. There were no changes in the Company's issued share capital subsequent to the year end date and prior to the date of this report.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS (Continued)

I. Securities of the Company (Continued)

b. Options under Share Option Scheme (2016)

Please refer to note 22 to the Financial Statements as to the details of the Share Option Scheme (2016).

Since the commencement of the Share Option Scheme (2016) on 10 June 2016, no options were granted under the scheme. Accordingly, as at 31 December 2018 and the date of this report, none of the Directors of the Company had/has any personal interests in options granted under the Share Option Scheme (2016), entitling him/her to subscribe for ordinary shares of US\$0.01 each in the capital of the Company in accordance with, and subject to, the terms of the scheme.

Save for the above, during the year ended 31 December 2018 and prior to the date of this report, no Directors of the Company exercised any of their rights under the respective options granted to them pursuant to the Share Option Scheme (2016) and subscribed for shares in the Company; and no new options were granted; and no outstanding options lapsed or were cancelled.

2. Securities of associated corporations

a. Ordinary shares of US\$0.01 of AstroEast.com Limited (note D)

Name of Director	Note	Capacity in which the shares are held	Long/Short position	Number of shares	Approximate % holding
James Mellon	—	—	—	—	—
Jamie Gibson	—	Beneficial owner	Long position	225,000	0.80%
David Comba	—	—	—	—	—
Julie Oates	—	—	—	—	—
Mark Searle	—	—	—	—	—
Jayne Sutcliffe	—	Beneficial owner	Long position	150,000	0.54%

b. Ordinary shares of £0.001 of The Diabetic Boot Company Limited ("**Diabetic Boot**") (note E)

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS (Continued)

Notes:

- A. The 25,791,905 ordinary shares in the Company are held by a company indirectly wholly owned by James Mellon.
- B. The 1,000,000 ordinary shares in the Company are held by Julie Oates for the beneficial interests jointly with Alan Clucas Oates (her spouse).
- C. The 2,070,760 ordinary shares in the Company are held to the order of a pension fund, of which Mark Searle is the sole beneficiary. The 628,304 ordinary shares in the Company are held by Juliet Mary Druce Searle (the spouse of Mark Searle).
- D. AstroEast.com Limited is an indirect 50.99% owned subsidiary of the Company.
- E. The Company disposed of its entire interest in Diabetic Boot, which completed on 7 December 2018. Accordingly, Diabetic Boot ceased to be an associated corporation of the Company, and upon then, James Mellon and the company indirectly wholly owned by him (which holds interests in Diabetic Boot) ceased to have disclosure obligations under the SFO in respect of their interests held in Diabetic Boot.

Save as disclosed herein, as at 31 December 2018 and as at the date of this report, none of the Directors had/has any beneficial interests or short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or of any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be recorded in the Register of Directors' and Chief Executive's Interests and Short Positions required to be kept by the Company under Section 352 of the SFO or which would have to be otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which the Directors were/are deemed or taken to have under such provisions of the SFO) or pursuant to the Model Code.

Save as disclosed herein, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) did not grant to any Director of the Company any rights to subscribe for the equity or debt securities of the Company or of any of its associated corporations, or had there been any exercise of such options during the year and prior to the date of this report (including those interests which the Directors were/are deemed or taken to have under such provisions of the SFO).

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS

During the year ended 31 December 2018 and prior to the date of this report, there were no connected transactions of the Company which were disclosable under Chapter 14A of the HK Listing Rules.

Save for the above, no connected transactions (as defined in Chapter 14A of the HK Listing Rules) or significant contracts (as referred to in Paragraph 15 of Appendix 16 to the HK Listing Rules) of the Company, to which the Company or any of its subsidiaries was/is a party and in which a Director or Directors of the Company had/has/have a material interest, either directly or indirectly, subsisted/subsists as at 31 December 2018 or as at the date of this report or at any time during the year and prior to the date of this report.

Further, the Company established a connected transactions committee on 20 October 2008 to review and monitor any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof. The committee comprises Julie Oates (the Chairlady), Jamie Gibson and Mark Searle.

PERMITTED INDEMNITY PROVISION

Except for the directors' and officers' liability insurance policy provided by the Company in respect of legal action against its Directors, during the year ended 31 December 2018 and prior to the date of this report, there was not any permitted indemnity provision (whether made by the Company or otherwise) (as referred to in Sections 468 to 470 of The Companies Ordinance (Chapter 622) of Hong Kong (the "**Companies Ordinance**") and Section 9 of the Companies (Directors' Report) Regulation (Chapter 622D) of Hong Kong) in force for the benefit of any Director of the Company or any director of any associated company of the Company.

MANAGEMENT CONTRACTS

No contracts, other than contracts of service with any Director of the Company or any person engaged in the full-time employment of the Company, subsisted/subsists as at 31 December 2018 or as at the date of this report or at any time during the year and prior to the date of this report, whereby any individual, firm or body corporate undertook/undertakes the management and administration of the whole or any substantial part of any business of the Company, as referred to in Section 543 of the Companies Ordinance.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Directors, except for the Independent Non-Executive Directors who are not subject to the disclosure requirement under Rule 8.10 of the HK Listing Rules, have declared that they (and their respective associates) are not interested in any business (either being its director or its substantial shareholder) apart from the Company's business, which competes or is likely to complete, either directly or indirectly, with the Company's business save that the following companies may pursue investment opportunities that may compete against the Company:

(1) Bradda Head Limited (formerly "Life Science Developments Limited")

Bradda Head Limited ("**Bradda Head**", which was formerly "Life Science Developments Limited" and was de-listed from AIM on 6 October 2017) is a life science and biotech investing company.

James Mellon is a non-executive director of Bradda Head, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 22.68 per cent of its total issued share capital.

(2) Condor Gold plc

Condor Gold plc ("**Condor Gold**", AIM: CNR; TSX: COG; and FSX: W5XA) is a UK based exploration company listed on AIM, the Toronto Stock Exchange and the Frankfurt Stock Exchange, focused on developing and further proving a large commercial reserve on its 100 per cent owned La India Project in Nicaragua.

James Mellon is a non-executive director of Condor Gold, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 10.51 per cent of its total issued share capital.

(3) The Diabetic Boot Company Limited

Diabetic Boot is a private single product medical device company based near Oxford, in the United Kingdom, focusing on the treatment of diabetic foot ulcers, which are a comorbidity of diabetic mellitus.

As at the date of this report:

- The Company does not hold any interests in its total issued share capital (having disposed of in its entirety on 7 December 2018); and
- James Mellon (himself and through his associate) holds approximately 37.71 per cent of its total issued share capital and loan notes in an aggregate amount of £5,094,511 which are being converted into shares of Diabetic Boot.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(3) The Diabetic Boot Company Limited (Continued)

As at the date of this report, Port Erin Biopharma Investments Limited (as referred to below) holds approximately 1.17 per cent of the total issued share capital of Diabetic Boot.

As at the date of this report, Fast Forward Innovations Limited (as referred to below) holds approximately 4.29 per cent of the total issued share capital of Diabetic Boot.

(4) Fast Forward Innovations Limited

Fast Forward Innovations Limited ("**Fast Forward Innovations**", AIM: FFWD) is an AIM-listed company, aiming to bring investment opportunities often reserved for the private market of venture capital firms to the public market. Fast Forward Innovations invests in visionary entrepreneurs developing innovative technologies that solve problems in their industries.

James Mellon is the executive co-chairman of the board of Fast Forward Innovations, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (through his associate) holds approximately 10.08 per cent of its total issued share capital.

As at the date of this report, Fast Forward Innovations holds approximately 4.29 per cent of the total issued share capital of Diabetic Boot (as referred to above).

(5) Port Erin Biopharma Investments Limited

Port Erin Biopharma Investments Limited ("**Port Erin Biopharma**", AIM: PEBI) is an AIM-listed company investing in the Biotechnology and Biopharmaceutical sector.

James Mellon is the non-executive chairman of the board of Port Erin Biopharma, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 29.01 per cent of its total issued share capital.

As at the date of this report, Port Erin Biopharma holds approximately 1.17 per cent of the total issued share capital of Diabetic Boot (as referred to above).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(6) Portage Biotech Inc

Portage Biotech Inc ("Portage Biotech", CSE: PBT.U and OTCBB: PTGEF) is dually listed on the Over the Counter Bulletin Board of NASDAQ of the United States and the Canadian Securities Exchange, focusing on discovering and developing innovative cell permeable peptide therapies and developing drug therapies.

James Mellon is a non-executive director of Portage Biotech, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associates) holds approximately 28.63 per cent of its total issued share capital.

(7) SalvaRx Group Plc

SalvaRx Group Plc ("SalvaRx", AIM: SALV) is an AIM-listed drug discovery and development company, focused on immune-oncology. It invests in novel cancer immuno-therapies and provides its portfolio companies with operational support ranging from direct operation of subsidiaries to advisory or part-time involvement in more established companies.

James Mellon is the non-executive chairman of the board of SalvaRx, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associates) holds approximately 36.53 per cent of its total issued share capital.

(8) Venturex Resources Limited

Venturex Resources Limited (ASX: VXR) is a base metals exploration and development company listed on the Australian Securities Exchange, focused on progressing its two promising zinc/copper projects in the Pilbara region of Western Australia.

As at the date of this report:

- The Company holds approximately 13.99 per cent of its total issued share capital; and
- James Mellon (through his associate) holds less than 5 per cent of its total issued share capital, which is not disclosable under the rules of the relevant regulator(s).

Currently, the existing businesses of above companies do not compete against the Company's existing businesses. Should the Company and any of the above companies come into competition in the future, no Director of the Company shall vote on any board resolution of the Company approving any contract or arrangement or any other proposal in which they or any of their associates have a material interest, nor shall they be counted in the quorum present in the meeting, in each case if, and to the extent, required under Rule 13.44 of the HK Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

The Directors are not aware of any persons (other than James Mellon, whose interests are set out in details under the section headed "Directors' Interests in Securities and Options"), who, as at 31 December 2018 or as at the date of this report, had/have beneficial interests or short positions in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company, which would have to be recorded in the Register of Interests and Short Positions of Substantial Shareholders required to be kept by the Company under Section 336 of the SFO or which would have to be otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including those interests which they were/are deemed or taken to have under such provisions of the SFO).

MAJOR CUSTOMERS AND SUPPLIERS

The major customers and suppliers of the Group contributed more than 90% of the total income (note 5) and provided less than 30% of the purchase expenditure of the Group respectively.

AUDITOR

The Financial Statements were audited by BDO Limited.

There was no change in the Company's auditor during the preceding three years.

BDO Limited will retire at the 2019 Annual General Meeting and, being eligible, offer itself for re-appointment. An ordinary resolution has been proposed for the 2019 Annual General Meeting for the re-appointment of BDO Limited.

CORPORATE GOVERNANCE REPORT

Shareholders' attention is also drawn to the Corporate Governance Report included in this annual report, in compliance with Appendix 14 to the HK Listing Rules.

On Behalf of the Board

James Mellon
Chairman

22 March 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

REVENUE AND PROFIT

The Group recorded a loss attributable to the shareholders of the Company of US\$31.09 million in 2018 (2017: US\$27.36 million).

The corporate division (revenue and fair value gain on financial assets at fair value through profit or loss and derivatives) recorded a gain of US\$2.84 million (2017: US\$9.49 million).

The main elements of the loss are analysed as follows:

	US\$ million
Signature payment, milestone and royalty income	6.24
Amortisation of an intangible asset, Fortacin™	(28.05)
Research and development expenditure incurred by Plethora Solutions Holdings plc ("Plethora")	(2.35)
Fair value loss on financial assets at fair value through profit or loss and derivatives	(3.30)
Tax credit	2.67
Operational expenses	(6.30)
Total loss attributable to shareholders of the Company	(31.09)

FINANCIAL POSITION

Shareholders' equity decreased by 20.27% to US\$126.62 million as at 31 December 2018 from US\$158.82 million as at 31 December 2017. The decrease was mainly due to: (i) loss attributable to shareholders of the Company of US\$31.09 million for the year ended 31 December 2018; and (ii) the decrease of investment revaluation reserve of US\$1.43 million due to the unrealised loss of FAFVOCI and these were offset against the increase of foreign currency exchange reserve of US\$0.32 million.

The Group's assets comprised: (i) an intangible asset of US\$137.08 million, being Fortacin™; (ii) listed and unlisted investments of US\$5.78 million; (iii) cash and bank balances of US\$1.02 million; (iv) trade receivables of US\$0.3 million; and (v) property, plant and equipment and other receivables of US\$0.58 million.

The Group's liabilities comprised: (i) deferred tax liabilities of US\$13.71 million; and (ii) payables and accruals of US\$4.49 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

STRATEGIC PLAN

The Board and the Company's senior management play an active role in the Company's strategy development and planning process. The Chief Executive Officer regularly interacts with the Board in respect of the strategic plan and direction of the Company, during which meetings the Chief Executive Officer seeks and is provided input in respect of the proposed priorities and initiatives previously discussed and agreed with senior management, aiming at developing an agreed approach for the Company to generate and preserve its long-term value, while agreeing shorter term priorities and objectives. In addition, the risks associated with the current operations and strategy of the Company are continually being tested by way of an internal audit process conducted through an independent service provider, with the aim of identifying ways in which the Company can better identify and manage its risks.

In order to generate or preserve value over the longer term, the Group is committed to:

- divesting of non-core assets and investments to enable the Company to pursue growth and opportunistic investments in the healthcare and life sciences sector;
- leverage off our expert international and local teams to tackle difficult markets, deliver results and achieve global recognition; and
- utilise the Company's Hong Kong listing through strong liquidity and access to international capital markets, together with maintaining our corporate governance and social responsibility standards in line with the policies set down by The Stock Exchange of Hong Kong Limited and best practice.

The Company is committed to creating shareholder value and returns through accretive acquisitions and returning surplus capital to shareholders by way of an effective dividend policy and share repurchase programme.

The current strategy of the Group can be seen in the latest Company's presentation available on the Company's website (www.regentpac.com).

FUNDING

As at 31 December 2018, the Group had US\$1.02 million in cash that represented 0.81% of its total shareholders' equity, which did not take into account the Group's holding of securities of financial assets at fair value through profit or loss that amounted to US\$5.50 million.

GEARING RATIO

No gearing ratio (being long-term debts over total equity and long-term debts) is calculated as there was no long-term debt as at 31 December 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

CONTINGENT LIABILITIES

Save as those disclosed in notes 28 and 32 to the Financial Statements, the Group had no other material contingent liabilities as at 31 December 2018.

CHARGE ON ASSETS

Save as those disclosed in note 32 to the annual financial report and the paragraph headed "Australian Tax on BCI Sale" under "CEO's Report", the Group had no other material contingent liabilities as at 31 December 2018.

MANAGEMENT OF RISK

In 2018, the most significant risk affecting the profitability and viability in respect of the Group was the continued success and revenue derived from its listed equity portfolio and in respect of the Group's interest in Plethora. Risks relating to the Group's interests include:

Equity Markets

Global financial markets are continuing to experience significant levels of volatility, driven largely by macro-economic imbalances stemming from the sovereign debt problems in Europe and the credit tightening in developing countries. As such, the future returns from the Group's equity portfolio are linked to the health of the macro environment for which the Group cannot control. Past returns from the listed equity portfolio cannot be used to judge the Group's future listed equity performance.

Foreign Exchange Risk

The Group operates using US dollars. As such, the Group is exposed to foreign currency fluctuations arising from operations of its subsidiaries and associates. This exposure relates mainly to the translation between US dollars and non-US dollar currencies. Currency fluctuations may affect the revenues which the Group realises from its subsidiaries and associates and, in particular, its interest in Plethora. This exposes the Group to increased volatility in earnings as reported in US dollars due to fluctuations in foreign exchange rates. While foreign currencies are generally convertible into US dollars, there is no guarantee that they will continue to be so convertible or that fluctuations in the value of such currencies will not have an adverse effect on the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

Interest Rate Risk

The Group does not have any operating lines of credit or bank facilities. Therefore, the Group was not exposed to interest rate risk in the financial year concerned.

Risks Inherent to Plethora (the Company's most significant investment)

1. The timing and quantum of receipt of upfront, milestone and royalty income from strategic commercial marketing partners, which in itself is dependent on the successful partnering and the commercial launch of Fortacin™;
2. The management of Plethora's cost base and maintaining adequate working capital and ensuring sufficient funds are made available to complete the ongoing work with Pharmaserve (North West) Limited and Catalent Pharma Solutions, LLC and regulatory approval processes and bringing Fortacin™ to market;
3. The retention of key employees to complete the commercialisation process;
4. Delays and other unforeseen disruptions to the manufacturing and regulatory approval projects which could have an adverse impact on the commercial launch of Fortacin™ and future revenues; and
5. The exposure to competition from new generic entrants into the market.

FINANCIAL INSTRUMENTS

The Group will operate both equity market and currency hedges from time to time. Investment is carefully controlled, in accordance with parameters set by the Board, in short-term situations where physical assets may be inappropriate. There is strict segregation between the investment management and settlement functions.

In term of the total operations of the Group, activities of this nature are not significant.

FOREIGN CURRENCY

The Group had not taken out any currency hedge as the management is not aware of any material foreign currency risk against its investments in financial assets. Currently, the Group has no material financial liabilities denominated in foreign currencies other than US dollars.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions or disposals for the year ended 31 December 2018.

SEGMENTAL INFORMATION

For details of the segment information, please refer to note 5 to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

EMPLOYEES

The Group, including subsidiaries but excluding associates, employed 19 employees at 31 December 2018 (2017: 19 employees). The remuneration policy is to reward key employees by a combination of salaries, profit related discretionary bonuses and share options and share awards, where appropriate. For employees below Board level, remuneration will be determined by the Director(s) responsible for the division whilst, for Directors, remuneration is determined by the remuneration committee of the Board (the "**Remuneration Committee**"). In all cases, profit related discretionary bonuses and grants of share rewards will be agreed by the Remuneration Committee of the Board.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

CORPORATE GOVERNANCE REPORT

THE CORPORATE GOVERNANCE CODE

The Company is committed to a high standard of corporate governance, for which the Directors are accountable to the Company, and has applied the principles of The Corporate Governance Code (the “**CG Code**”) in a manner consistent with best practices of a listed issuer. The primary responsibility for performing the corporate governance functions for the Company, as referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code, rests with the Board of Directors (the “**Board**”), with the full support of the Company’s secretary and its executive management.

The Company continues to monitor developments in this area of corporate governance as they relate to listed issuers in Hong Kong.

As far as the Directors are aware, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2018 and prior to the date of this report.

THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

In compliance with Code Provision A.5.4 of The Code on Corporate Governance Practices (the “**Code on CG Practices**”), which was re-stated as Code Provision A.6.4 of the CG Code with effect from 1 April 2012, the Group adopted, on 31 March 2004, its code for securities transactions by Directors and employees (the “**Group’s Code**”), on exactly the terms and required standard contained in The Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to The Rules Governing the Listing of Securities (the “**HK Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**HK Stock Exchange**”).

