

2019

ANNUAL
REPORT



**REGENT PACIFIC
GROUP LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 575

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PERFORMANCE OVERVIEW

PERFORMANCE OVERVIEW

A summary of the financial performance and other notable events for 2019 includes:

- A loss attributable to shareholders of the Company of approximately US\$66.05 million, which was mainly attributable to: (i) an impairment loss on Fortacin™, the intangible asset, of US\$26 million, a non-cash item; (ii) an amortisation charge of approximately US\$28.05 million on Fortacin™, the intangible asset, a non-cash item; (iii) a settlement amount of A\$9.50 million (or approximately of US\$6.67 million) with the Australian Tax Office ("**ATO**") in respect of a capital gain tax dispute; (iv) the unrealised marked-to-market loss in respect of the Company's equity portfolio of financial assets at fair value through profit or loss of approximately US\$1.27 million; and (v) the Group's operating expenses.
- Shareholders' equity of approximately US\$62.50 million, a decrease of approximately 50.64% as compared with that at 31 December 2018, with the decrease being mainly attributable to the impairment and amortisation charges totalling approximately US\$54.05 million as described above.
- Recordati S.p.A ("**Recordati**") launched Fortacin™ in the United Kingdom (the "**UK**") in February 2019, with planned launches in Romania to follow later in 2020 and it may be rolled out in their other countries over the coming years, subject to the status of the novel coronavirus disease of 2019 (later named as "**COVID-19**") pandemic and the anticipated switch of Fortacin™ to "over-the-counter status from prescription.
- 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, with a view to completing the Phase II validation by the end of 2020, commencing Phase III work in the latter half of 2021, making a New Drug Application in the first half of 2022, giving a Prescription Drug User Fee Act date in Q1 2023, subject to the status of the COVID-19 pandemic.
- Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**"), a wholly-controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., has informed the Company that it is now on course for submitting the investigational new drug application for clinical trial approval ("**CTA**") by Q3 2020, to commence clinical trials in China, meaning that the CTA could be obtained between Q4 2020 and Q1 2021, triggering, as per the terms of the licence agreement with Wanbang Pharmaceutical and announced on 3 December 2018, a payment of US\$4 million to the Group.
- Licensee of Plethora Solutions Limited ("**Plethora**"), Orient EuroPharma Co., Ltd. ("**Orient EuroPharma**"), a company registered in Taiwan, in respect of the rights to commercialise Fortacin™, was granted licensing permission from the Hong Kong Department of Health - Drug Office to market and distribute Fortacin™ in the Hong Kong Special Administrative Region ("**Hong Kong**"). Also, during the year ended 31 December 2019, Orient EuroPharma was granted permission from the Macau Special Administrative Region - Health Bureau to market and distribute Fortacin™ in the Macau Special Administrative Region ("**Macau**"). Select other territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China, are expected to grant import, distribution and licensing permission as and when the application process is satisfied for each jurisdiction over the coming months and years. Pursuant to the licence agreement, the Group, acting through Plethora, will be eligible to receive the remaining payments of up to US\$1.45 million, excluding royalties after achieving certain milestones related to the roll out in each market.
- From a business development standpoint, during the 2019 financial year the Group looked closely at a number of acquisition and investment opportunities in the wellness sector, mainly opportunities to enter into the hemp sector in China, with a particular focus on hemp cannabidiol ("**CBD**") infused products and opportunities around cultivation and commercialisation associated with such products. Unfortunately, the Group's investment objectives were not achievable with any of the diligenced opportunities, largely due to valuation concerns.

PERFORMANCE OVERVIEW

- As announced by the Company on 29 May 2019 and 23 August 2019, the Company entered into two conditional subscription agreements with certain subscribers, including James Mellon, Galloway Limited (an associate of James Mellon) and Jamie Gibson (together, the “**Subscribers**”), pursuant to which the Company issued convertible notes in the principal amount of US\$6.45 million, in one tranche. Both subscription agreements were inter-conditional upon each other and the issue of the convertible notes to James Mellon, Galloway Limited and Jamie Gibson were connected transactions of the Company requiring approval of independent shareholders. While a larger capital raise had initially been envisaged, in light of the discontinuance of a possible acquisition in the hemp sector in China, with a particular focus on hemp CBD infused products, the Company agreed to allow certain Subscribers to withdraw from or reduce their subscriptions of the convertible note issuance and decided to continue to close the financing with the remaining Subscribers, under both subscription agreements, in respect of US\$6.45 million, to be issued in one tranche on the same terms and conditions as previously disclosed. As the two subscription agreements were inter-conditional upon each other, from a technical standpoint, the Subscribers under the connected subscription agreement agreed to waive inter-conditionality with the third party subscription agreement to facilitate closing of the reduced financing. On 23 August 2019, the issue of convertible notes to the Subscribers successfully closed.
- Actively monitoring its existing and strategic investment in Venturix Resources Limited, representing approximately 8.44% of the share capital of the company as at 31 December 2019.
- As announced on 18 March 2019, during the year, the Group successfully negotiated and executed a settlement agreement with the 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 settlement reached was in respect of a fixed amount of A\$9.5 million (or approximately US\$6.67 million), which was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