The Group’s Code was last revised on 10 December 2012 (to take effect from 1 January 2013) in order to comply with the amendments made to the Model Code consequential to the introduction of the statutory disclosure regime in respect of inside information under Part XIVA of The Securities and Futures Ordinance of Hong Kong (the “**SFO**”).

Having made specific enquiries, all Directors of the Company confirmed that they have complied with the Group’s Code during the year ended 31 December 2018 and prior to the date of this report.

Directors’ interests in securities and options of the Company are set out in details under the section headed “Directors’ Interests in Securities and Options” in the Directors’ Report.

The Group’s Code is available on the Company’s website: www.regentpac.com.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition

During the year ended 31 December 2018 and prior to the date of this report, there were no changes in the directorate.

The Board currently consists of six Directors, namely:

- James Mellon (*Non-Executive Chairman of the Board*)
- Jamie Alexander Gibson (*Executive Director and Chief Executive Officer*)
- Charles David Andrew Comba (*Independent Non-Executive Director*)
- Julie Oates (*Independent Non-Executive Director*)
- Stawell Mark Searle (*Independent Non-Executive Director*)
- Jayne Allison Sutcliffe (*Non-Executive Director*)

The Directors who held office during the year ended 31 December 2018 and up to the date of this report, accompanied by their respective biographical details, are listed in the Directors' Report under the section headed "Directors". It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company. All Directors are aware of the required levels of fiduciary duties and duties of skill, care and diligence under Rules 3.08, 3.09 and 3.09A of the HK Listing Rules, so that they must, in performance of his duties as a director:

- (a) act honestly and in good faith in the interests of the Company as a whole;
- (b) act for proper purpose;
- (c) be answerable to the Company for the application or misapplication of its assets;
- (d) avoid actual and potential conflicts of interest and duty;
- (e) disclose fully and fairly his interests in contracts with the Company; and
- (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Composition (Continued)

In compliance with Code Provision A.3.2 of the CG Code, an updated list of the Company's Directors identifying their roles and functions are available from the "List of Directors" on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

In accordance with Article 86(3) of the Company's Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the shareholders in general meeting, as an addition to the existing Board. Any Director so appointed shall retire at the next annual general meeting of the Company but shall then be eligible for re-election. Any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting. In addition, Article 87 provides that at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation, providing that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years (which is in compliance with Code Provision A.4.2 of the CG Code). A retiring Director shall be eligible for re-election.

No Directors will retire pursuant to Article 86(3) at the annual general meeting to be held by the Company for Year 2019 (the "**2019 Annual General Meeting**"), and Jamie Gibson and Jayne Sutcliffe will retire by rotation pursuant to Article 87 at the 2019 Annual General Meeting. Both of them, being eligible, offer themselves for re-election. Details of the Directors proposed to be re-elected, as required under Rule 13.51(2) of the HK Listing Rules, are set out in the accompanying circular to shareholders. Rotational retirement and re-election of the retiring Directors will be dealt with by a separate resolution for each of the retiring Directors at the 2019 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2019 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment (other than statutory compensation), except that: (i) the advisory agreement of James Mellon specifies that his appointment as an adviser of the Company may be terminated by either party giving one year's notice (as detailed in the paragraph headed "Non-Executive Directors" below); and (ii) the service agreement of Jamie Gibson may be terminated by either party giving one year's notice.

None of the Directors (including those proposed for re-election at the 2019 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which was entered into on or before 31 January 2004 and was exempt from the shareholders' approval requirement under Rule 13.68 of the HK Listing Rules but is required to be disclosed in the Company's annual report pursuant to Paragraph 14A of Appendix 16 to the HK Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Composition (Continued)

Save for disclosed in this annual report, none of the Directors (including those proposed for re-election at the 2019 Annual General Meeting):

- (1) holds any directorships in any listed company; or
- (2) has any relationships (either financial or business or family or other material/relevant relationship(s)) with any other Directors, senior management or substantial or controlling shareholders of the Company; or
- (3) has any connections (either being a director or an employee) with any company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or
- (4) has to disclose any issues under Rule 13.51(2)(h) to 2(v) of the HK Listing Rules.

There are no other matters, to the best knowledge of the Directors, that need to be brought to the attention of the holders of securities of the Company.

Board meetings and attendance and written resolutions

During the year ended 31 December 2018, the Directors held meetings at least at a quarterly interval and in total four Board meetings were held during the year. The attendance of the respective Directors at the Board meetings are set out below:

Name of Director	Number of meetings held	Number of meetings attended	Number of meetings absent	Attendance rate (%)
James Mellon	4	4	0	100%
Jamie Gibson	4	4	0	100%
David Comba	4	4	0	100%
Julie Oates	4	4	0	100%
Mark Searle	4	2	2	50%
Jayne Sutcliffe	4	3	1	75%

Subsequent to the year end date and prior to the date of this report, the Directors held one Board meeting, which was attended by all Directors.

Article 116(2) of the Company's Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Board meetings and attendance and written resolutions (Continued)

Sufficient notices were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Adequate information was also supplied by the management to the Board in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Directors are always given opportunity to include matters in the agenda of the Board meetings.

Draft minutes of the Board meetings were circulated to all Directors for their comment and approval, before the final versions of the minutes were signed and initialled by all Directors who attended the meetings. All minutes of Board meetings are kept by the Company Secretary, which are open for inspection by any Director.

Resolutions were also passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary. In any event, the matters in which a substantial shareholder or a Director has a conflict of interest, which the Board has determined to be material, will be considered at a Board meeting but not to be dealt with by way of circulation of written resolutions or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a Board meeting). Independent Non-Executive Directors, who, and whose close associates, have no material interest in the transaction will also be asked to attend such Board meeting and express their views. Pursuant to Rule 13.44 of the HK Listing Rules and Article 103 of the Company's Articles of Association, interested Directors will be required to abstain from voting on any Board resolution in which they or any of their close associates have a material interest and they shall not be counted in the quorum present at the relevant Board meeting. Further, the Company established a connected transactions committee (the "**Connected Transactions Committee**") on 20 October 2008 (as detailed below).

General meetings and attendance

The Company held its annual general meeting for Year 2018 (the "**2018 Annual General Meeting**") on 14 June 2018, which was attended and chaired by Jamie Gibson, the Executive Director and Chief Executive Officer of the Company.

Due to other business commitments, James Mellon, the Non-Executive Chairman of the Board, was unable to attend and chair the 2018 Annual General Meeting, with apologies duly noted. The Directors of the Company had appointed Jamie Gibson to take the chair of the meeting.

Shareholders also noted that:

- (i) James Mellon was also the Chairman of the Company's nomination committee (the "**Nomination Committee**");
- (ii) Julie Oates was the Chairlady of the Company's audit committee (the "**Audit Committee**"); and
- (iii) Mark Searle was the Chairman of the Company's remuneration committee (the "**Remuneration Committee**").

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

General meetings and attendance (Continued)

The Chairman or Chairlady of the above board committees were not available to attend the 2018 Annual General Meeting due to other business commitments, with apologies duly noted. They had, in accordance with Code Provision E.1.2 of the CG Code, appointed Jamie Gibson to answer any questions shareholders might raise at the meeting with respect to the respective committees.

In accordance with Code Provision E.1.2 of the CG Code, the Company had invited representatives of its external Auditor, BDO Limited, to attend the 2018 Annual General Meeting to answer questions about the audit of the Company's financial statements, including the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

During the year ended 31 December 2018, the Company did not hold any extraordinary general meeting.

The attendance of the respective Directors at the general meetings are set out below:

Name of Director	Number of meetings held	Number of meetings attended	Number of meetings absent	Attendance rate (%)
James Mellon	1	0	1	0.00%
Jamie Gibson	1	1	0	100.00%
David Comba	1	0	1	0.00%
Julie Oates	1	0	1	0.00%
Mark Searle	1	0	1	0.00%
Jayne Sutcliffe	1	0	1	0.00%

Subsequent to the year end date and prior to the date of this report, the Company did not hold any extraordinary general meeting.

Time commitment

As for the contribution required from a Director to perform his responsibilities to the Company, the Board has determined that:

- (i) Executive Directors are full-time employees of the Company and thus must contribute all their working time to managing the Company's affairs; and
- (ii) Non-Executive Directors and Independent Non-Executive Directors should contribute no less than 12 days per annum on the Company's business.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Time commitment (Continued)

The Board has also determined that an annual review should be conducted on the above contribution requirements and whether each Director has contributed sufficient time performing their responsibilities to the Company during the year. An annual review of the Directors' contribution to the Company was conducted in March 2018, with no exceptions being reported, such that the Directors were able to perform their duties and responsibilities in compliance with the HK Listing Rules and the CG Code.

Subsequent to the year end date, the Board conducted a review of the Directors' contribution to the Company in March 2019, with no exceptions being reported, such that the Directors were able to perform their duties and responsibilities in compliance with the HK Listing Rules and the CG Code.

Further, the Directors have disclosed, on a semi-annual basis, to the Company the number and nature of offices held in public companies and organisations and other significant commitments and, on a timely basis, any changes to their commitments, including the identities of the public companies or organisations and an indication of the time involved.

The Board and management

The Directors receive timely, regular and necessary management and other information to enable them to fulfill their duties, including regular updates of the development in the laws and regulations applicable to the Company. The Board has agreed a procedure for the Directors to have access to independent professional advice at the Company's expense and to the advice and services of the Company Secretary.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board and management (Continued)

The Board leads the Company with good governance and strategic direction. It is committed to make decisions in the best interests of the Company. It also reviews the Group's control and accountability framework in line with the HK Listing Rules and the Company's internal charter. Responsibility for day-to-day management of the business lies with the executive management, with the Board agreeing the overall financial plan. Accordingly, the following duties of the Board have been delegated to the management:

- (i) the daily operations of the Company, including the management of all aspects of the Company's principal activities;
- (ii) the financial operations of the Company, including the preparation of the monthly management accounts, interim report and annual report and the timely distribution to the Board;
- (iii) the company secretarial activities, including the preparation and timely despatch of minutes of Board meetings; and
- (iv) corporate and regulatory issues, including corporate strategy and planning, internal controls and compliance, providing that the following shall always be subject to approval by a resolution of the Board:
 - material capital commitment (material being defined as representing more than 5 per cent of the Company's net assets based on the most recent financial information on hand);
 - issuance, purchase or redemption of securities (including options);
 - significant contracts with any Director (as referred to in Paragraph 15 of Appendix 16 to the HK Listing Rules) and connected transactions;
 - relevant transactions (which are loans, quasi loans and credit transactions) with any Director as referred to in The Companies Ordinance (Chapter 622) of Hong Kong; and
 - management contracts of service with any Director (as referred to in The Companies Ordinance (Chapter 622) of Hong Kong) and bank borrowings.

Details of the composition of the various committees of the Board are set out in the Directors' Report under the section headed "Directors", which, in compliance with Code Provision A.3.2 of the CG Code, are available from the "List of Directors" on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Directors' training

All Directors are mindful that they should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

By emails circulated by the Company Secretary from time to time, Directors are provided with updates on the HK Listing Rules and the relevant statutes, rules and regulations. Updates which were circulated during the year ended 31 December 2018 included:

- The letter in relation to the "Publication of Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance – Report 2017" issued by the HK Stock Exchange on 26 January 2018;
- The letter in relation to the "Publication of Consultation Conclusions Paper on a Listing Regime for Companies from Emerging and Innovative Sectors" issued by the HK Stock Exchange on 24 April 2018;
- The letter in relation to the "Codes on Takeovers and Mergers and Share Buy-backs Align with New Listing Regime" issued by The Securities and Futures Commission on 27 April 2018;
- The letter in relation to the "Consultation Conclusions on Capital Raisings by Listed Issuers" issued by the HK Stock Exchange on 4 May 2018;
- The letter in relation to the "Consultation Conclusions on Delisting and Other Rule Amendments" issued by the HK Stock Exchange on 25 May 2018;
- The letter in relation to the "Publication of the Financial Statements Review Programme Report 2017" issued by the HK Stock Exchange on 1 June 2018;
- The press release in relation to the "SFC Amends Takeovers Rules" issued by The Securities and Futures Commission on 13 July 2018;
- The letter in relation to the "Publication of Consultation Conclusions on Review of the Corporate Governance Code and Related Listing Rules and Guidance for Board of Directors" issued by the HK Stock Exchange on 27 July 2018 – Directors' attention was particularly drawn to the "Guidance for Board of Directors"; and
- The letter in relation to the "Consultation Conclusions on Proposed Exemption for Aircraft Leasing Activities" issued by the HK Stock Exchange on 17 August 2018.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Directors' training (Continued)

Directors also reported that they have attended various training programmes and seminars (including the series of directors' e-training programmes provided on the website of the HK Stock Exchange) during the year ended 31 December 2018 (which were funded by the Company upon request) and confirmed that they have complied with Code Provision A.6.5 of the CG Code.

Subsequent to the year end date and prior to the date of this report, updates, among other things, were circulated by the Company Secretary to the Directors on:

- The letter in relation to the "Publication of Consultation Conclusions Paper on Review Structure in Relation to Listing Committee Decisions" issued by the HK Stock Exchange on 18 January 2019;
- The letter in relation to the "Publication of Review of Issuers' Annual Report Disclosure Report 2018" issued by the HK Stock Exchange on 31 January 2019; and
- The letter in relation to the "Consultation Conclusions on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments" issued by the HK Stock Exchange on 1 February 2019.

Board evaluation

In compliance with Code Provision B.1.9 of the CG Code, the Board has determined that an annual evaluation should be conducted on the Board's performance. An annual performance evaluation was conducted in March 2018, with no exceptions being reported.

Subsequent to the year end date, the Board conducted an evaluation of the Board's performance in March 2019, with no exceptions being reported.

Directors' and officers' liability insurance policy

In compliance with Code Provision A.1.8 of the CG Code, the Company has arranged appropriate directors' and officers' liability insurance policy in respect of legal action against its Directors, which is reviewed and renewed on an annual basis.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with the Rules 3.10(1) and 3.10A of the HK Listing Rules, the Board currently comprises three Independent Non-Executive Directors, namely David Comba, Julie Oates and Mark Searle, representing more than one-third of the Board.

Confirmation of independence

Pursuant to Rule 3.13 and paragraph 12B of Appendix 16 to the HK Listing Rules, each of the Independent Non-Executive Directors has confirmed by an annual confirmation:

- (i) that he/she (including his/her "immediate family members", as defined under Rule 14A.12(1)(a) of the HK Listing Rules) complies with each of the independence criteria referred to in Rule 3.13(1) to (8) (having incorporated the changes brought about by the amended Rule 3.13 of the HK Listing Rules, which took effect on 1 January 2019);
- (ii) that he/she has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person (as such term is defined in the HK Listing Rules) of the Company;
- (iii) that he/she does not hold any cross-directorships (which exist when two (or more) Directors sit on each other's boards) or has any significant links with other Directors through involvement in other companies or bodies (having incorporated the newly-introduced Code Provision A.3.3 of the CG Code, which took effect on 1 January 2019);
- (iv) that he/she does not hold more than six listed company directorships (having incorporated the changes brought about by the amended Code Provision A.5.5 of the CG Code, which took effect on 1 January 2019); and
- (v) that there are no other factors that may affect his/her independence at the same time as the submission of his/her Declaration and Undertaking in Form B of Appendix 5 to the HK Listing Rules.

They have undertaken to inform the Company and the HK Stock Exchange as soon as practicable if there are any changes of circumstances which may affect his/her independence.

Each of the non-independent Directors has confirmed that he/she considers that all three Independent Non-Executive Directors continue to be independent under the independence criteria referred to in Rule 3.13(1) to (8) and are capable of efficiently exercising independent judgement. Among them, Julie Oates has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Julie Oates and Mark Searle serve on the Audit Committee, the Connected Transactions Committee, the Nomination Committee and the Remuneration Committee, while Julie Oates is the Chairlady of the first two committees and Mark Searle is the Chairman of the Remuneration Committee. And, David Comba is a member of the Chapter 18 technical committee.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Code Provision A.4.3

Code Provision A.4.3 of the CG Code provides that serving for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves for more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be elected.

- (1) In accordance with Article 87 of the Company's Articles of Association, Julie Oates and Mark Searle retired by rotation at the 2018 Annual General Meeting. Both of them, being eligible, offered themselves for re-election. In particular regard to Code Provision A.4.3, it was noted that:
 - (i) Julie Oates, who was appointed as an Independent Non-Executive Director on 28 September 2004, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2015; and
 - (ii) Mark Searle, who was appointed as an Independent Non-Executive Director on 31 October 2001, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2015.

At a meeting of the Nomination Committee held in March 2018, James Mellon and Jamie Gibson were of the view that each of David Comba, Julie Oates and Mark Searle continued to be independent under the independence criteria set out in Rule 3.13(1) to (8) of the HK Listing Rules and had proved to be capable of efficiently exercising independent judgement. Among them, Julie Oates had the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Each of the independent Directors continued to serve on the respective committees (as noted above). Accordingly, the Directors considered that Julie Oates and Mark Searle should be re-elected as Independent Non-Executive Directors at the 2018 Annual General Meeting. Such view was noted at a Board Meeting held in March 2018.

Such reasoning, accompanied by the details of the Directors proposed to be re-elected, as required under Rule 13.51(2) and Code Provision A.4.3, were duly set out in the shareholders' circular issued by the Company on 27 April 2018.

The Company used to deal with the rotational retirement and re-election of the retiring Directors by a separate resolution for each of the retiring Directors at the Company's annual general meetings.

Accordingly, each of the retiring Directors (including Julie Oates and Mark Searle) was duly re-elected as a Director of the Company by a separate resolution at the 2018 Annual General Meeting.

- (2) It is noted that there will be no Independent Non-Executive Directors standing for rotational re-election at the 2019 Annual General Meeting.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

James Mellon has been the Non-Executive Chairman of the Board since October 2005. The Chairman provides leadership for the Board. He also ensures that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Jamie Gibson has been the Chief Executive Officer since May 2002 and he is responsible for the day-to-day management of the Company's business.

In order to ensure a balance of power and authority, the roles of the Chairman of the Board and the Chief Executive Officer are segregated and the division of their responsibilities has been established by the respective written terms of reference, in compliance with Code Provision A.2.1 of the former Code on CG Practices and later the CG Code. The Chairman, however, has delegated the following duties to the Chief Executive Officer or the Company Secretary so that:

- (i) the Chief Executive Officer is empowered to draw up and approve the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda; and
- (ii) the Company Secretary is empowered to, with the guidance from the Chief Executive Officer, despatch the notice, agenda and accompanying Board papers to all Directors in a timely manner.

Pursuant to Code Provision A.2.7 of the CG Code, the Non-Executive Chairman of the Board held a private meeting in March 2018 with the Non-Executive Directors (including the Independent Non-Executive Directors), without the presence of the Executive Director, which was attended by all Non-Executive Directors.

Subsequent to the year end date and prior to the date of this report, the Non-Executive Chairman of the Board, pursuant to the amended Code Provision A.2.7 of the CG Code (which took effect on 1 January 2019), held a private meeting in March 2019 with the Independent Non-Executive Directors, without the presence of other Directors, which was attended by all Independent Non-Executive Directors.

NON-EXECUTIVE DIRECTORS

The letter of appointment of James Mellon (for the position as Non-Executive Chairman of the Board) does not specify a term for his appointment. However, in compliance with Code Provision A.4.1, his appointment may be terminated by either party giving 30 calendar days' notice, and he is also subject to the directors' retirement provisions as set out in the Company's Articles of Association. Further, Mr Mellon's advisory agreement specifies that his appointment as an adviser of the Company may be terminated by either party giving one year's notice.

The letter of appointment of each of the remaining four Non-Executive Directors (including the independent Directors) provides that his/her appointment may be terminated by either party giving 30 calendar days' notice and he/she is also subject to the directors' retirement provisions as set out in the Company's Articles of Association.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee was established on 5 November 2004, with its specific written terms of reference which deal with its authority and duties first adopted on 18 March 2005 in compliance with the code provisions in B.1 of the former Code on CG Practices. Its terms of reference were recently revised on 12 December 2018 in order to incorporate the amendments brought about by The Consultation Conclusions on “Review of the Corporate Governance Code and Related Listing Rules” (the “**CG Code Consultation Conclusions**”), which were designated to take effect on 1 January 2019.

In compliance with Rule 3.25 of the HK Listing Rules, the committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle, and is responsible to review and approve the remuneration packages of the Directors and the employees. The committee is chaired by Mark Searle.

Since its establishment, the Remuneration Committee has adopted the model where the committee should determine, with delegated responsibility, remuneration packages of individual Executive Directors and senior management, being the model referred to in Code Provision B.1.2(c) of the CG Code. No Directors or any of their associates are involved in deciding their own remuneration.

During the year ended 31 December 2018, the Remuneration Committee did not hold any meetings or pass any written resolutions.

The attendance of the respective Directors at the Remuneration Committee’s meetings are set out below:

Name of Director	Number of meetings held	Number of meetings attended	Number of meetings absent	Attendance rate (%)
Mark Searle	0	0	0	Not applicable
James Mellon	0	0	0	Not applicable
Julie Oates	0	0	0	Not applicable

Subsequent to the year end date and prior to the date of this report, the Remuneration Committee did not hold any meetings or pass any written resolutions.

Article 116(2) of the Company’s Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (Continued)

Where meetings were held, sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee's meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee's meetings.

Draft minutes of the committee's meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee's meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

In compliance with Code Provision B.1.3 of the CG Code, the terms of reference of the Remuneration Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

NOMINATION COMMITTEE

The Nomination Committee was established on 13 March 2012, with its specific written terms of reference which deal with its authority and duties, in compliance with the code provisions in A.5 of the CG Code. Its terms of reference were recently revised on 11 December 2018 in order to incorporate the amendments brought about by the CG Code Consultation Conclusions, which were designated to take effect on 1 January 2019.

In compliance with Code Provision A.5.1 of the CG Code, the committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle, and is responsible for the nomination of Directors of the Company and the review of the composition of the Board. The committee is chaired by James Mellon.

During the year ended 31 December 2018, the Nomination Committee held one meeting with respect to: (i) an annual review of the structure, size and composition (including skills, knowledge, experience and diversity of perspectives) of the Board; (ii) an annual review of the "Board Diversity Policy" (as set out in details below); (iii) an annual review of the independence of the Independent Non-Executive Directors; and (iv) the re-appointment of David Comba (being an Independent Non-Executive Director serving for more than 9 years) as a Director of the Company at the 2018 Annual General Meeting. The attendance of the respective Directors at the Nomination Committee's meetings are set out below:

Name of Director	Number of meetings held	Number of meetings attended	Number of meetings absent	Attendance rate (%)
James Mellon	1	1	0	100.00%
Mark Searle	1	1	0	100.00%
Julie Oates	1	1	0	100.00%

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Subsequent to the year end date and prior to the date of this report, the Nomination Committee held one meeting, which was attended by all members of the committee, with respect to: (i) an annual review of the structure, size and composition (including skills, knowledge, experience and diversity of perspectives) of the Board; (ii) an annual review of the “Board Diversity Policy” (as set out in details below); and (iii) an annual review of the independence of the Independent Non-Executive Directors.

Article 116(2) of the Company’s Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee’s meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee’s meetings.

Draft minutes of the committee’s meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee’s meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

During the year ended 31 December 2018 and prior to the date of this report, there were no changes in the directorate.

In compliance with Code Provision B.5.3 of the CG Code, the terms of reference of the Nomination Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

Board Diversity Policy

In anticipation of the new provisions of the CG Code concerning board diversity taking effect on 1 September 2013, the Nomination Committee adopted the “Board Diversity Policy” of the Company on 20 March 2013, which is set out below.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Board Diversity Policy (Continued)

The Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. The Nomination Committee also oversees the conduct of the annual review of Board effectiveness.

- In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the Board.
- In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity of the Board.
- As part of the annual performance evaluation of the effectiveness of the Board, Board committees and individual Directors, the Nomination Committee will consider the balance of skills, experience, independence and knowledge of the Company on the Board and the diversity representation of the Board.

The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

In order to set meaningful objectives, the Nomination Committee will assess its current diversity levels and identify where gaps exist. Measurable objectives will then be developed which are tailored towards improving diversity in areas where most improvement is needed.

The Company acknowledges that there are a number of different types of measurable objectives which may be implemented to assist in meeting its diversity goals, including:

- procedural and structural objectives: for example, implementing internal review and reporting procedures or ensuring that candidates are interviewed by a diverse selection/interview panel;
- diversity targets: setting specific diversity targets, for example, setting targets for the number of women on the Board and implementing timeframes for this to occur by; and
- initiatives and programs: for example, identifying appropriate initiatives and programs and determining how the initiative will operate, who will be responsible for implementing it and setting a timetable for its introduction.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Board Diversity Policy (Continued)

The Nomination Committee will review the policy on Board diversity annually, which will include an assessment of the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

An annual review of the Board Diversity Policy was conducted in March 2018. The Nomination Committee was of the view that the Company's Board Diversity Policy was suitable for the size of the Company.

Subsequent to the year end date, the Nomination Committee conducted a review of the Board Diversity Policy in March 2019, which concluded with the view that the Company's Board Diversity Policy was suitable for the size of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The primary responsibility for performing the corporate governance functions for the Company, as referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code, rests with the Board, with the full support of the Company's secretary and its executive management.

During the year ended 31 December 2018 and prior to the date of this report, among other things, the Board:

- (i) reviewed the CG Code Consultation Conclusions and introduced appropriate amendments to the terms of reference of the respective committees of the Board;
- (ii) determined a policy on the payment of dividends for the Company;
- (iii) reviewed the Articles of Association of the Company and introduced appropriate amendments in order to keep abreast of updates to the HK Listing Rules and the normal standard required from a listed issuer on the HK Stock Exchange; and
- (iv) performed the general corporate governance functions for the Company, including those referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee.

The Audit Committee was established on 11 March 1999 with its specific written terms of reference which deal with its authority and duties. Its terms of reference were recently revised on 12 December 2018 in order to incorporate the amendments brought about by the CG Code Consultation Conclusions, which were designated to take effect on 1 January 2019. The committee's purpose is to assist the Board in:

- providing an independent review of the effectiveness of the Company's financial reporting process;
- evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems; and
- overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

In compliance with Rule 3.21 of the HK Listing Rules, the Audit Committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle. The committee is chaired by Julie Oates, who has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2).

During the year ended 31 December 2018, the Audit Committee held two meetings with respect to:

- (a) (i) the review and approval of the Company's audited financial statements for the year ended 31 December 2017; (ii) the risk management and internal control review; (iii) an annual evaluation of the external and internal auditors of the Company; (iv) an annual evaluation of the performance of the committee; and (v) an annual review of adequacy of resources, staff qualifications and training for the accounting and financial reporting function; and
- (b) (i) the review and approval of the Company's interim financial statements for the six months ended 30 June 2018; and (ii) the risk management and internal control review,

with the presence of the external and internal auditors for the relevant resolutions. The attendance of the respective Directors at the Audit Committee's meetings are set out below:

Name of Director	Number of meetings held	Number of meetings attended	Number of meetings absent	Attendance rate (%)
Julie Oates	2	2	0	100.00%
James Mellon	2	2	0	100.00%
Mark Searle	2	2	0	100.00%

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

Subsequent to the year end date and prior to the date of this report, the Audit Committee held one meeting which was attended by all members of the committee, with the presence of the external and internal auditors for the relevant resolutions, with respect to: (i) the review and approval of the Company's audited financial statements for the year ended 31 December 2018; (ii) the risk management and internal control review; (iii) an annual evaluation of the external and internal auditors of the Company; (iv) an annual evaluation of the performance of the committee; and (v) an annual review of adequacy of resources, staff qualifications and training for the accounting and financial reporting function.

Article 116(2) of the Company's Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee's meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee's meetings.

Draft minutes of the committee's meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee's meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

The Audit Committee discharged their duties in accordance with their terms of reference with no exceptions reported.

In compliance with Code Provision C.3.4 of the CG Code, the terms of reference of the Audit Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

CONNECTED TRANSACTIONS COMMITTEE

The Company established the Connected Transactions Committee on 20 October 2008 to review and monitor any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof. The committee comprises two Independent Non-Executive Directors, namely Julie Oates (the Chairlady) and Mark Searle, and the Executive Director and Chief Executive Officer (Jamie Gibson).

Since its establishment, the Connected Transactions Committee did not hold any meeting, and during the year ended 31 December 2018 and prior to the date of this report, there were no connected transactions of the Company which were disclosable under Chapter 14A of the HK Listing Rules.

The terms of reference of the Connected Transactions Committee are available on the Company's website: www.regentpac.com.

INSIDE INFORMATION COMMITTEE

In view of the introduction of the statutory disclosure regime in respect of inside information under Part XIVA of the SFO and the consequential amendments made to the HK Listing Rules, which took effect on 1 January 2013, the Company established an inside information committee on 28 January 2013 to review and monitor the compliance of the Company with its statutory disclosure obligations under Part XIVA of the SFO, the HK Listing Rules and other applicable laws and regulations in respect of disclosure and transparency relevant to the Company. The committee comprises Jamie Gibson (the Executive Director and Chief Executive Officer), the Company Secretary, the Chief Financial Officer and the General Counsel.

AUDITOR

Remuneration

The Audit Committee reviewed and approved the auditor's remuneration on the basis that it was fair and reasonable for the size and operations of the Group and such remuneration was in the best interests of the Company. Apart from audit services, BDO Tax Limited provided non-audit services in respect of tax services, for which BDO Tax Limited received a fee of approximately US\$6,300 during the year ended 31 December 2018.

Attendance at general meetings

In accordance with Code Provision E.1.2 of the CG Code, at the Company's invitation, representatives of its external Auditor, BDO Limited, attended the 2018 Annual General Meeting to answer questions about the audit of the Company's financial statements, including the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary of the Company is Fung Yuk Bing (Stella), who is a full-time employee of the Group and reports to the Board and the Chief Executive Officer. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

Ms Fung is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. She has confirmed that she has complied with Rule 3.29 of the HK Listing Rules and has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS AND COMMUNICATION

Shareholders' communication policy

The Company has adopted on 13 March 2012 the following shareholders' communication policy (including the procedures for shareholders: (i) to requisition an extraordinary general meeting; or (ii) to put forward proposals at the Company's general meetings; or (iii) to put enquiries to the Directors), which is available from the "Corporate Documents" on the website of the Company (www.regentpac.com):

- (1) Article 58 of the Company's Articles of Association provides that the Board may whenever thinks fit call extraordinary general meetings, and:
- two or more Members holding at the date of deposit of the requisition not less than one-fifth of the paid up capital of the Company carrying the right of voting at general meetings of the Company or
 - any one Member which is a clearing house

shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

- (2) Shareholders who wish to communicate with the Company, including: (i) to requisition an extraordinary general meeting pursuant to Article 58 of the Company's Articles of Association; (ii) to put forward proposals at the Company's general meetings; or (iii) to put enquiries to the Directors, should write to the Chief Executive Officer or the Company Secretary of the Company (contact details set out below), accompanied by the details of their proposals.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

Shareholders' communication policy (Continued)

(3) The Chief Executive Officer of the Company is currently Jamie Gibson, whose email address is: jamie.gibson@regentpac.com.

The Company Secretary of the Company is currently Stella Fung, whose email address is: stella.fung@regentpac.com.

The Company's address and telephone and facsimile numbers are set out on its website.

Note:

A special resolution has been proposed at the 2019 Annual General Meeting to seek shareholders' approval for the adoption of the amended and re-stated Articles of Association of the Company, which comprises amendments to be made to Article 58. Details of the proposed amendments are set out in the accompanying circular to shareholders.

In the interim and on 17 December 2018, the "Interim Board Guidelines – Members Requisitioning Extraordinary General Meetings" were adopted, pursuant to which the Board will:

- (i) informally adopt a lower threshold of ten (10) per cent when considering whether or not a member is qualified to requisition an extraordinary general meeting of the Company; and
- (ii) interpret, construe and apply the said Article 58 in such a way as if a member or members (acting together) of the Company holding not less than ten (10) per cent of the paid up capital of the Company carrying the right of voting at general meetings of the Company will be allowed to convene an extraordinary general meeting and add resolutions to a meeting agenda.

Upon formal adoption of the amended and re-stated Articles of Association, the "Procedures on how shareholders can convene an extraordinary general meeting" will be updated accordingly.

Procedures for shareholders to propose a person for election as a Director of the Company

The Company has adopted on 13 March 2012 the following procedures for shareholders to propose a person for election as a Director of the Company, which are available from the "Corporate Documents" on the website of the Company (www.regentpac.com) in compliance with Rule 13.51D of the HK Listing Rules:

- (1) Article 86(1) to (3) of the Company's Articles of Association provides that:
 - (1) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There shall be a maximum of fifteen Directors unless otherwise determined by resolution of the Board. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.
 - (2) Subject to the Articles and the Companies Law (Revised) of the Cayman Islands, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

Procedures for shareholders to propose a person for election as a Director of the Company (Continued)

- (3) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the Members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. Subject to the provisions of these Articles, any Director so appointed shall retire at the next Annual General Meeting but shall then be eligible for election and any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.
- (2) Shareholders who wish to propose a person for election as a Director of the Company should write to the Chief Executive Officer or the Company Secretary of the Company (contact details set out below), accompanied by the detailed resume of the candidate.
- (3) The Chief Executive Officer should forward the shareholder's proposal, as soon as practicable upon receipt, to the Company's Nomination Committee for consideration.
- (4) If the Nomination Committee considers that the candidate may be appropriate for election as a Director of the Company, the Nomination Committee or the Chairman of the Nomination Committee may conduct an interview with the candidate, either in person or by telephonic or video-conferencing or by whatever means the Nomination Committee considers as appropriate.
- (5) The Nomination Committee should resolve as to whether a recommendation should be given to the Board to approve or decline the election of the candidate as a Director of the Company.
- (6) If the Board agrees with the proposed appointment, it should, if it is to fill a casual vacancy consequential from the retirement or resignation of any Director, resolve the appointment of the new Director pursuant to Article 86(3) or, if it is an addition to the existing Board, propose an ordinary resolution for the appointment of the new Director at the Company's next annual general meeting pursuant to Article 86(2).
- (7) The relevant shareholder should be communicated with the decision of the Board accordingly.
- (8) The Chief Executive Officer of the Company is currently Jamie Gibson, whose email address is: jamie.gibson@regentpac.com.

The Company Secretary of the Company is currently Stella Fung, whose email address is: stella.fung@regentpac.com.

The Company's address and telephone and facsimile numbers are set out on its website.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

Review of shareholders' communication policy

In compliance with Code Provision E.1.4 of the CG Code, the Board has determined that an annual review should be conducted on the effectiveness of the above shareholders' communication policy. An annual review was conducted in March 2018, which concluded that the Company had in place a compliant (under the CG Code) and effective means of communication with its shareholders.

Subsequent to the year end date, the Board conducted a review of the above shareholders' communication policy in March 2019, which concluded that the Company had in place a compliant (under the CG Code) and effective means of communication with its shareholders.

Policy on payment of dividends

Pursuant to the newly-introduced Code Provision E.1.5 of the CG Code, the Company has adopted a policy on the payment of dividends, which is set out in details under the paragraph headed "Results and Dividends" in the Directors' Report.

INVESTOR RELATIONS

During the year ended 31 December 2018 and prior to the date of this report, there were no changes made to the Company's Memorandum and Articles of Association.

In compliance with Rule 13.90 of the HK Listing Rules, an updated set of the Company's amended and re-stated Memorandum and Articles of Association is available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

Note:

A special resolution has been proposed at the 2019 Annual General Meeting to seek shareholders' approval for the adoption of the amended and re-stated Articles of Association of the Company. Details of the proposed amendments are set out in the accompanying circular to shareholders.

Right to demand poll

Under Article 66 of the Company's Articles of Association, subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting on a show of hands every member present in person (or being a corporation, present by a representative duly authorised) or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Where a member is, under the HK Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS (Continued)

Right to demand poll (Continued)

A resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the HK Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

The Directors have noted that the aforesaid Article 66 is not in compliance with Section 591(2) of the new Companies Ordinance (Chapter 622) of Hong Kong, which took effect on 3 March 2014. Section 591(2) provides that a provision of a company's articles is void in so far as it would have the effect of making ineffective a demand for a poll at a general meeting on any question (other than: (i) the election of the chairperson of the meeting; or (ii) the adjournment of the meeting), which is made:

- (a) by at least five members having the right to vote at the meeting;
- (b) by a member or members representing at least 5 per cent of the total voting rights of all the members having the right to vote at the meeting; or
- (c) by the chairperson of the meeting.

Given that the Company is not a Hong Kong incorporated company and that pursuant to Rule 13.39(4) of the HK Listing Rules, the chairman of the Company's general meetings will, having given an explanation to the shareholders on the detailed procedures for conducting a poll, demand a poll on all resolutions proposed at the meeting, the Directors have not, in an earlier occasion, proposed any amendments to Article 66 of the Company's Articles of Association regarding the members' right to demand poll.

Note:

A special resolution has been proposed at the 2019 Annual General Meeting to seek shareholders' approval for the adoption of the amended and re-stated Articles of Association of the Company, which comprises amendments to be made to Article 66. Details of the proposed amendments are set out in the accompanying circular to shareholders.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS (Continued)

Notice periods of general meetings

It is noted that amendments have been made to Appendix 13B to the HK Listing Rules (Additional requirements for the Memorandum and Articles of Association of issuers incorporated or otherwise established in the Cayman Islands) in the Consultation Conclusions on “Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and Hong Kong Financial Reporting Standard and Proposed Minor/Housekeeping Rule Amendments” published by the HK Stock Exchange on 6 February 2015, which took effect on 1 April 2015, to align the notice periods for general meetings required for the Cayman Islands incorporated companies with the relevant requirements under the new Companies Ordinance (Chapter 622) of Hong Kong (which took effect on 3 March 2014), being 21 days for annual general meetings and 14 days for any other general meetings. The existing Article 59 of the Company’s Articles of Association complies with these requirements.