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 and in the UK in February 2019, as well as in the remaining key markets of the US, China, Asia, 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.

CHAIRMAN'S STATEMENT

Dear Shareholders

2019 was a challenging year for the Group. While the Group has successfully teamed with its commercial partners, including Recordati S.p.A ("**Recordati**"), for the launch of Fortacin™ in France, Germany, Italy, Spain, Portugal and, as of February 2019, the United Kingdom (the "**UK**"), the roll out has been stifled somewhat by two key factors being: (i) a low number of premature ejaculation ("**PE**") patients seeking advice and visiting a specialist for treatment (with the key reasons being given due to the embarrassment factor and lack of awareness about treatments available for PE); and (ii) certain manufacturing issues being experienced by Pharmaserve North West Limited ("**PSNW**"), which has led to the delay of product being delivered to Recordati in a timely manner. While our commercial partners are refining the commercialisation strategy of Fortacin™, we are continuing to work diligently towards creating a steady stream of recurring cash flow for the years to come. Against this backdrop, I report the Group's results for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS AND REVIEW

The Group recorded a loss attributable to shareholders of the Company of approximately US\$66.05 million, which was mainly attributable to: (i) an impairment loss on Fortacin™, the intangible asset, of US\$26 million, a non-cash item; (ii) an amortisation charge of approximately US\$28.05 million on Fortacin™, the intangible asset, a non-cash item; (iii) a settlement amount of A\$9.50 million (or approximately of US\$6.67 million) with the Australian Tax Office ("**ATO**") in respect of a capital gain tax dispute; (iv) the unrealised marked-to-market loss in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("**FAFVPL**") of approximately US\$1.27 million; and (v) the Group's operating expenses.

While it was disappointing that profitability could not, again, be achieved for 2019, this was entirely understandable, given the ongoing work and resources allocated to refining the commercialisation strategy of Fortacin™ with our commercial partners. With all that said, we are continuing to work diligently with our partners on the further commercial roll out of Fortacin™ with a view to creating a steady stream of recurring cash flow for the Group in the years to come.

In this respect, 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\$37.06 million) plus royalties after achieving certain milestones related to the European roll out.

Similarly, the Group is working closely with: (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™ in The People's Republic of China, excluding Taiwan, the Hong Kong Special Administrative Region ("**Hong Kong**") and the 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™ in select territories in Asia, being Taiwan, Hong Kong, Macau, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. Pursuant to these licence agreements, the Group is eligible to receive the remaining payments of up to: (i) US\$37 million, excluding royalties after achieving certain milestones related to the Wanbang Pharmaceutical roll out; and (ii) US\$1.15 million excluding royalties after achieving certain milestones related to the Orient EuroPharma roll out.

The Group's portfolio of FAFVPL incurred a net realised and unrealised loss of approximately US\$1.04 million for the year ended 31 December 2019. The total value of our portfolio of FAFVPL was approximately US\$2.05 million as at 31 December 2019, down from approximately US\$5.50 million in 2018, which was mainly due to: (i) the unrealised fair value loss of US\$1.27 million; and (ii) the cost of sales of US\$2.18 million due to disposal of FAFVPL.

CHAIRMAN'S STATEMENT

FINANCIAL HIGHLIGHTS AND REVIEW (Continued)

Given the stage the Group is currently at, financial inflows are currently minimal. During the year, I was therefore pleased to be able to offer my support by way of shareholder's loans to help address the financial and working capital needs of the Group. In addition, during the year, the Group was also successful in issuing convertible notes in the principal amount of US\$6.45 million, which I participated in.

From a financial standpoint, we achieved a positive resolution and settled the long running dispute with the ATO in respect of a disposal by the Group of an investment in BC Iron Limited. The settlement reached was in respect of a fixed amount of A\$9.5 million (or approximately US\$6.67 million), which was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation.