In addition, Code Provision E.1.3 of the CG Code requires that the issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group’s strategic objectives, and maintaining sound and effective risk management and internal control systems (including reviewing their effectiveness) to safeguard shareholders’ investment and the Group’s assets, on an ongoing basis. To this end, management continues to allocate resources for an internal control and risk management system to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the Group’s risk management and internal control systems. During the year ended 31 December 2018, the Audit Committee engaged an internal audit and business consulting firm to undertake a review of the effectiveness of the Group’s risk management and internal control systems for the year, including financial, operational and compliance functions.

Based on the results of the review, the Group’s risk management and internal control systems are considered effective and adequate.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

Risk management

Risk management is a standing process of the Group which assists management and the Board in enhancing the transparency and accountability of the major business risks encountered. During the year ended 31 December 2018, the Group conducted formal risk assessment by the management on a semi-annual basis to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Group's business objectives and strategies. A risk assessment questionnaire prepared, based on the Group's risk model, was circulated to senior management of the Group, together with reviews of existing risk mitigation measures and follow-up interviews as necessary, to facilitate the assessment. Management then developed action plans to further enhance the risk management capabilities of particular key risks as appropriate.

Internal control

The Group ensures internal controls are designed and implemented in all major aspects of the Group's operations and details of internal control activities are included in the operating policies and procedures of the Group. Management regularly revisits the policies and procedures and furnishes updates as necessary. During the year ended 31 December 2018, the Group also conducted a review of the operations of Plethora Solutions Holdings plc, identified the respective internal control deficiencies and executed corresponding remedial action plans. The Group also developed the policies and procedures for its major functions to ensure key internal controls are included.

Internal audit function

The Group maintains an internal audit function assisting the Board in maintaining an effective risk management and internal control systems by evaluating its effectiveness and efficiency and by promoting continuous improvement. The internal audit function of the Group, which is independent of management, reports directly to the Audit Committee regularly and has access to the Chairlady of the Audit Committee if appropriate during the year.

To enhance the objectivity and competency of the internal audit function, the Group outsourced the internal audit function to an internal audit and business consulting firm.

The internal audit function performs regular reviews of the Group's internal controls based on a risk-based internal audit plan approved by the Audit Committee. The annual audit plan was arrived at using a risk-based approach to determine the priorities of the internal audit activity.

Findings and recommendations on internal control deficiencies were communicated with management and action plans were developed by management to address the issues identified. Post-audit reviews were scheduled to ensure the action plans were executed as designed.

Key findings of each internal control review assignment were reported to and reviewed by the Audit Committee on a timely basis.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

The financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Directors acknowledge their responsibility for preparing the accounts and presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. An explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives are set out under the section headed "Strategic Plan" in the Management's Discussion and Analysis of the Group's Performance.

A report of the independent Auditor with respect to the Company's financial statements for the year ended 31 December 2018 is included in this annual report.

On Behalf of the Board

James Mellon

Chairman

22 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW AND SCOPE

The Group prepares the Environmental, Social and Governance (the “ESG”) Report in accordance with Appendix 27 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has assessed the materiality of the key ESG issues associated with its business and operations, and accordingly determined the scope and content of disclosure in this ESG Report.

The scope of this ESG Report covers the operations of the head office in Hong Kong and Plethora Solutions Holdings plc (“Plethora”) in the United Kingdom (collectively the “Group”), unless specifically stated otherwise, for the year ended 31 December 2018 (the “reporting period”).

STRATEGY, OBJECTIVES AND MANAGEMENT APPROACH

It is of the Group’s significant priority in promoting sustainable practices in daily business operations with the aim to minimize unfavourable impact on the environment and society in which it operates. The Board has been aware of its overall responsibility for the Group’s ESG strategy and reporting and has ensured management has implemented relevant measures during the reporting period. Management regularly evaluates the Group’s ESG-related exposure with the consideration of changes in internal and external business environment, and has ensured that all relevant ESG principles are being adhered to when conducting business. In addition, the Group maintains the ESG policies to govern the respective processes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

We are committed to conducting our business in an environmentally responsible manner. In particular, all employees are required to comply with all applicable environmental laws and regulations and to conduct business in a manner that protects the environment, conserves resources and promotes sustainable development.

As of 31 December 2018, the Group's headquarters in Hong Kong occupied 5,479 square feet with 10 employees, while Plethora's office in the United Kingdom occupied 344 square feet with 3 employees. Given our relatively small operational size, our current business operations do not have any significant impact on the environment. We are not involved in producing air, water, land pollutants or hazardous wastes, and have limited emission of greenhouse gas ("GHG"), which is generated indirectly from the electricity consumption and paper usage for daily office administration purpose. Relevant Environmental Key Performance Indicators ("KPIs") in connection to our business are disclosed below:

KPIs	2017	2018
AI.1 Air Pollutants Emission	<i>N/A (Note 1)</i>	
AI.2 GHG Emission		
Direct emission of GHG	<i>N/A (Note 1)</i>	
Indirect emission of Carbon Dioxide ("CO ₂ ") resulting from:		
➤ Electricity purchased (<i>Note 2</i>)	38,567 kg	36,130 kg
➤ Paper waste disposed at landfills	553 kg	426 kg
➤ Business air travel by employees	45,074 kg	38,701 kg
	<u>84,194 kg</u>	<u>75,257 kg</u>
CO ₂ emission per employee	7,016 kg per employee	5,789 kg per employee
CO ₂ emission per square feet of office premises	14 kg per sq. ft.	13 kg per sq. ft.
AI.3 Hazardous waste produced	<i>N/A (Note 1)</i>	
AI.4 Non-hazardous waste produced		
Paper waste disposed at landfills (<i>Note 3</i>)	115 kg	89 kg
Paper waste produced per employee	9.6 kg per employee	6.8 kg per employee
A2.1 Energy consumption		
Direct energy consumption	<i>N/A (Note 1)</i>	
Indirect energy consumption from electricity purchased (<i>Note 2</i>)	48,819 kWh	46,321 kWh
Energy consumption per employee	4,068 kWh	3,563 kWh
	per employee	per employee
Energy consumption per square feet of office premises	8 kWh per sq. ft.	8 kWh per sq. ft.
A2.2 Water consumption	<i>N/A (Note 4)</i>	
A2.5 Packaging material used for finished products	<i>N/A (Note 5)</i>	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (Continued)

Notes:

1. The Group does not have production or involve in activities that:
 - Emit air pollutants;
 - Directly generate GHG;
 - Generate hazardous wastes; or
 - Directly consume energy.
2. The figures only include Head Office in Hong Kong. Relevant data in Plethora's office is not available since electricity consumed is covered by the Landlord.
3. With consideration of limited paper waste volume, the Group disposes of the waste to landfills through the waste disposal channel managed by the building's management service provider.
4. Water usage for the head office and Plethora's office is minimal and relevant expense is covered by the landlord, hence no data is available. The Group has not encountered any issues in water sourcing.
5. Commercialization partners of the Group are responsible for the marketing, distribution and manufacturing of all products. The Group does not directly involve in the use/purchase of packaging materials.

The Group has been persistent in conducting business in an environmentally responsible manner by efficient use of resources, including energy, water and other raw materials, and minimisation of the Group's impact on the environment and natural resources. We continuously improve our environmental management practices through enhancing operational efficiencies and implementing eco-friendly measures including energy conservation, paper saving, reuse and recycling, etc. The efforts we put are reflected in the reduction of electricity consumed and paper wastes produced during the reporting period.

Throughout the reporting period, there was no reported case of non-compliance with the Air Pollution Control Ordinance of Hong Kong, Climate Change Act 2008 of the United Kingdom and other applicable environmental laws and regulations that have a significant impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Practices

Employment

The Group strictly complies with applicable labour standards, health and safety and employment laws and regulations of its respective major operating locations. The Group is committed to providing equal opportunities throughout recruitment and employment and combating all forms of discrimination in the workplace.

The Group has developed internal policies and guidelines on employment, dismissal, working hours and leave entitlement, working conduct, safety, welfare and benefits as well as training and development. Employee handbook is distributed to all employees as a vital communication medium between the company and the employees. During the reporting period, there was no reported case of non-compliance with the Employment Ordinance, Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance, and Race Discrimination Ordinance of Hong Kong, the Equality Act 2010 of the United Kingdom, as well as other relevant employment regulations or violation of employees' rights during the reporting period.

Labour Standards

The Group prohibits child and forced labour in any workplace in accordance with the Employment of Children Regulations of Hong Kong and Modern Slavery Act 2015 of the United Kingdom.

Health and Safety

The Group places the highest priority on securing health and safety of all employees. Guidelines on health and safety procedures are developed to maintain a healthy and safe working environment for employees. It has provided health and accidental insurance coverage to eligible employees. During the reporting period, there was no material accident or labour dispute with employees, and no reported case of non-compliance with Occupational Safety and Health Ordinance of Hong Kong, Health and Safety at Work Act 1974 of United Kingdom, as well as other relevant laws and regulations relating to employees' health and safety.

Development and Training

Staff training and enhancement guidelines are in place to ensure appropriate support to enhance their knowledge, skills and competencies needed for their work duties. Education allowances and leaves are offered to the employees for attending training courses, conferences and examinations organized by recognized professional institutions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (Continued)

Operating Practices

Supply Chain Management

The Group engages with its suppliers and business partners on a fair and ethical basis and expects that they adhere to high social, ethical and environmental standards.

Our management takes reasonable efforts to understand and ensure the Group's business partners comply with environmental protection regulations and advocate good manufacturing practices and quality standards. In addition, the Group has established internal policies governing vendor selection and ongoing management, as well as sales and marketing.

Product Responsibility

As an investment company focusing on bio-pharmaceutical, the Group's core value is to prioritize and assure quality and safety of the Group's products. The Group has regularly and closely monitored the safety of all its medicine products, including reviewing safety data from clinical studies and reviewing reports on probable adverse drug reactions. The Group has taken active steps in ensuring the group and the commercialisation partners' strict compliance with good manufacturing practice, good distribution practice, good pharmacovigilance practices and other relevant regulations. Should there be any misconduct, investigation will be conducted and results will be reported to management. During the reporting period, there was no product recall, quality issue or adverse event reported.

The Group has entered into agreements with business partners to set out indemnity clauses for product liability and to ensure operational and quality assurance activities as well as regulatory compliance objectives are implemented and coordinated.

Anti-Corruption

Honesty, integrity and fairness are our core values which have been communicated to all directors and employees through staff handbook and internal policies. The Group is committed to conducting all businesses in the absence of any undue influence, and prohibits any form of corruption or malpractice including bribery, money laundering, extortion and fraud. During the reporting period, there was no reported case of non-compliance with the Prevention of Bribery Ordinance of Hong Kong and Bribery Act 2010 of the United Kingdom, as well as other relevant regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (Continued)

Operating Practices (Continued)

Community

The Group is committed to fulfilling its obligations and duties as a responsible corporate citizen, ensuring that our behavior reflect a genuine concern for our stakeholders, including shareholders, employees, their families and the communities in which we live and work. The Group's community investment strategy focuses on healthcare in the community and science education by making donations or sponsorship. We also encourage and support employees' volunteering for the benefit of the community.

On Behalf of the Board

James Mellon

Chairman

22 March 2019

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF REGENT PACIFIC GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Regent Pacific Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 103 to 208, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BDO Limited
香港立信德豪會計師事務所有限公司

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INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment assessment of intangible asset (patent PSD502®) of Plethora Solutions Holdings Plc (“Plethora”)

Refer to notes 3.12, 4.1 and 13 to the consolidated financial statements.

At 31 December 2018, the net carrying amount of PSD502® (also known as Fortacin™) was US\$137 million as set out in note 13.

Management has carried out impairment assessment in accordance with the Group's accounting policies and concluded that there was no impairment in respect of the cash generating unit to which this intangible asset was allocated. This conclusion was based on a value in use calculation that required significant management judgement with respect to the discount rates, exchange rates, growth rates, royalty rates and launch dates in each of five major regions identified in management's valuation model as well as the premature ejaculation prevalence rate.

We consider this as a key audit matter because the estimation of the recoverable amount of the cash-generating unit to which intangible asset allocated involves significant judgements and assumptions.

Our procedures in relation to management's impairment assessment of PSD502®/Fortacin™ at 31 December 2018 included:

- assessing the valuation methodology used and ensuring this was consistent with the methodology used when the intangible asset was initially valued on acquisition;
- challenging the reasonableness of key assumptions adopted by management including discount rates, launch dates in key markets, exchange rates, expected life of the patent and growth rates based on our knowledge of the business and industry;
- reconciling input data to supporting evidence, such as management's budgets and considering the reasonableness of these budgets; and
- considering the sensitivity of the valuation model to changes in key assumptions.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited

Certified Public Accountants

Chiu Wing Cheung Ringo

Practising Certificate no. P04434

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue:	5		
Signature payment, milestone and royalty income		6,235	5,272
Corporate investment income		(115)	(40)
Other income		19	5
		6,139	5,237
Fair value (loss)/gain on financial assets at fair value through profit or loss and derivatives, net	6	(3,296)	4,256
Total income including fair value (loss)/gain on financial assets at fair value through profit or loss and derivatives, net		2,843	9,493
Expenses:			
Employee benefit expenses	7	(3,958)	(3,900)
Rental and office expenses		(744)	(706)
Information and technology expenses		(167)	(177)
Marketing costs and commissions		(101)	(143)
Professional and consulting fees		(1,054)	(1,011)
Research and development expenses		(2,347)	(2,455)
Amortisation of intangible asset	13	(28,047)	(28,047)
Other operating expenses		(396)	(457)
Operating loss before impairment loss		(33,971)	(27,403)
Impairment loss on interest in an associate	14(iv)	—	(1,875)
Operating loss	6	(33,971)	(29,278)
Gain on disposal of an associate	14(iii)	209	—
Share of results of associates	14(ii)	—	(1,067)
Loss before income tax		(33,762)	(30,345)
Tax credit	8	2,669	2,982
Loss for the year		(31,093)	(27,363)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of financial statements of foreign operations		191	(25)
Share of other comprehensive income of an associate		—	(111)
Reclassification to profit or loss on disposal of an associate	14(iii)	129	—
Items that will not be reclassified subsequently to profit or loss			
Change in fair value of financial assets at fair value through other comprehensive income		(25)	—
Other comprehensive income for the year, before and net of tax		295	(136)
Total comprehensive income for the year		(30,798)	(27,499)
Loss for the year attributable to:			
Shareholders of the Company		(31,087)	(27,359)
Non-controlling interests		(6)	(4)
		(31,093)	(27,363)
Total comprehensive income attributable to:			
Shareholders of the Company		(30,797)	(27,495)
Non-controlling interests		(1)	(4)
		(30,798)	(27,499)
Losses per share attributable to shareholders of the Company during the year			
	10	US cents	US cents
– Basic and Diluted		(1.69)	(1.51)
		HK cents	HK cents
– Basic and Diluted		(13.25)	(11.80)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	77	63
Intangible asset	13	137,084	165,131
Interests in associates	14	1	2
Financial assets at fair value through other comprehensive income	15	282	—
Available-for-sale financial assets	16	—	1,925
		137,444	167,121
Current assets			
Financial assets at fair value through profit or loss	17	5,501	8,778
Trade receivables	19	297	—
Prepayments, deposits and other receivables	20	498	681
Cash and bank balances	18	1,022	2,251
		7,318	11,710
Current liabilities			
Trade payables, deposits received, accruals and other payables	21	(4,487)	(3,543)
Net current assets		2,831	8,167
Total assets less current liabilities		140,275	175,288
Non-current liabilities			
Deferred tax liabilities	24	(13,708)	(16,513)
NET ASSETS		126,567	158,775
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	22	18,372	18,372
Reserves	23	108,243	140,450
Equity attributable to shareholders of the Company		126,615	158,822
Non-controlling interests		(48)	(47)
TOTAL EQUITY		126,567	158,775

The consolidated financial statements on pages 103 to 208 were approved and authorised for issue by the Board of Directors on 22 March 2019.