Shareholders' equity decreased by 50.64% to approximately US\$62.50 million as at 31 December 2019 from approximately US\$126.62 million as at 31 December 2018, which was mainly due to the impairment and amortisation charges totalling approximately US\$54.05 million as described above.

HEALTHCARE AND LIFE SCIENCES FOCUS

The Group's healthcare and life sciences investments 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 our key commercial partners and stakeholders in this sector.

Recordati, the Company's licence partner for Fortacin™ in Europe, relaunched Fortacin™ in its key countries of France, Germany, Italy, Portugal, Spain and the UK after certain manufacturing issues were experienced by PSNW and currently uptake has been much lower than expected. The key issue remains whereby a low number of PE patients are seeking advice and visiting a specialist for treatment (with key reasons being given due to the embarrassment factor 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 prescribe 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' feedbacks were very positive as well, with the most frequently asked question is about how to use Fortacin™.

Compounding the low take up rate for Fortacin™, in the latter half of 2019, PSNW unfortunately experienced further manufacturing issues where the delivery date of certain batches were postponed due to different problems faced by PSNW in the manufacturing process. This also led to lower sales by Recordati during the year and postponed the roll out of Fortacin™ by Recordati in Romania to 2020 that were previously planned in 2019.

In order to address the low level of sales, Recordati has looked into the ability for switching the status of Fortacin™ to "over-the-counter" ("OTC") from prescription ("Rx"), as they believe that with direct to consumer ("DTC") advertising (which is prohibited in the European Union market like all other markets apart from the United States (the "US") and New Zealand), they can drive sales higher via a multitude of channels as the main barrier for capturing prescriptions remains the embarrassment and awareness factors i.e. patients being embarrassed to visit their physician for a prescription. When assessing the switch to OTC from Rx, I believe it is a balancing act such that the switch will drive higher revenue through increased volume but at a lower price, which will outweigh sales at Rx (lower volume but at a higher price). I understand that Recordati will know by the end of July 2020 whether its application has been successful or not. I expect to hear further detail from Recordati in this respect as they complete the submission process as I am keen for much higher revenue to be generated from the sales of Fortacin™, which in turn would lead to increased royalty revenue for the Group.

CHAIRMAN'S STATEMENT

HEALTHCARE AND LIFE SCIENCES FOCUS (Continued)

Following significant and positive progress made by the Group with the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau, under the previously announced agreement with Plethora's Taiwan-based Asian licensee, Orient EuroPharma, permission is now in place for marketing and distribution of Fortacin™ in Hong Kong as well as Macau. Next steps under the agreement with Orient EuroPharma will involve roll out in additional select territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. I remain hopeful that Orient EuroPharma can launch Fortacin™ in Hong Kong and Macau in 2020 but this is very much dependent on PSNW being able to deliver product to Orient EuroPharma from Recordati's batch orders as the minimum purchase order from PSNW is 13,000 units per batch order, and Orient EuroPharma requires significantly less than that for its launch campaign in Hong Kong and Macau.

The Group remains in discussions and is working closely with Wanbang Pharmaceutical and other commercial partners in respect of its planned submission of the investigational new drug ("**IND**") application for clinical trial approval ("**CTA**") to commence clinical trials in China, which it hopes will be filed by Q3 2020. The IND review is expected to take approximately 60 working days. On the assumption that the IND can be filed per this timeframe, the CTA could be obtained as early as late Q4 2020 and Q1 2021. As per the terms of the licence agreement executed with Wanbang Pharmaceutical, and announced on 3 December 2018, a payment of US\$4 million is payable to the Group upon obtaining Chinese regulatory approval to conduct a human clinical trial of a licensed product.

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 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 has continued in the US and is now estimated to complete by the end of 2020. On the assumption that the trial is sufficient to convince the FDA that the Premature Ejaculation Bothersome Evaluation Questionnaire serves as an appropriate measure for support of a label claim, pivotal Phase III work could commence in the latter half of 2021, with New Drug Application submission possible in the first half 2022, giving a Prescription Drug User Fee Act date in Q1 2023, subject to the status of the novel coronavirus disease of 2019 (later named as "**COVID-19**") pandemic.

From a business development standpoint, during the 2019 financial year, the Group looked closely at a number of acquisition and investment opportunities in the wellness sector, mainly opportunities to enter into the hemp sector in China, with a particular focus on hemp cannabidiol infused products that had the potential to involve a licence for hemp cultivation and a licence for processing, together with the roll out of a hemp processing facility in China. Unfortunately, the Group's investment objectives were not achieved with any of the diligenced opportunities, largely due to valuation concerns.