James Mellon
Chairman

Jamie Gibson
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2018	Equity attributable to shareholders of the Company									
	Share capital US\$'000	Accumulated losses* US\$'000	Share premium* US\$'000	Investment revaluation reserve* US\$'000	Capital redemption reserve* US\$'000	Statutory reserve* US\$'000	Foreign currency exchange reserve* US\$'000	Total US\$'000	Non- controlling interests US\$'000	Total equity US\$'000
At 1 January 2018	18,372	(155,278)	283,534	—	8,228	176	3,790	158,822	(47)	158,775
Initial application of HKFRS 9 (note 2.1)	—	—	—	(1,410)	—	—	—	(1,410)	—	(1,410)
Restated balances at 1 January 2018	18,372	(155,278)	283,534	(1,410)	8,228	176	3,790	157,412	(47)	157,365
Loss for the year	—	(31,087)	—	—	—	—	—	(31,087)	(6)	(31,093)
Other comprehensive income										
Foreign currency translation adjustment	—	—	—	—	—	—	186	186	5	191
Change in fair value of financial assets at fair value through other comprehensive income	—	—	—	(25)	—	—	—	(25)	—	(25)
Reclassification to profit or loss on disposal of an associate (note 14(iii))	—	—	—	—	—	—	129	129	—	129
Total comprehensive income for the year	—	(31,087)	—	(25)	—	—	315	(30,797)	(1)	(30,798)
Transfer of cumulative loss on disposal of equity investment at fair value through other comprehensive income to accumulated losses, net of tax (note 15)	—	(10)	—	10	—	—	—	—	—	—
At 31 December 2018	18,372	(186,375)	283,534	(1,425)	8,228	176	4,105	126,615	(48)	126,567

* As at 31 December 2018, the total of these reserves amount to a surplus of US\$108,243,000 (2017: US\$140,450,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2017	Equity attributable to shareholders of the Company									
	Share capital US\$'000	Accumulated losses* US\$'000	Share premium* US\$'000	Share-based payment reserve* US\$'000	Capital redemption reserve* US\$'000	Statutory reserve* US\$'000	Foreign currency exchange reserve* US\$'000	Total US\$'000	Non- controlling interests US\$'000	Total equity US\$'000
At 1 January 2017	17,372	(129,541)	279,588	1,622	8,228	176	3,926	181,371	(43)	181,328
Shares issued by way of a placing and top-up subscription, net of issuing expenses (note 22)	1,000	—	3,946	—	—	—	—	4,946	—	4,946
Share options forfeited	—	1,622	—	(1,622)	—	—	—	—	—	—
	1,000	1,622	3,946	(1,622)	—	—	—	4,946	—	4,946
Loss for the year	—	(27,359)	—	—	—	—	—	(27,359)	(4)	(27,363)
Other comprehensive income										
Foreign currency translation adjustment	—	—	—	—	—	—	(25)	(25)	—	(25)
Share of translation reserve of associates (note 14(ii))	—	—	—	—	—	—	(111)	(111)	—	(111)
Total comprehensive income for the year	—	(27,359)	—	—	—	—	(136)	(27,495)	(4)	(27,499)
At 31 December 2017	18,372	(155,278)	283,534	—	8,228	176	3,790	158,822	(47)	158,775

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Cash flows from operating activities:			
Loss before income tax		(33,762)	(30,345)
Adjustments for:			
Depreciation of property, plant and equipment	12	52	36
Amortisation of intangible asset	13	28,047	28,047
Interest income on bank deposits	5	(16)	—
Share of results of associates	14(ii)	—	1,067
Impairment loss on interest in an associate	14(iv)	—	1,875
Unrealised loss on derivatives	6	—	186
Unrealised loss/(gain) on financial assets at fair value through profit or loss	6, 17	3,296	(4,484)
Gain on disposal of an associate	14(iii)	(209)	—
		(2,592)	(3,618)
Change in working capital			
Increase in trade receivables		(297)	—
Decrease in prepayments, deposits and other receivables		183	110
Decrease in financial assets at fair value through profit or loss		—	3,092
Increase/(decrease) in trade payables, deposits received, accruals and other payables		944	(2,331)
Cash used in operations		(1,762)	(2,747)
Interest received on bank deposits		16	—
Income tax paid		(136)	—
Net cash used in operating activities		(1,882)	(2,747)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Cash flows from investing activities:			
Purchase of property, plant and equipment	12	(68)	(9)
Purchase of available-for-sale financial assets	16	—	(199)
Proceeds from disposal of financial assets at fair value through other comprehensive income	15	189	—
Proceeds from disposal of an associate	14(iii)	339	—
Net cash generated from/(used in) investing activities		460	(208)
Cash flow from financing activities:			
Shares issued by way of a placing and top-up subscription, net of issuing expenses	22	—	4,946
Net cash generated from financing activities		—	4,946
Net (decrease)/increase in cash and cash equivalents		(1,422)	1,991
Cash and cash equivalents at the beginning of the year		2,251	291
Effects of foreign currency fluctuations		193	(31)
Cash and cash equivalents at the end of the year		1,022	2,251
Represented by:			
Cash and bank balances	18	1,022	2,251

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is at P. O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and are also traded on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange.

The consolidated financial statements are presented in United States Dollars ("US\$"), which is also the functional currency of the Company. All values are rounded to the nearest thousand ("US\$'000") except when otherwise indicated.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 HK Stock Exchange (the "HK Listing Rules").

The Company is engaged in investment holding, and the principal activities of the Company and its subsidiaries (collectively defined as the "Group") consist of investments in biopharma companies and other corporate investments. The principal place of business of the Group is 8th Floor, Henley Building, 5 Queen's Road Central, Hong Kong.

The consolidated financial statements for the year ended 31 December 2018 were approved and authorised for issue by the Board of Directors on 22 March 2019.

2. ADOPTION OF NEW OR REVISED HKFRSs

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2018:

HKFRSs (Amendments)	Annual Improvements 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" has been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”)

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement” for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of investment revaluation reserve as at 1 January 2018 (increase/(decrease)):

	US\$'000
<i>Investment revaluation reserve</i>	
Reserve balance as at 31 December 2017	—
Reclassify investments from available-for-sale (“AFS”) financial assets	
to financial assets at fair value through other comprehensive income (“FAFVOCI”)	(1,410)
Restated reserve balance as at 1 January 2018	(1,410)

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and AFS financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“FAAC”); (ii) FAFVOCI; or (iii) financial assets at fair value through profit or loss (“FAFVPL”). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed; and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”) (Continued)

(i) Classification and measurement of financial instruments (Continued)

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as at FAFVPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FAFVOCI as described above are classified as FAFVPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FAFVOCI or FAFVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets including trade receivables, deposits and other receivables, and cash and bank balances:

FAFVPL	FAFVPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
FAAC	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FAFVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”) (Continued)

(i) Classification and measurement of financial instruments (Continued)

The Group did not designate or de-designate any financial asset or financial liability at fair value through profit or loss (“FVTPL”) at 1 January 2018.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount	Carrying amount
			as at 1 January 2018 under HKAS 39 US\$’000	as at 1 January 2018 under HKFRS 9 US\$’000
Listed equity investments	Held-for-trading	FAFVPL	8,778	8,778
Unlisted club debenture	Available-for-sale (at cost)	FAFVPL	19	19
Unlisted equity investments	Available-for-sale (at cost)	FAFVOCI	1,906	496
Deposits and other receivables	Loans and receivables	FAAC	454	454
Cash and bank balances	Loans and receivables	FAAC	2,251	2,251

As at 1 January 2018, certain unquoted equity investments were reclassified from AFS financial assets at cost to FAFVOCI. These unquoted equity investments have no quoted price in the market. The Group intends to hold these unquoted equity investments for long term strategic purposes. In addition, the Group has designated these unquoted equity investments at the date of initial application as measured at FAFVOCI. Accordingly, the difference between the previous carrying amount and the fair value of US\$1,410,000 has been included in the opening investment revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”) (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “expected credit losses (“ECLs”) model”. HKFRS 9 requires the Group to recognise the ECLs for trade receivables, deposits and other receivables, earlier than HKAS 39. Cash and bank balances are subject to the ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are the ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated the ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Management has closely monitored the credit qualities and the collectability of the trade receivables. The adoption of the simplified approach under HKFRS 9 has not resulted in any impairment loss for trade receivables as at 1 January 2018.

For other financial assets carried at amortised cost, the ECL is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime ECLs. The Group has considered that there has not been a significant increase in credit risk of such financial assets since initial recognition as at 1 January 2018 and therefore the ECL is based on the 12-month ECL. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and consider that the ECL is immaterial.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”) (Continued)

(ii) Impairment of financial assets (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating the ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (“HKFRS 9”) (Continued)

(iv) Transition (Continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss; and
- The designation of certain investments in equity investments not held for trading as at FAFVOCI.

If an investment in a debt investment had low credit risk at the DIA, the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

HKFRS 15 – Revenue from Contracts with Customers (“HKFRS 15”)

HKFRS 15 supersedes HKAS 11 “Construction Contracts”, HKAS 18 “Revenue” and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies as disclosed in note 3.17 to the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively. The Group assessed the impact of adopting HKFRS 15 on its financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group’s previous accounting policies in relation to the recognition of milestone income, dividend income and interest income under HKAS 18. Accordingly, there is no material impact of transition to HKFRS 15 on accumulated losses and the related tax as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2018 (Continued)

HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretations specify that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The initial adoption of the interpretation would not have any significant impact on the Group's financial performance and financial position.

2.2 New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRS 16	Leases ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitments of the Group in respect of leased premises as at 31 December 2018 amounted to US\$1,063,000 as disclosed in note 26. Upon the adoption of HKFRS 16, the Directors of the Company anticipate that the commitments in the future in respect of leased premises with terms more than 12 months will be required to recognise as the right-of-use assets and lease liabilities in the consolidated financial statements of the Group in future. Accordingly, the Directors of the Company consider the adoption of HKFRS 16, as compared with the current accounting policy, would not result in significant impact on the Group’s financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HK(IFRIC) – Int 23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

The initial adoption of the interpretation would not have any significant impact on the Group's financial performance and financial position.

Amendments to HKFRS 3 – Definition of a Business

The amendments improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, supplementary guidance has been provided.

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

The initial adoption of the amendments to HKFRS 3 would not have any significant impact on the Group's financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 9 - Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

The initial adoption of the amendments to HKFRS 9 would not have any significant impact on the Group's financial performance and financial position.

Amendments to HKFRS 10 and HKAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business, the gain or loss is recognised in full. Conversely, when the transaction involves assets that do not constitute a business, the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The initial adoption of the amendments to HKFRS 10 and HKAS 28 would not have any significant impact on the Group's financial performance and financial position.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in HKFRSs, helps entities decide whether information should be included in their financial statements.

The initial adoption of the amendments to HKAS 1 and HKAS 8 would not have any significant impact on the Group's financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for:

- financial instruments classified as fair value through other comprehensive income and at fair value through profit or loss

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in the non-controlling interest having a deficit balance.

3.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure or rights to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses. The Group's investment in associates includes goodwill identified on acquisition.

Goodwill is calculated at each stage of the acquisition based on the consideration paid and share of fair value of net assets acquired at the date of each acquisition. If the sum of this consideration is lower than the fair value of the net assets acquired, the difference is recognised in profit or loss as a gain from bargain purchase.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associates" in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are recognised as an expense in profit or loss during the financial period in which they are incurred.

Depreciation on assets is provided to write off their cost less the expected residual value over their estimated useful lives, using the straight-line method. The estimated useful lives used for this purpose are as follows:

Furniture and fixtures	5 years
Computer and other equipment	3-5 years

The assets' expected residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss arising on retirement or disposal is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceeds the aggregate of the fair value of consideration paid, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 3.12(ii)), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Leasing

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

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

3.9 Financial instruments

Accounting policies applied from 1 January 2018

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied from 1 January 2018 (Continued)

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the Group classifies its debt instruments are as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through profit or loss: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECL on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event; or
- It is probable that the debtor will enter bankruptcy or other financial reorganisation.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

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

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, borrowings, deposits received, accruals and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied from 1 January 2018 (Continued)

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied until 31 December 2017 (Continued)

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit and loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied until 31 December 2017 (Continued)

(i) Financial assets (Continued)

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as AFS or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of the reporting period, whether there is any objective evidence that a financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in the fair value of an AFS investment in an equity financial asset below its cost.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied until 31 December 2017 (Continued)

(ii) Impairment loss on financial assets (Continued)

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. Objective evidence would include a significant or prolonged decline in fair value of an investment below its cost.

Any impairment losses on AFS debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For AFS equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For AFS equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied until 31 December 2017 (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivatives does not significantly modify the cash flows or it is clear that separation of the embedded derivatives are prohibited.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, deposits received, accruals and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Accounting policies applied until 31 December 2017 (Continued)

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

3.10 Impairment of other assets

At the end of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- interests in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment of other assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 3.7), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.12 Intangible assets (other than goodwill)

(i) *Acquired intangible assets*

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on the straight-line method over their estimated useful lives as follows:

Patent (Fortacin™)	8 years
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NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Intangible assets (other than goodwill) (Continued)

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 3.10).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in profit or loss immediately.

3.13 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

3.14 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the Mandatory Provident Fund Scheme. Contributions are made based on a percentage of the employees' basic salaries.

In the United Kingdom ("UK"), pensions to certain employees are provided through contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the subsidiaries operating in the UK pays fixed contributions into an independent entity. The subsidiaries operating in the UK have no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee benefits (Continued)

(iii) Share-based employee compensation

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the (i) share options awarded and (ii) ordinary shares expected to vest respectively. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the employee share-based payment reserve in equity if the grant is equity-settled share-based payment transaction. In respect of cash-settled share-based payment transaction, the corresponding increase is recognised as a liability. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of i) share options and ii) ordinary shares expected to vest respectively. Non-market vesting conditions are included in assumptions about the number of i) options ii) ordinary shares that are expected to vest. Estimates are subsequently revised if there is any indication that the number of i) share options and ii) ordinary shares expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in employee share-based payment reserve will be transferred to share premium. After vesting date, if the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in employee share-based payment reserve will be transferred to retained profits/accumulated losses.

3.15 Non employee share-based payments

Non employee share-based payments are accounted for in the same way as employee share-based payment except that the cost of equity-settled transactions with parties other than employees is measured by reference to the fair value of the goods or services provided.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.17 Revenue recognition

Accounting policies applied from 1 January 2018

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for goods or services transferred to the licencing partners. The Group recognises revenue when it transfers control over a product or service to the counterparty (licencing partner).

The Group enters into licence agreements for development, supply and commercialisation services. The terms of these arrangements typically include payments to the Group of one or more of the following: signature payment, milestone payments for development and regulatory application and royalty on net sales of licensed products. A milestone payment is a variable consideration which is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period when the uncertainty is resolved. The contracts into which the Group enters do not include significant financing components.

As part of the accounting for these arrangements, the Group must use significant judgement to determine: (a) the performance obligations; (b) the transaction price; and (c) the timing of revenue recognition, including the appropriate measure of progress.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

Accounting policies applied from 1 January 2018 (Continued)

At contract inception, the Group assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct.

The Group uses judgement to determine whether milestones or other variable consideration, (except for royalty), should be included in the transaction price. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Group recognises revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Group's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Group generally allocates that milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

The Group recognises revenue only when it satisfies a performance obligation by transferring control of the promised goods or services. The transfer of control can occur over time or at a point in time. A performance obligation is satisfied over time if it meets one of the following criteria:

- The counterparty simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.
- The Group's performance creates or enhances an asset that the counterparty controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The portion of the transaction price that is allocated to performance obligations satisfied at a point in time is recognised as revenue when control of the goods or services transfers to the counterparty. If the performance obligation is satisfied over time, the portion of the transaction price allocated to that performance obligation is recognised as revenue as the performance obligation is satisfied. The Group adopts an appropriate method of measuring progress for purposes of recognising revenue. The Group evaluates the measure of progress at the end of the reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

Accounting policies applied from 1 January 2018 (Continued)

Signature payment

The Group provides licence of its patented intellectual property (“IP”) to customers and revenue is recognised when the customers obtain rights to use the underlying IP. The consideration for licence comprises a fixed element (the signature payment) and variable elements (including but not limited to development milestones and royalties). The signature payment is recognised as revenue when customers have ability to use the underlying IP of the licence. The Group recognises signature payment at a point in time, upon the transfer of rights to use of licence to customers.

Milestone payments

At the inception of each arrangement that includes milestone payments, the Group evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Group, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Group evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgement involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of the subsequent reporting period, the Group re-evaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalty income

A sales-based royalty promised in exchange for a licence of intellectual property is recognised as revenue only when (or as) the later of the following events occurs: (a) the subsequent sale occurs; and (b) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied).

Any unconditional rights to consideration are presented separately as trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

Accounting policies applied from 1 January 2018 (Continued)

Interest income

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Accounting policies applied until 31 December 2017

The recognition of income received, such as licence fees, up-front receipts and milestone receipts is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations with any third party. Licence fees are recognised as revenue when all substantial obligations to the licensee have been fulfilled. Income is only recognised as revenue when the following conditions have been met:

- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Research and development expenses

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

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

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

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

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

3.20 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the related CGU to which the intangible assets have been allocated. Value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise.

4.2 Recognition of milestone income

In determining the appropriate amount of revenue to be recognised as the Group fulfills its obligations under each of its licencing agreements, the Group must use judgement to determine:

- whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract;
- measurement of the transaction price, including the constraint on variable consideration; and
- recognition of revenue when (or as) the Group satisfies each performance obligation.

NOTES TO THE FINANCIAL STATEMENTS

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

4.2 Recognition of milestone income (Continued)

At the inception of each arrangement that includes development milestone payments, the Group determines that each of its licencing agreements is a single performance obligation (i.e. a right to use the intellectual property), which is transferred to the customer at a point of time, upon the customer is able to use and benefit from the licence. The Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Group, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. At the end of each reporting period, the Group reevaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

4.3 Potential capital gain tax on realised gain on disposal of the Company's investment in BC Iron Limited ("BCI")

As further explained in note 32 to the consolidated financial statements and further detailed under the section headed "Australian Tax on BCI Sale" in the CEO's Report, as at 31 December 2018 the Company had not made any provision for Australian Capital Gains Tax ("CGT") in connection with its gain on disposal of shares in BCI in January 2013. As disclosed, the Australian Taxation Office ("ATO") considered that the Company did have a CGT liability arising from this gain in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$) (amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI). The Directors had made this judgement after careful consideration of the advice provided by its independent professional legal and tax advisers.

NOTES TO THE FINANCIAL STATEMENTS

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

4.3 Potential capital gain tax on realised gain on disposal of the Company's investment in BC Iron Limited ("BCI") (Continued)

As previously disclosed, the Company had envisaged entering into a formal dispute resolution process with the ATO. As at 31 December 2018, this process had taken place, and the parties had been unable to reach agreement as to an appropriate way in which to resolve the matter, culminating in the ATO determining the Company's previously lodged objection against it on 1 September 2016. As at 31 December 2018, the Company's position had not changed and it remained resolute in that it would continue to challenge the assessment in its entirety, consistent with expert and independent Australian advice received throughout, and had lodged an appeal against the ATO's determination of the objection in the Australian Federal Court. A trial date of 18 March 2019 had been set, with the matter set down to be heard over three (3) days in the Australian Federal Court.

As announced on 18 March 2019, the Company entered into a settlement agreement with the ATO in respect of the aforementioned dispute for an amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement. The settlement amount was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

While the expert and independent Australian advice received did not change throughout the dispute and at no stage did the Directors consider that any tax was payable (and therefore no provision for taxation regarding this matter was previously provided within the audited financial statements of the Company and the Group), as part of the dispute resolution process the Board was compelled to consider the inherent litigation risk associated with pursuing the matter through the Australian courts. Consequently, it was decided that the aforementioned settlement was in the best interests of the Group and its shareholders as a whole.

NOTES TO THE FINANCIAL STATEMENTS

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

4.4 Provision for income taxes

The Group is subject to income tax in different jurisdictions and significant judgement is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the reporting periods based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

4.5 Fair value of financial instruments

The Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares may include some assumptions not supported by observable market prices and rates.

4.6 Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "Fair Value Hierarchy"):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures its financial instruments at fair value.

For more detailed information in relation to the fair value measurement of the items above, please refer to notes 15, 17 and 29.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION

Revenue of the Group consists of signature payment, milestone and royalty income, corporate investment income and other income. An analysis of the Group's revenue for the year is as follows:

	2018 US\$'000	2017 US\$'000
Signature payment, milestone and royalty income		
Signature payment	1,300	—
Milestone and royalty income	4,935	5,272
	6,235	5,272
Corporate investment income		
Bank interest income	16	—
Foreign exchange losses, net	(131)	(40)
	(115)	(40)
Other income		
Sundry income	19	5
	6,139	5,237

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Chief Executive Officer ("CEO") for his decision about resources allocation to the Group's business components and for his review of the performance of those components. The business components in the internal financial information reported to the CEO are determined following the Group's major product and service lines.

For managements purpose, the Group's two product and service lines are identified as operating segments as follows:

- Biopharma : Research, development, manufacturing, marketing and sale of pharmaceutical products
- Corporate Investment : Investment in corporate entities, both listed and unlisted

These operating segments are monitored and strategic decisions are made on the basis of segment operating results. There are no sales between the reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- impairment loss on interest in an associate
- tax credit;
- corporate income and expenses which are not directly attributable to the business activities of any operating segment; and
- share of results of associates account for using the equity method; and gain on disposal of an associate.

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets except for interests in associates and FAFVOCI (2017: AFS financial assets).

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

Information regarding the Group's reportable segments is set out below:

For the year ended 31 December 2018

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Revenue from external customers	6,235	(96)	6,139
Segment results	(24,732)	(9,239)	(33,971)
Gain on disposal of an associate			209
Consolidated loss before tax credit			(33,762)

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

As at 31 December 2018

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Segment assets	138,388	6,091	144,479
Interests in associates			1
FAFVOCI			282
Total assets			144,762
Segment liabilities	(1,091)	(3,396)	(4,487)
Deferred tax liabilities			(13,708)
Total liabilities			(18,195)

For the year ended 31 December 2018

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Depreciation	(26)	(26)	(52)
Amortisation	(28,047)	—	(28,047)
Net loss on FAFVPL	—	(3,296)	(3,296)
Capital expenditure	—	(68)	(68)

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2017

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Revenue from external customers	5,272	(35)	5,237
Segment results	(25,657)	(1,746)	(27,403)
Impairment loss on interest in an associate			(1,875)
Share of results of associates			(1,067)
Consolidated loss before tax credit			(30,345)

As at 31 December 2017

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Segment assets	165,514	11,390	176,904
Interests in associates			2
AFS financial assets			1,925
Total assets			178,831
Segment liabilities	(375)	(3,168)	(3,543)
Deferred tax liabilities			(16,513)
Total liabilities			(20,056)

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2017

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Net losses on derivatives	—	(186)	(186)
Depreciation	(22)	(14)	(36)
Amortisation	(28,047)	—	(28,047)
Net gains on FAFVPL	—	4,442	4,442
Capital expenditure	(7)	(2)	(9)

The Group's revenues from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
The People's Republic of China (the "PRC")	1,000	—	1	1
Hong Kong (domicile)	50	79	59	17
Republic of Ireland	4,789	5,158	137,102	165,178
Taiwan	300	—	—	—
	6,139	5,237	137,162	165,196

The geographical location of revenue from external customers is based on the location of customers of the Group's Biopharma segment or the location of exchange on which the Group's investments are traded. The geographical location of the non-current assets is based on the physical location of the assets.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

Disaggregation of revenue

Disaggregation of revenue from the Group's Biopharma segment and timing of revenue recognition are as follows:

	2018 US\$'000	2017 US\$'000
Timing of revenue recognition		
<i>At a point in time</i>		
Signature payment	1,300	—
Milestone and royalty income	4,935	5,272
	6,235	5,272

The Group has applied the practical expedient under HKFRS 15 for not disclosing an estimate of the transaction price which would not include any estimated amounts of variable consideration that are constrained.

Information about major customers

Revenue from customers of the Group's Biopharma segment contributing 10% or more of the Group's revenue is as follows:

	2018 US\$'000	2017 US\$'000
Customer A	4,935	5,272
Customer B	1,000	—
	5,935	5,272

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING LOSS

	2018 US\$'000	2017 US\$'000
Operating loss is arrived at after charging:		
Auditors' remuneration		
– audit services	208	213
– review services	51	68
Depreciation of property, plant and equipment (note 12)	52	36
Amortisation of intangible asset (note 13)	28,047	28,047
Operating lease charges on property and equipment	702	666
Impairment loss on interest in an associate (note 14(iv))	—	1,875
Realised loss on disposal of FAFVPL [@]	—	42
Unrealised loss on derivatives [@]	—	186
Unrealised loss on FAFVPL [@]	3,296	—
Foreign exchange losses, net [*]	131	40
and crediting:		
Interest income on bank deposits [*]	16	—
Unrealised gain on FAFVPL [@]	—	4,484

[@] These amounts constitute the marked-to-market fair value loss on FAFVPL and derivatives of US\$3,296,000 (2017: gain of US\$4,256,000) in the consolidated statement of comprehensive income.

^{*} Included in revenue.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS)

	2018 US\$'000	2017 US\$'000
Salaries, discretionary bonuses and benefits in kind (note)	3,915	3,858
Pension costs - defined contribution plans (note 25)	43	42
	3,958	3,900

Note: No bonuses were paid in the financial years ended 31 December 2018 and 2017.

a) Directors' and Chief Executive's emoluments

The remuneration of every Director and Chief Executive for the year ended 31 December 2018 is set out below:

Name of director	Fees US\$'000	Salaries and benefits in kind US\$'000	Discretionary bonus US\$'000	Contribution to defined contribution plans US\$'000	Total US\$'000
Executive Director					
Jamie Gibson	—	1,500	—	—	1,500
Non-Executive Directors					
James Mellon	25	158	—	—	183
Jayne Sutcliffe	20	—	—	—	20
Independent Non-Executive Directors					
David Comba	40	—	—	—	40
Julie Oates	40	—	—	—	40
Mark Searle	40	—	—	—	40
Total	165	1,658	—	—	1,823

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

a) Directors' and Chief Executive's emoluments (Continued)

The remuneration of every Director and Chief Executive for the year ended 31 December 2017 is set out below:

Name of director	Fees US\$'000	Salaries and benefits in kind US\$'000	Discretionary bonus US\$'000	Contribution to defined contribution plans US\$'000	Total US\$'000
Executive Director					
Jamie Gibson	—	1,500	—	—	1,500
Non-Executive Directors					
James Mellon	25	158	—	—	183
Jayne Sutcliffe	20	—	—	—	20
Independent Non-Executive Directors					
David Comba	40	—	—	—	40
Julie Oates	40	—	—	—	40
Mark Searle	40	—	—	—	40
Total	165	1,658	—	—	1,823

No Directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

b) Five highest paid individuals

Of the five highest paid individuals, one (2017: one) was Director of the Company and the remuneration has been included in the Directors' remuneration. The total emoluments payable to the five highest paid individuals for the year are as follows:

	2018 US\$'000	2017 US\$'000
Fees	—	—
Salaries and other emoluments	3,134	3,111
Pension costs - defined contribution plans	5	7
	3,139	3,118

The above remuneration of the top five individuals fell within the following bands:

		Number of individuals	
		2018	2017
HK\$1,500,001 - HK\$2,000,000	(US\$191,383-US\$255,177)	1	1
HK\$2,000,001 - HK\$2,500,000	(US\$255,177-US\$318,971)	1	1
HK\$3,000,001 - HK\$3,500,000	(US\$382,765-US\$446,560)	1	1
HK\$5,500,001 - HK\$6,000,000	(US\$701,736-US\$765,531)	1	1
HK\$11,500,001 - HK\$12,000,000	(US\$1,467,267-US\$1,531,061)	1 [#]	1 [#]
		5	5

[#] Emoluments relate to a Director

No emolument was paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in respect of the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

c) Senior management

The emoluments paid or payable to members of senior management were within the following bands:

		Number of individuals	
		2018	2017
HK\$2,000,001 - HK\$2,500,000	(US\$255,177-US\$318,971)	1	1
HK\$3,000,001 - HK\$3,500,000	(US\$382,765-US\$446,560)	1	1
HK\$5,500,001 - HK\$6,000,000	(US\$701,736-US\$765,531)	1	1
HK\$11,500,001 - HK\$12,000,000	(US\$1,467,267-US\$1,531,061)	1#	1#
		4	4

Emoluments relate to a Director

8. TAX CREDIT

The amount of taxation in the consolidation statement of comprehensive income represents:

	2018	2017
	US\$'000	US\$'000
The PRC		
– Current year	106	—
Taiwan		
– Current year	30	—
United Kingdom		
– Current year	—	(177)
Deferred tax credit (note 24)	(2,805)	(2,805)
Tax credit	(2,669)	(2,982)

NOTES TO THE FINANCIAL STATEMENTS

8. TAX CREDIT (Continued)

No provision for profits tax has been made in these financial statements as all the Group's companies which are subject to such tax have sustained losses for taxation purposes for the years ended 31 December 2018 and 2017. Overseas tax is calculated at the rates applicable in the respective jurisdictions.

A tax credit of US\$2,805,000 (2017: US\$2,805,000) represents the deferred tax credit arising on the amortisation charge for the year relating to the intangible asset of the patent Fortacin™.

Share of associates' tax credit for the year ended 31 December 2018 is nil (2017: US\$75,000) is included in profit or loss as share of results of associates.

Reconciliation between the Group's tax credit and accounting loss at applicable tax rates are as follows:

	2018 US\$'000	2017 US\$'000
Loss before income tax	(33,762)	(30,345)
Add:		
Share of results of associates	—	1,067
Loss before share of results of associates and income tax	(33,762)	(29,278)
Nominal tax on loss before income tax, calculated		
at the rate applicable to profits in the tax jurisdictions concerned	(5,493)	(4,848)
Income not subject to taxation	(82)	(861)
Expenses not deductible for taxation purposes	3,373	3,287
Utilisation of tax loss previously not recognised	(603)	(383)
Withholding tax on milestone income	136	—
Tax relief on research and development expenses	—	(177)
Tax credit	(2,669)	(2,982)

NOTES TO THE FINANCIAL STATEMENTS

9. DIVIDENDS

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

10. LOSSES PER SHARE

The calculation of basic losses per share is based on the loss attributable to the shareholders for the year of US\$31,087,000 (2017: US\$27,359,000) and on the weighted average number of ordinary shares of 1,837,251,182 (2017: 1,810,949,812) in issue during the year.

Diluted losses per share are the same as basic losses per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2018 and 2017.

11. GOODWILL

	2018 US\$'000	2017 US\$'000
At 1 January and 31 December		
Gross carrying amount	15,271	15,271
Accumulated impairment	(15,271)	(15,271)
Net carrying amount	—	—

Goodwill arose from the acquisition of a subsidiary and business in the coking coal industry in 2007 and was fully impaired in 2011.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures US\$'000	Computer and other equipment US\$'000	Total US\$'000
At 1 January 2017			
Cost	345	341	686
Accumulated depreciation	(345)	(257)	(602)
Net book amount	—	84	84
Year ended 31 December 2017			
Opening net book amount	—	84	84
Additions	—	9	9
Disposals	—	(2)	(2)
Depreciation charge for the year	—	(36)	(36)
Depreciation written back on disposals	—	2	2
Foreign currency translation adjustment	—	6	6
Closing net book amount	—	63	63
At 31 December 2017			
Cost	345	357	702
Accumulated depreciation	(345)	(294)	(639)
Net book amount	—	63	63
Year ended 31 December 2018			
Opening net book amount	—	63	63
Additions	—	68	68
Disposals	—	(135)	(135)
Depreciation charge for the year	—	(52)	(52)
Depreciation written back on disposals	—	135	135
Foreign currency translation adjustment	—	(2)	(2)
Closing net book amount	—	77	77
At 31 December 2018			
Cost	345	281	626
Accumulated depreciation	(345)	(204)	(549)
Net book amount	—	77	77

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSET

	Patent (Fortacin™) US\$'000
<hr/>	
At 1 January 2017	
Cost	216,000
Accumulated amortisation	(22,822)
<hr/>	
Net carrying amount	193,178
<hr/>	
Year ended 31 December 2017	
Opening net carrying amount	193,178
Amortisation charge for the year	(28,047)
<hr/>	
Closing net carrying amount	165,131
<hr/>	
At 31 December 2017	
Cost	216,000
Accumulated amortisation	(50,869)
<hr/>	
Net carrying amount	165,131
<hr/>	
Year ended 31 December 2018	
Opening net carrying amount	165,131
Amortisation charge for the year	(28,047)
<hr/>	
Closing net carrying amount	137,084
<hr/>	
At 31 December 2018	
Cost	216,000
Accumulated amortisation	(78,916)
<hr/>	
Net carrying amount	137,084

As at 31 December 2018, intangible asset of US\$137,084,000 (2017: US\$165,131,000) represents patent Fortacin™, the principal asset of Plethora Solutions Holdings plc ("Plethora"), which was acquired by the Group in 2016.

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSET (Continued)

During the year ended 31 December 2018, the Group determined that there was no impairment of intangible asset, patent Fortacin™, in respect of the CGU, Plethora (2017: nil). The recoverable amount of this CGU has been determined based on a value in use calculation with reference to a professional valuation performed by Grant Sherman Appraisal Limited, an independent expert valuation firm. The calculation was essentially the same basis/model as used to determine the fair value of the identifiable assets and liabilities of the CGU as at 9 March 2016, and covered a period representing the remaining estimated useful life of the patent Fortacin™. The rates used to discount the cash flows forecast were in the range of 20% to 24% (2017: 15% to 16%). The key assumptions for the value in use calculations were those regarding the discount rates, exchange rates, growth rates and royalty rates and launch dates in respect of the eight (2017: five) major regions identified in management's business model and the premature ejaculation prevalence rates from 20% to 30% (2017: 25%). The value in use figure determined as at 31 December 2018 was higher than the carrying amount of the CGU and accordingly, no impairment loss was considered necessary.

14. INTERESTS IN ASSOCIATES

(i) At 31 December 2018, the Group's associates and their carrying value comprised the following:

	2018 US\$'000	2017 US\$'000
The Diabetic Boot Company Limited ("Diabetic Boot")	—	1
West China Coking & Gas Company Limited ("West China Coke")	1	1
	1	2

Share of associates' tax credit for the year ended 31 December 2018 of nil (2017: US\$75,000) is included in profit or loss as share of results of associates.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(i) At 31 December 2018, the Group's associates and their carrying value comprised the following: (Continued)

Particulars of the associates as at 31 December 2018 and 2017 are as follows:

Name of associate	Country of incorporation/ continuation/ operation	Type of legal entity	Issued and fully paid share capital held in associate	Percentage of equity interest attributable to the Company		Principal activities
				2018	2017	
Held directly:						
Diabetic Boot	United Kingdom	UK Limited Liability Company	Ordinary shares of GBP133.23	N/A	22%	Design, promotion and production of medical products
Held indirectly:						
West China Coke	The People's Republic of China	Sino-foreign Joint Venture Company	Injected capital of RMB79,910,000	25%	25%	Production, processing and sale of coal, coke, gas and coal chemicals

There are no significant restrictions on the ability of associates to transfer funds to the Group in form of cash dividends, or to repay loans or advances made by the Group.

There are no material contingent liabilities or commitments relating to the Group's interests in the associates.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(ii) Movements in interests in associates are summarised in the table below:

	2018 US\$'000	2017 US\$'000
As at 1 January	2	3,055
Disposal of an associate (note 14(iii))	(1)	—
Impairment loss of Diabetic Boot (note 14(iv))	—	(1,875)
Share of results of associates	—	(1,067)
Exchange loss on translation of financial statements of associates	—	(111)
As at 31 December	1	2

(iii) Disposal of interest in Diabetic Boot

On 7 December 2018, the Group disposed all of its shareholding of 133,231 ordinary shares in Diabetic Boot for an aggregate consideration of GBP 266,000 (or approximately US\$339,000) to Galloway Limited (a company wholly-owned by the trustee of a settlement, of which Mr. James Mellon (a director of the Company) is the sole beneficiary). This transaction resulted in a gain on disposal of an associate of US\$209,000 recognised in profit or loss for the year ended 31 December 2018 as set out below:

	2018 US\$'000
Aggregate consideration	339
Net carrying amount of the Group's interest in Diabetic Boot disposed (note 14(ii))	(1)
Reclassification adjustment resulting from disposal: – foreign currency exchange reserve	(129)
Gain on disposal of an associate	209

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(iv) Assessment for impairment of associates

During the year ended 31 December 2017, the application of a new product specific code from the U.S. Centers for Medicare & Medicaid Services (“**Medicare**”) for PulseFlowDF by Diabetic Boot was rejected. As management expected Medicare to require additional clinical data and justification of product need in the US market before granting a code, there was no definite timeline to do so. In addition, in view of the recurring operating losses of Diabetic Boot, the Directors of the Company considered that indicators of impairment existed in respect of the investment in Diabetic Boot and accordingly, an impairment loss of US\$1,875,000 was recognised in profit or loss for the Group’s interests in Diabetic Boot for the year ended 31 December 2017.

(v) Summarised financial information of associates

The following table illustrates the summarised aggregate financial information of the associates, West China Coke (2017: Diabetic Boots and West China Coke), which is not material to the Group.

	West China Coke 2018 US\$'000	Diabetic Boot and West China Coke 2017 US\$'000
For the year ended 31 December		
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	1	2
Aggregate amount of the Group’s share of those associates		
Loss for the year	—	(1,067)
Other comprehensive income for the year	—	(111)
Total comprehensive income for the year	—	(1,178)

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	(note 2.1(i))		
	31 December 2018 US\$'000	1 January 2018 US\$'000	31 December 2017 US\$'000
Unlisted equity securities	282	496	—

Movements in FVFOCI are summarised as follows:

	2018 US\$'000	2017 US\$'000
As at 1 January (note 2.1(i))	496	—
Disposal	(189)	—
Total loss recognised in other comprehensive income	(25)	—
As at 31 December	282	—

FAFVOCI include investments in unlisted securities, which are measured at fair value. The Group plans to hold these investments for the foreseeable future.

During the year ended 31 December 2018, the Group has sold its equity interest in one of its unlisted securities with a fair value of US\$189,000 (2017: nil) at a cash consideration of US\$189,000 (2017: nil), as the Company's directors considered to focus on investing in operating businesses that had a potential to generate near term cashflow in Biopharma sector and therefore disposed of this investment. The cumulative losses of US\$10,000 was recorded under other comprehensive income, which was transferred to accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2018 US\$'000	(note 2.1 (i)) 1 January 2018 US\$'000	31 December 2017 US\$'000
Unlisted securities			
Club debenture, at cost	—	—	19
Equity securities, at cost	—	—	1,906
	—	—	1,925

Movements in available-for-sale financial assets are summarised as follows:

	2018 US\$'000	2017 US\$'000
As at 1 January (note 2.1 (i))	—	1,726
Additions	—	199
As at 31 December	—	1,925

AFS financial assets included investments in certain unlisted securities, which were measured at cost less impairment as there was no quoted market price in active markets for the investments and the variability in the range of reasonable fair value estimates of the investments was so significant that the Directors were of the opinion that their fair values could not be measured reliably. The Group planned to hold these investments for the foreseeable future.

During the year ended 31 December 2017, there was no impairment on the Group's investment in AFS financial assets.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 US\$'000	(note 2.1(i)) 1 January 2018 US\$'000	31 December 2017 US\$'000
Held for trading – overseas			
Listed equities, at fair value	5,482	8,778	8,778
Unlisted club debenture, at fair value	19	19	—
	5,501	8,797	8,778

Movements in financial assets at fair value through profit or loss are as follows:

	2018 US\$'000	2017 US\$'000
As at 1 January (note 2.1(i))	8,797	7,386
Disposals	—	(3,092)
Change in fair value	(3,296)	4,484
As at 31 December	5,501	8,778

The fair value of listed equity investments were based on last quoted market prices at the reporting date. The fair value of unlisted club debenture was determined by reference to the recent market price at the reporting date.

Certain of the Group's financial assets that are accounted at fair value through profit or loss, namely its equity interests in Australian listed shares including holdings in Venturex Resources Limited ("**Venturex**"), Bannerman Resources Limited ("**Bannerman**") and Tigers Realm Coal Limited ("**Tigers Realm**"), of which the aggregate market value as at 31 December 2018 was approximately A\$6.97 million (or equivalent to US\$4.91 million), were pledged as security to the Australian Commissioner of Taxation against an assessment in relation to a potential liability for Australian capital gains tax arising from the gain on disposal of an Australian listed security in 2013. Further details of this assessment and the security given by the Company are set out in note 32.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Particulars of the Group's principal investment in listed equities as at 31 December 2018 are as follows:

Name of company	Country of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Carrying value at 31 December 2018	Carrying value at 31 December 2017
			2018	2017		
Venturex	Australia	39,145,631 ordinary shares (after share consolidation of 15:1)	15.16%	16.32%	US\$4,825,000	US\$7,795,000

18. CASH AND BANK BALANCES

	2018 US\$'000	2017 US\$'000
Cash and balances with banks	1,012	1,787
Money at call and short notice	10	464
	1,022	2,251

NOTES TO THE FINANCIAL STATEMENTS

19. TRADE RECEIVABLES

	2018 US\$'000	2017 US\$'000
Trade receivables	297	—
Less: Impairment loss allowance	—	—
	297	—

The Group applies credit policies appropriate to the particular business circumstances concerned generally requires outstanding amounts to be paid within 20 to 30 days of invoice.

As at 31 December 2018 and 2017, the ageing analysis of trade receivables, based on our invoice date, was as follows:

	2018 US\$'000	2017 US\$'000
Within 1 month	297	—

As at 31 December 2018 and 2017, the ageing analysis of trade receivables which are past due but not impaired is as follows:

	2018 US\$'000	2017 US\$'000
Current	297	—

The Group recognises impairment loss based on the accounting policy as set in note 3.9(ii).

The Group does not hold any collateral over trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 US\$'000	2017 US\$'000
Prepayments, deposits and other receivables	498	681

The fair value of deposits and other receivables were the same as illustrated above.

The balance outstanding as at 31 December 2018 and 2017 were neither past due nor impaired.

21. TRADE PAYABLES, DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	2018 US\$'000	2017 US\$'000
Trade payables	972	182
Deposits received, accruals and other payables [#]	3,515	3,361
	4,487	3,543

[#] Loans from directors of US\$150,000 (2017: nil), included in the deposits received, accruals and other payables, are unsecured, interest bearing at 5% per annum and repayable on 20 December 2019.

At 31 December 2018 and 2017, the ageing analysis of the trade payables, based on their invoice date, was as follows:

	2018 US\$'000	2017 US\$'000
Within 1 month or on demand	203	—
After 1 month but within 3 months	406	—
After 3 months but within 6 months	363	182
	972	182

The fair value of trade payables, deposits received, accruals and other payables approximates their respective carrying amounts at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL

Authorised:	Number of ordinary shares of US\$0.01 each	US\$'000	Number of unclassified shares*	US\$'000	Total number of shares	Total US\$'000
At 31 December 2018 and 31 December 2017	2,300,000,000	23,000	55,000,000	550	2,355,000,000	23,550
Issued and fully paid:	Number of ordinary shares of US\$0.01 each	US\$'000	Number of unclassified shares*	US\$'000	Total number of shares	Total US\$'000
At 1 January 2017	1,737,251,182	17,372	—	—	1,737,251,182	17,372
Shares issued by way of a placing and top-up subscription	100,000,000	1,000	—	—	100,000,000	1,000
At 31 December 2017 and 31 December 2018	1,837,251,182	18,372	—	—	1,837,251,182	18,372

* These are unclassified shares of US\$0.01 each, which may be issued as ordinary shares or as non-voting convertible deferred shares of US\$0.01 each.

During the year ended 31 December 2018, there were no changes in the authorised share capital of the Company.

During the year ended 31 December 2017, an aggregate of 100,000,000 new ordinary shares were issued and allotted by the Company on 7 April 2017, pursuant to the general mandate granted to the Directors at the Company's annual general meeting held on 8 June 2016 (as adjusted for the 10 for 1 share consolidation, which took effect on 10 June 2016), at the price of HK\$0.405 by way of a placing and top-up subscription, for an aggregate amount of consideration of HK\$40,500,000 (or approximately US\$5,192,308). The proceeds of the subscription, net of issuing expenses, amounted to US\$4,946,000, of which US\$1,000,000 was credited to the share capital account and the remaining balance of US\$3,946,000 was credited to the share premium account (as detailed in the note to the financial statements on "share capital" of the last annual report).

As at 1 January 2018, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares. During the year ended 31 December 2018, no new shares were issued and allotted by the Company, and no shares were repurchased by the Company.

Accordingly, as at 31 December 2018 and the date of this report, the total issued ordinary share capital of the Company consisted/consists of 1,837,251,182 shares.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL (Continued)

Share Option Scheme (2016)

A new share option scheme, named “Share Option Scheme (2016)” (the “**Share Option Scheme (2016)**”), was adopted on 10 June 2016, with shareholders’ approval at the Company’s extraordinary general meeting held on 8 June 2016, which was followed by the grant by the Listing Committee of the HK Stock Exchange on 10 June 2016 of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of the options to be granted under the scheme.

The Share Option Scheme (2016) provides the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible participants (including directors, executives, employees, consultants and service providers of the Company and its subsidiaries). The scheme may, at the discretion of the Directors, be used in conjunction with any cash based compensation, incentive compensation or bonus plan.

The total number of shares which may be issued upon exercise of all options to be granted under the scheme, when aggregated with any shares which may be issued upon exercise of options to be granted under other schemes of the Company, shall not exceed 10% of the total issued ordinary share capital of the Company as at the commencement date of the scheme (or such proportion of the issued share capital of the Company as from time to time specified in the HK Listing Rules). Accordingly, the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme (2016) shall not exceed 173,725,118 shares, being: (i) 10% of the total issued ordinary share capital of the Company as at the commencement of the scheme (being 10 June 2016); (ii) 9.46% of the Company’s issued ordinary share capital as at 31 December 2018 and the date of this report; and (iii) 8.64% of the enlarged ordinary share capital.

The Company may seek shareholders’ approval at a general meeting for “refreshing” the 10% limit under the scheme so that the total number of shares which may be issued upon exercise of all options to be granted under the scheme, when aggregated with any shares which may be issued upon exercise of options to be granted under other schemes of the Company, shall not exceed 10% of the total issued ordinary share capital of the Company as at the date of the approval of the “refreshed” limit. Options previously granted under the scheme (including those outstanding, cancelled or lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”. In any circumstances, the aggregate limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other schemes of the Company must not exceed 30% of the ordinary shares of the Company in issue from time to time. The Company may also seek separate shareholders’ approval at a general meeting for granting options beyond the 10% limit provided that the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL (Continued)

Share Option Scheme (2016) (Continued)

The number of shares issued or issuable upon exercise of the options granted to any individual eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the ordinary shares of the Company in issue, subject to the restrictions on grants to the Directors, chief executive or substantial shareholders of the Company as set out in the HK Listing Rules.

Each grant of options to any of the Directors, chief executive or substantial shareholders of the Company, or any of their respective associates, under the scheme must be approved by the Company's Independent Non-Executive Directors (excluding the Independent Non-Executive Director(s) who is/are the grantee(s) of the option(s)). Where any grant of options to a substantial shareholder or an Independent Non-Executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the proposed offer of such grant representing in aggregate over 0.1% of the ordinary shares of the Company in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be subject to shareholders' approval.

An offer of the grant of an option shall remain open for acceptance by the eligible participant concerned for a period of 28 days inclusive of and from the date on which such offer is made to that eligible participant or such shorter period as the Directors may in their absolute discretion determine. An offer which remains capable of acceptance shall be deemed to have been accepted upon the date when the duly completed and signed form of acceptance together with a remittance for HK\$10, being the consideration for the grant thereof, are received by the Company. The option shall, following such acceptance, be deemed to have been granted and to have taken effect on the date of offer.

Options granted under the scheme entitle the holders to exercise one-third of the option at each of the first, second and third anniversary dates after the date of grant, provided that the option holder remains as an eligible participant. Any entitlements unexercised in any prior period may be carried forward to the following periods but, in any event, must be exercised within 10 years from the date of offer of the relevant option. All entitlements of the option then remain unexercised will lapse.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL (Continued)

Share Option Scheme (2016) (Continued)

The exercise price is to be determined by the Directors at their absolute discretion when the option is offered, provided that in no event shall such price be less than the higher of: (i) the nominal value of the ordinary shares of the Company; (ii) the closing price of the ordinary shares as stated in the daily quotations sheet of the HK Stock Exchange on the date of offer, which must be a business day; and (iii) the average closing price of the ordinary shares as stated in the daily quotations sheets of the HK Stock Exchange for the five business days immediately preceding the date of offer.

Since the commencement of the Share Option Scheme (2016) (being 10 June 2016) and prior to the date of this report, no options were granted under the scheme. Accordingly, as at 1 January 2018, 31 December 2018 and the date of this report and at any time during the relevant period:

- (i) no outstanding options were/are held by any Directors, the Chief Executive or any substantial shareholders of the Company (and their respective associates), entitling them to subscribe for the ordinary shares of the Company under the Share Option Scheme (2016);
- (ii) no outstanding options were/are held by any full-time employees of the Group (excluding the Directors of the Company), entitling them to subscribe for the ordinary shares of the Company under the Share Option Scheme (2016);
- (iii) no participants were granted with options under the Share Option Scheme (2016) in respect of an aggregate number of shares in the Company which was in excess of the individual limit referred to in the HK Listing Rules;
- (iv) no outstanding options were/are held by any suppliers of goods or services of the Group, entitling them to subscribe for the ordinary shares of the Company under the Share Option Scheme (2016); and
- (v) no options were granted to or were/are held under the Share Option Scheme (2016) by any participants other than those referred to in sub-paragraphs (i) to (iv) above.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL (Continued)

Share Option Scheme (2016) (Continued)

Share options and the weighted average exercise price are as follows for the reporting periods presented:

	2018		2017	
	Number	Weighted average exercise price HK\$	Number	Weighted average exercise price HK\$
Outstanding at 1 January	—	—	5,703,813	10.737
Forfeited	—	—	(5,703,813)	10.737
Outstanding at 31 December	—	—	—	—

No share options were exercised during the years ended 31 December 2018 and 2017. All outstanding share options (under the former share option scheme, named “Share Option Scheme (2002)” (the “**Share Option Scheme (2002)**”) expired and were forfeited on 1 October 2017.

There were no charges to the consolidated statement of comprehensive income or liabilities recognised in respect of employee share-based payments or non-employee share-based payments in relation to share options granted under the Share Option Scheme (2002) and the Share Option Scheme (2016) for the years ended 31 December 2018 or 2017.

NOTES TO THE FINANCIAL STATEMENTS

23. RESERVES

Group	Accumulated losses US\$'000	Share premium US\$'000	Share-based payment reserve US\$'000	Investment revaluation reserve US\$'000	Capital redemption reserve US\$'000	Statutory reserve US\$'000	Foreign currency exchange reserve US\$'000	Total US\$'000
At 1 January 2017	(129,541)	279,588	1,622	—	8,228	176	3,926	163,999
Shares issued by way of a placing and top-up subscription, net of issuing expenses (note 22)	—	3,946	—	—	—	—	—	3,946
Share options forfeited	1,622	—	(1,622)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(25)	(25)
Share of translation reserve of associates (note 14(ii))	—	—	—	—	—	—	(111)	(111)
Loss for the year	(27,359)	—	—	—	—	—	—	(27,359)
At 31 December 2017	(155,278)	283,534	—	—	8,228	176	3,790	140,450
Initial application of HKFRS 9 (note 2.1)	—	—	—	(1,410)	—	—	—	(1,410)
Restated balances as at 1 January 2018	(155,278)	283,534	—	(1,410)	8,228	176	3,790	139,040
Change in fair value of FAFVOCI	—	—	—	(25)	—	—	—	(25)
Foreign currency translation adjustment	—	—	—	—	—	—	186	186
Reclassification to profit or loss on disposal of an associate (note 14(iii))	—	—	—	—	—	—	129	129
Loss for the year	(31,087)	—	—	—	—	—	—	(31,087)
Transfer of cumulative loss on disposal of equity investments at fair value through other comprehensive income to accumulated losses, net of tax (note 15)	(10)	—	—	10	—	—	—	—
At 31 December 2018	(186,375)	283,534	—	(1,425)	8,228	176	4,105	108,243

NOTES TO THE FINANCIAL STATEMENTS

23. RESERVES (Continued)

<i>Company (note 34)</i>	Accumulated losses US\$'000	Share premium US\$'000	Share-based payment reserve US\$'000	Investment revaluation reserve US\$'000	Capital redemption reserve US\$'000	Foreign currency exchange reserve US\$'000	Total US\$'000
At 1 January 2017	(140,529)	281,853	1,622	—	8,228	1	151,175
Shares issued by way of a placing and top-up subscription, net of issuing expenses	—	3,946	—	—	—	—	3,946
Share options forfeited	1,622	—	(1,622)	—	—	—	—
Loss for the year	(15,156)	—	—	—	—	—	(15,156)
At 31 December 2017	(154,063)	285,799	—	—	8,228	1	139,965
Initial application of HKFRS 9	—	—	—	(1,410)	—	—	(1,410)
Restated balances as at 1 January 2018	(154,063)	285,799	—	(1,410)	8,228	1	138,555
Change in fair value of FAFVOCI	—	—	—	(25)	—	—	(25)
Loss for the year	(28,275)	—	—	—	—	—	(28,275)
Transfer of cumulative loss on disposal of equity investments at fair value through other comprehensive income to accumulated losses, net of tax (note 15)	(10)	—	—	10	—	—	—
At 31 December 2018	(182,348)	285,799	—	(1,425)	8,228	1	110,255

NOTES TO THE FINANCIAL STATEMENTS

23. RESERVES (Continued)

The following describes the nature and purpose of each reserve within shareholders' equity:

(a) Accumulated losses

This represents cumulative net gains and losses recognised in profit or loss.

(b) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(c) Share-based payment reserve

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 3.14(iii) to the consolidated financial statements. The amount will be transferred to the share premium account when the related options are exercised, or transferred to accumulated losses should the related options expire or be forfeited.

(d) Capital redemption reserve

This represents the repurchase of shares of the Company listed on the HK Stock Exchange. These repurchased shares were cancelled upon repurchase and, accordingly, the nominal value of the cancelled shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the accumulated losses and share premium accounts.

(e) Investment revaluation reserve

This represents accumulated gains and losses arising on the revaluation of FAFVOCI.

(f) Statutory reserve

As stipulated by the relevant laws and regulations in the PRC, certain subsidiaries of the Company in the PRC are required to maintain a statutory reserve which is non-distributable. Transfer to this reserve is made out of profit after taxation of the subsidiaries' PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC.

(g) Foreign currency exchange reserve

This represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED TAX LIABILITIES

Deferred taxation is calculated on temporary differences under liability method using the rates of taxation prevailing in the countries in which the Group's subsidiaries operate.

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Fair value adjustments arising from the acquisition of subsidiaries	
	2018 US\$'000	2017 US\$'000
At 1 January	16,513	19,318
Credited to profit or loss (note 8)	(2,805)	(2,805)
At 31 December	13,708	16,513

The amount credited to profit or loss relates to the amortisation of intangible asset.

As at 31 December 2018, certain subsidiaries incorporated in the UK of the Group have unused tax losses of approximately US\$69 million (2017: US\$74 million). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will not expire under current tax legislation and can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

25. RETIREMENT BENEFIT OBLIGATIONS

The Group (excluding Plethora and its subsidiary) has operated a defined contribution staff retirement scheme in Hong Kong which has complied with all the respective requirements of the Occupational Retirement Schemes Ordinance (“**ORSO**”) since April 1991. On 1 December 2000, the above scheme was terminated and transferred to a new mandatory provident fund scheme (the “**MPF Scheme**”) which complies with all the respective requirements under the Mandatory Provident Fund Ordinance (the “**MPF Ordinance**”). All assets under the schemes are held separately from the Group under independently administered funds. The MPF Scheme has two plans. Plan A is available to those employees who were transferred from the old ORSO scheme and contributions are based on a specific percentage of the basic salary of the eligible employees. Plan B is available to all other employees in Hong Kong and contributions follow the minimum requirements of the MPF Ordinance.

Contributions are expended as incurred and may be reduced by contributions forfeited by those employees under Plan A who leave the scheme prior to vesting fully in the contributions. During the year ended 31 December 2018, the Group’s contributions (exclude Plethora) were US\$23,000 (2017: US\$24,000) (note 7). There were no forfeited contributions during the year (2017: nil).

For the Group’s subsidiaries operating in the UK, pensions to certain employees are provided through contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the UK subsidiaries pay fixed contributions into an independent entity. The UK subsidiaries have no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of personal pension plans are expended as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature. During the year ended 31 December 2018, Plethora’s contributions were US\$20,000 (2017: US\$18,000) (note 7).

NOTES TO THE FINANCIAL STATEMENTS

26. OPERATING LEASE COMMITMENTS

	2018 US\$'000	2017 US\$'000
At 31 December 2018 and 2017, the total future minimum lease payments under non-cancellable operating leases were payable as follows:		
Property:		
– within one year	669	674
– in the second to fifth years, inclusive	381	1,047
	1,050	1,721
Equipment:		
– within one year	3	3
– in the second to fifth years, inclusive	10	7
	13	10
	1,063	1,731

The Group leased a number of properties under operating leases. The leases typically ran for an initial period of one to three years (2017: one to three years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

27. CAPITAL COMMITMENTS

The Group has no material capital commitments as at 31 December 2018 and 2017.

28. CONTINGENT LIABILITIES

Save as those disclosed in note 32, the Group has no other material contingent liabilities as at 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's management closely monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The most significant financial risks to which the Group is exposed to are described below:

Foreign currency risk

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

The Group has exposure to currency risk as some of its financial assets and liabilities are denominated in currencies other than the functional currencies of the group companies.

Foreign currency denominated financial assets and liabilities, translated into US\$ at the closing rate, are as follows:

At 31 December 2018	US\$'000	US\$'000	US\$'000
	GBP	AUD	CAD
Cash and bank balances	45	—	—
FAFVOCI	—	282	—
FAFVPL	—	5,479	3
Prepayments, deposits and other receivables	2	—	13
Accruals and other payables	(3)	(41)	—
Current net exposures	44	5,720	16

At 31 December 2017	US\$'000	US\$'000	US\$'000
	GBP	AUD	CAD
Cash and bank balances	37	420	—
FAFVPL	—	8,771	7
Prepayments, deposits and other receivables	2	—	14
Accruals and other payables	(35)	—	—
Current net exposures	4	9,191	21

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the reporting date to a reasonably possible change in the GBP, AUD and CAD exchange rates, with all other variables held constant, of the Group's net loss (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in net profit US\$'000
At 31 December 2018		
If US\$ weaken against GBP	5	2
If US\$ strengthen against GBP	(5)	(2)
If US\$ weaken against AUD	5	286
If US\$ strengthen against AUD	(5)	(286)
If US\$ weaken against CAD	5	1
If US\$ strengthen against CAD	(5)	(1)
At 31 December 2017		
If US\$ weaken against GBP	5	1
If US\$ strengthen against GBP	(5)	(1)
If US\$ weaken against AUD	5	460
If US\$ strengthen against AUD	(5)	(460)
If US\$ weaken against CAD	5	1
If US\$ strengthen against CAD	(5)	(1)

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, deposits and other receivables, balances with banks and investments in listed and unlisted securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) *Balances with banks*

The Group expects that there is no significant credit risk associated with cash deposits at banks as they are substantially deposited at reputable banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

(ii) *Trade receivables*

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss also incorporate forward-looking information.

(iii) *Deposits and other receivables*

The Group makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience. The Directors believe that there is no material credit risk inherent in the Group's outstanding balances of deposits and other receivables.

(iv) *Investments in listed and unlisted securities*

The Group's investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long-term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. The Group considers available reasonable and supportive forwarding-looking information and especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor;
- significant increases in credit risk on the debtor; and
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the Group and changes in the operating results of the debtor.

For the year ended 31 December 2018, there was no loss allowance provision recognised in profit or loss (2017: nil). As at 31 December 2018, the loss allowance provision is nil (2017: nil).

As at 31 December 2018, the Group has a concentration of credit risk on trade receivables from the Group's top trade receivable and the top two trade receivables amounting to US\$272,000 and US\$297,000, representing approximately 92% and 100% of the total trade receivables, respectively. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group's other receivables are actively monitored to avoid significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance, if any.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The following table details the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	Carrying amount US\$'000	Total contractual undiscounted cash flow US\$'000	Within 6 months or on demand US\$'000
At 31 December 2018			
Trade payables	972	972	972
Accruals and other payables	3,515	3,523	3,523
	4,487	4,495	4,495

	Carrying amount US\$'000	Total contractual undiscounted cash flow US\$'000	Within 6 months or on demand US\$'000
At 31 December 2017			
Trade payables	182	182	182
Accruals and other payables	3,361	3,361	3,361
	3,543	3,543	3,543

The Group was in a positive financial position at the end of 2018, with cash and cash equivalents amounting to US\$1,022,000 (2017: US\$2,251,000).

The Group finances its operations and investment activities with internally generated cash flow, balanced with proceeds from the issue of new shares where necessary.

The Group's policy is to monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and long-term.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group has no long-term external borrowings which bear floating interest rates. The Group's exposure to interest rate risk related primarily to loans from directors which are denominated in US\$. The interest rate and terms of repayments of loans from directors are disclosed in note 21. The Group did not use any financial instruments to hedge potential fluctuations in interest rate.

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rate, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately US\$32,000 (2017: US\$13,000). The general increase/decrease in interest rate would have no significant impact on other components of the consolidated statement of changes in equity.

Fair value estimation

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity.

The fair value measurement of the Group's financial assets and liabilities utilised market observable inputs and data as far as possible. Inputs used in determining fair value measurement are categorised into different levels based on how observable the inputs used in the Fair Value Hierarchy are:

- Level 1: quoted prices in active markets for identical items (unadjusted);
- Level 2: observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

The financial assets measured at fair value in the consolidated statement of financial position are grouped into the Fair Value Hierarchy as follows:

As at 31 December 2018

	Notes	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Financial assets measured at fair value					
Unlisted equity investments	(a)	—	—	282	282
Unlisted club debenture	(b)	—	19	—	19
Listed equity investments	(c)	5,482	—	—	5,482
		5,482	19	282	5,783

As at 31 December 2017

	Note	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Financial assets measured at fair value					
Listed equity investments	(c)	8,778	—	—	8,778

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

There were no significant transfers among levels of the fair value hierarchy during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value were unchanged compared to the previous reporting periods.

(a) *Unlisted equity investments*

The unlisted equity investments are denominated in Australian and United States dollars. Their fair value were estimated by using valuation techniques with reference to multiples of comparable listed companies, prices of recent transactions or net asset value and were translated using the spot foreign currency rate at the end of the reporting period where appropriate.

(b) *Unlisted club debenture*

The unlisted club debenture is denominated in Hong Kong dollars. The fair value was determined by reference to the recent market price at the reporting date and was translated using the spot foreign currency rate at the end of the reporting period where appropriate.

(c) *Listed equity investments*

The listed equity securities are denominated in Canadian and Australian dollars. Fair values were determined by reference to the last quoted market prices at the reporting date and were translated using the spot foreign currency rates at the end of the reporting period where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

The movements in fair value measurement within Level 3 during the year are as follows:

FAFVOCI (unlisted equity investments)

	2018 US\$'000	2017 US\$'000
At 1 January (note 2.1(i))	496	—
Disposal	(189)	—
Total loss recognised in other comprehensive income	(25)	—
At 31 December	282	—

Price risk

The Group's price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), which mainly include listed equity securities amounting to US\$5,482,000 classified as financial assets at fair value through profit or loss (2017: US\$8,778,000).

The above investments are exposed to price risk because of change in market price, whether changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's listed investments are primarily listed on the stock exchanges of Australia and Canada. Listed investments held in the portfolio have been chosen based on their growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution and in accordance with the limits set by the Group.

At 31 December 2018, if equity prices had increased/decreased by 20% and all other variables were held constant, loss for the year would decrease/increase by US\$1,096,000 (2017: US\$1,756,000). The above analysis has been determined assuming that the reasonably possible changes in the stock market price or other relevant risk variables had occurred at the reporting date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting date may also be categorised as follows.

	2018 US\$'000	2017 US\$'000
(i) Financial assets		
Non-current assets		
FAFVOCI	282	—
AFS financial assets	—	1,925
	282	1,925
Current assets		
FAFVPL	5,501	8,778
Financial assets measured at amortised cost:		
– Cash and bank balances	1,022	2,251
– Trade receivables	297	—
– Deposits and other receivables*	288	231
	7,108	11,260
	7,390	13,185
(ii) Financial liabilities		
Current liabilities		
Financial liabilities measured at amortised cost:		
– Trade payables, accruals and other payables	4,487	3,543

* Excluded from prepayments, deposits and other receivables as disclosed in the consolidated statement of financial position of US\$498,000 (2017: US\$681,000) is an amount of US\$210,000 (2017: US\$450,000) representing prepayments.

NOTES TO THE FINANCIAL STATEMENTS

30. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's management objectives are:

- To ensure 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. The Group has not adopted any formal dividend policy.

Management regards equity attributable to the Company's owners as capital, for capital management purpose. The amount of capital as at 31 December 2018 amounted to approximately US\$126,615,000 (2017: US\$158,822,000), which management considers as satisfactory having considered the projected capital expenditures and the projected strategic investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS

31. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties:

	2018 US'000	2017 US\$'000
Bloomberg service fee recharge to a related company, Burnbrae Limited [#]	—	5
Management service fee charge by a related company, Burnbrae Limited [#]	13	21

The above transactions were conducted on mutually agreed terms.

[#] Mr. James Mellon, a Non-executive Director and Chairman of the Company, has beneficial interest in Burnbrae Limited.

On 7 December 2018, the Company disposed all of the shareholding in Diabetic Boot (133,231 shares) and 21,739 fundraising warrants to Galloway Limited (a company wholly-owned by the trustee of a settlement, of which Mr. James Mellon (a director of the Company) is the sole beneficiary) at an aggregate consideration of GBP 266,000 (or approximately of US\$339,000), resulting in a gain on disposal of an associate of US\$209,000 (2017: nil) for the year.

On 12 January 2017, the Company disposed of certain FAFVPL, representing an aggregate of 1,636,998 shares of Condor Gold plc. to Mr. James Mellon and Galloway Limited for an aggregate amount of cash consideration of approximately GBP 0.81 million (or approximately US\$1.02 million).

Save as disclosed above, the Group has no other material related party transactions for the year.

The Directors are of opinion that the key management personnel were the Directors of the Company, details of whose emoluments are set out in note 7 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

32. CHARGE ON ASSETS

- (i) On 16 January 2013, the Company sold the shares it held in BCI, a junior mining company listed on the Australian Stock Exchange for an amount of A\$81.61 million (equivalent to US\$84.73 million at the then exchange rate between A\$ and US\$), deriving a final realised profit on sale of A\$39.45 million (equivalent to US\$44.44 million at the then exchange rate between A\$ and US\$). The Australian Taxation Office (“**ATO**”) considered that Capital Gains Tax (“**CGT**”) was payable in the amount of A\$11.85 million (or approximately US\$8.54 million) (as amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group’s investment in BCI) on this realised profit. On 24 January 2013, the Company received orders from the Federal Court of Australia in relation to a notice of assessment issued by the ATO (the “**Assessment**”) for the amount referred to above. The amount of the potential tax was due and payable on 2 December 2013, and the orders provided that the Company could not remove from Australia or dispose of, deal with or diminish the value of its assets in Australia up to the unencumbered value of the amount assessed. After consultation with the ATO, the Company agreed to grant the ATO a specific security deed in respect of the above orders, more details of which are set out in (ii) below. The Company sought external professional advice in relation to the orders and the Assessment and understood that the ultimate determination of the potential taxation liability would be subject to a valuation of BCI’s real property (including mining tenements) and non-real property assets. In light of the Assessment and orders, the Directors made a provision for CGT as per the Assessment in the Company’s financial statements for the year ended 31 December 2012 pending further investigation by the Directors and advice from its professional advisers on this matter.

Since early 2013, the Company has engaged independent professional advisers in Australia to advise them on the merits of the Assessment and Orders issued by the ATO. The independent advice the Company received from its advisers was that based on a valuation of BCI’s real property (including mining tenements) and non-real property assets, the Company had strong and compelling grounds to challenge the Assessment in its entirety. Accordingly, in 2013 the Company reversed the provision it made for CGT in its books.

The Board noted that, during the year ended 31 December 2014, there were further legal developments regarding the Australian taxation rules applicable to the Company and its prior disposal of its investment in BCI. In light of these developments the Company took further external advice from its Australian advisers as to its position. In this respect, the Company proactively and voluntarily shared its independent, expert advice, together with supporting papers and calculations, with the ATO and that advice was recently reviewed by an external consultant engaged by the ATO.

NOTES TO THE FINANCIAL STATEMENTS

32. CHARGE ON ASSETS (Continued)

On 28 January 2015, the Company and its Australian advisers received a copy of the report produced by the external consultant engaged by the ATO and, from that report, understood that the external consultant did not agree with certain material findings in the independent, expert advice received by the Company. The Company and its Australian advisers reviewed the report and identified a number of matters of material disagreement or on which a materially different view was held. Consequently, the Directors remain of the view that the Company had strong and compelling grounds to challenge the Assessment in its entirety and will continue to do so.

As of 31 December 2018 and up to date of this Annual Report, the Company and its Australian advisers were not aware of any changes in the facts of the aforementioned dispute, nor the regulatory landscape or any recent legal developments in Australia which may affect the prior advice received, including that shared with the ATO. Therefore, the Company had envisaged entering into a formal dispute resolution process with the ATO. As at 31 December 2018, this process had taken place, and the parties had been unable to reach agreement as to an appropriate way in which to resolve the matter, culminating in the ATO determining the Company's previously lodged objection against it on 1 September 2016. As at 31 December 2018, the Company's position had not changed and it remained resolute in that it would continue to challenge the assessment in its entirety, consistent with expert and independent Australian advice received throughout, and had lodged an appeal against the ATO's determination of the objection in the Australian Federal Court.

A trial date of 18 March 2019 had been set, with the matter set down to be heard over three (3) days in the Australian Federal Court.

As announced on 18 March 2019, the Company entered into a settlement agreement with the ATO in respect of the aforementioned dispute for an amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement.

While the expert and independent Australian advice received did not change throughout the dispute and at no stage did the Directors consider that any tax was payable, as part of the dispute resolution process the Board was compelled to consider the inherent litigation risk associated with pursuing the matter through the Australian courts. Consequently, it was decided that the aforementioned settlement was in the best interests of the Group and its shareholders as a whole.

In light of the above, no tax liability in respect of this matter has been recognised as at 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

32. CHARGE ON ASSETS (Continued)

- (ii) As announced by the Company on 28 January 2013, 18 April 2013 and 23 August 2013 and as further disclosed in the Company's half yearly and annual reports since 2013, the Company received orders from the Federal Court of Australia in relation to an assessment issued by the ATO in the amount of A\$12.78 million (or approximately US\$13.49 million at the then exchange rate between A\$ and US\$) following completion of the sale of its securities in BCI for gross proceeds of A\$81.61 million (or approximately US\$84.73 million at the then exchange rate between A\$ and US\$). The amount of potential CGT assessed was due and payable on 2 December 2013. On 7 September 2016, the ATO considered that capital gains tax was amended down and payable in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$).

Following consultation with the ATO and pursuant to the terms of the Settlement Deed (as defined in the announcement dated 18 April 2013), the Company agreed to grant The Commonwealth of Australia, represented by the ATO, a specific security deed (as amended by way of a deed of amendment dated 27 November 2013) (together, the "**Specific Security Deed**") in respect of certain of the Company's holding of 34,540,262 shares (after the 15:1 share consolidation effective in August 2018) in Venturex, 10,854,568 shares in Bannerman and 12,700,000 shares in Tigers Realm, of which the aggregate market value (as at 31 December 2018) was A\$6.97 million (or approximately US\$4.91 million), as security against the Assessment, in consideration of the ATO taking steps to discontinue the Court orders within 7 days of the date of the Specific Security Deed and stayed recovery action in respect of the Assessment until the matter is resolved within the time provided for in any relevant law following the Final Determination of Objection (as defined in the announcement dated 18 April 2013). Please refer to note 35 to financial statements for the development of the matter after the reporting period.

The aforementioned security over the above-mentioned Australian securities held by the Company, previously granted to the ATO, will remain unless such securities are sold to discharge the settlement amount as set out in (i) above or the settlement is otherwise paid in full.

None of the Group's other assets was pledged as at 31 December 2018 (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

33 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Country/ Place of incorporation/ continuation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Alphom Management Limited	Continued in the Cayman Islands	Ordinary share of US\$1	—	100%	Investment holding
Amerinvest Coal Industry Holding Company (BVI) Limited	British Virgin Islands	Ordinary share of US\$1	—	100%	Investment holding
Amerinvest Coal Industry Holding Company Limited	British Virgin Islands	Ordinary shares of US\$10,000	—	100%	Investment holding
AstroEast.com Limited	Cayman Islands	Ordinary shares of US\$280,222	—	51%	Investment holding
Interman Holdings Limited	British Virgin Islands	Ordinary shares of US\$41,500	100%	—	Investment holding
Interman Limited	Isle of Man	Ordinary shares of GBP 436,152	—	100%	Investment holding
MinMetallurgical Consultants Limited	British Virgin Islands	Ordinary share of US\$1	100%	—	Provision of mill expansion services
Plethora Solutions Holdings plc	United Kingdom	Ordinary shares of GBP 8,944,977	100%	—	Development and marketing of products for the treatment and management of urological disorders
Plethora Solutions Limited	United Kingdom	Ordinary shares of GBP 152	—	100%	Development and marketing of products for the treatment and management of urological disorders

NOTES TO THE FINANCIAL STATEMENTS

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2018 and 2017 are as follows: (Continued)

Name of subsidiary	Country/ Place of incorporation/ continuation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Regent (Australia) Limited	Cayman Islands	Ordinary share of US\$1	100%	—	Investment holding
Regent Coal (Holdings) Limited	Cayman Islands	Ordinary share of US\$1	100%	—	Investment holding
Regent Corporate Finance Limited	Cayman Islands	Ordinary shares of US\$2	100%	—	Corporate finance
Regent Financial Services Limited	Hong Kong	HK\$5 million	—	100%	Provision of management services
Regent Fund Management (Asia) Limited	Continued in the Cayman Islands	Ordinary shares of US\$100	100%	—	Asset management
Regent Fund Management Limited	Continued in the Cayman Islands	Ordinary shares of US\$150,000	—	100%	Asset management
Regent (Indonesia II) Limited	Cayman Islands	Ordinary share of US\$1	100%	—	Provision of metallurgical services
Regent Metals Holdings Limited	British Virgin Islands	Ordinary shares of US\$10,000	100%	—	Investment holding
Regent Pacific Group (Hong Kong) Limited	Hong Kong	HK\$5 million	100%	—	Provision of management services
RPG (Bahamas) Limited	Bahamas	Ordinary shares of US\$134,220	100%	—	Investment holding
RPG Investments I Limited	Cayman Islands	Ordinary share of US\$1	100%	—	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

The above table lists out the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 US\$'000	2017 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		139,644	158,726
Interest in an associate		—	1
Financial assets at fair value through other comprehensive income		282	—
Available-for-sale financial assets		—	1,925
		139,926	160,652
Current assets			
Amounts due from subsidiaries*		704	4,235
Financial assets at fair value through profit or loss		5,501	8,778
Prepayments, deposits and other receivables		106	103
Cash and bank balances		78	2,089
		6,389	15,205
Current liabilities			
Amounts due to subsidiaries*		(14,606)	(14,646)
Trade payables, deposits received, accruals and other payables		(3,082)	(2,874)
		(17,688)	(17,520)
Net current liabilities		(11,299)	(2,315)
Net assets		128,627	158,337
EQUITY			
Capital and reserves			
Share capital	22	18,372	18,372
Reserves	23	110,255	139,965
Total equity		128,627	158,337

* The amounts due are unsecured, interest-free and repayable on demand.

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2019 and was signed on its behalf.

James Mellon
Chairman

Jamie Gibson
Executive Director

NOTES TO THE FINANCIAL STATEMENTS

35. EVENT AFTER THE REPORTING PERIOD

As announced on 18 March 2019, the Company entered into a settlement agreement with the ATO in respect of the dispute (as further explained under the section titled "Litigation" in the Management's Discussion and Analysis of the Group's Performance) for an amount of A\$9.5 million (or approximately US\$6.73 million), payable within 90 days of the date of the settlement agreement. The settlement amount was well below the total potential amount payable to the ATO of A\$19.12 million (or approximately US\$13.55 million) and facilitated the discontinuance of the litigation.

The expert and independent Australian advice did not change throughout the dispute and at no stage did the Directors consider that any tax was payable, and therefore no provision for taxation regarding this matter was previously provided within the audited financial statements of the Company and the Group.

Save as disclosed above, there were no other material events requiring disclosure after the year end date.

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