OTHER EXISTING INVESTMENTS

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), the share prices of commodity companies have post year end experienced extreme volatility and we expect commodity markets to remain extremely volatile. However 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 remaining investment in Venturex Resources Limited ("**Venturex**") to recover (on a marked-to-market basis), principally due to Venturex further de-risking its copper-zinc project at Sulphur Springs by securing financing and the distinct lack of comparable projects.

CHAIRMAN'S STATEMENT

OUTLOOK

The world is grappling with an enormous scale and human impact as the COVID-19 crisis quickly escalates across the globe with the World Health Organization declaring it a pandemic. Stock markets across the world are experiencing significant swings and volatility, and the Group expects that shares will continue to be subject to extraordinary price volatility. There is thus a risk that the price of the Company's shares might follow general market volatility, regardless of results and performance of the Group and decline significantly in value.

Given the complex and constantly evolving situation around COVID-19, it is not possible to predict the possible future impacts it may have on the Group's operations at this time. However, it is possible that it could negatively impact the Group's efforts to achieve a timely and successful commercialisation of Fortacin™ in China and elsewhere, and our partners' ability to manufacture, distribute and sell Fortacin™ in Europe and the UK. Moreover, should outbreaks continue in the US, completion of the phase II pivotal study in the US could be delayed due to the inability to recruit the final patients to the study in the event that test centres are required to close their offices.

Global growth was projected at 2.5% in 2020, just above the post-crisis low registered last year, however, this has now been thrown in doubt with COVID-19, with the leading economies now expected to go into recession. While growth could be stronger if reduced trade tensions mitigate uncertainty, the balance of risks is to the downside. Downside risks predominate with COVID-19, the possibility of a re-escalation of global trade tensions, sharp downturns in major economies and financial disruptions. A steep productivity growth slowdown has been underway in emerging and developing economies since the global financial crisis, despite the largest, fastest and most broad-based accumulation of debt since the 1970s. These circumstances add urgency to the need to rebuild macro-economic policy space and undertake reforms to rekindle productivity. In particular, emerging market and developing economies need to rebuild macro-economic policy space to enhance resilience to adverse shocks and pursue decisive reforms to bolster long-term growth.

Strong macro-economic stimulus is warranted. I expect that Central banks will have to step up to the plate with combining general stimulus, targeted liquidity support, and an easing of regulatory requirements.

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

Our strategy remains the same and our balance sheet has us 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

31 March 2020

CEO'S REPORT

2019 was a challenging year for the Group. While the group has successfully teamed with its commercial partners, including Recordati S.p.A ("**Recordati**"), for the launch by Plethora Solutions Limited ("**Plethora**"), an indirect wholly-owned subsidiary of the Company, of Fortacin™ in France, Germany, Italy, Spain, Portugal and, as of February 2019, the United Kingdom (the "**UK**"), the roll out has been stifled somewhat by two key factors being: (i) a 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); and (ii) certain manufacturing issues being experienced by Pharmaserve North West Limited ("**PSNW**"), which has led to the delay of product being delivered to Recordati in a timely manner.

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 has continued in the US and is now estimated to complete by the end of 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 latter half of 2021, with New Drug Application ("**NDA**") submission possible in the first half of 2022, giving a Prescription Drug User Fee Act ("**PDUFA**") date in Q1 2023, subject to the status of the novel coronavirus disease of 2019 (later named as "**COVID-19**") pandemic.

Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**"), a wholly-controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., has informed the Company that it is on course for submitting the investigational new drug ("**IND**") application for clinical trial approval ("**CTA**") by Q3 2020, to commence clinical trials in China. The IND review is expected to take approximately 60 working days. On the assumption that the IND can be filed per this timeframe, the CTA could be obtained as early as late Q4 2020 and Q1 2021. As per the terms of the licence agreement executed with Wanbang Pharmaceutical, and announced on 3 December 2018, a payment of US\$4 million is payable to the Group upon obtaining Chinese regulatory approval to conduct a human clinical trial of a licensed product.

Following significant and positive progress made by the Group with the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau, under the agreement with Plethora's Taiwan-based Asian licensee, Orient EuroPharma Co., Ltd. ("**Orient EuroPharma**"), permission is now in place for marketing and distribution of Fortacin™ in the Hong Kong Special Administrative Region ("**Hong Kong**") as well as the Macau Special Administrative Region ("**Macau**"). Next steps under the agreement with Orient EuroPharma will involve roll out in additional select territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. We are hopeful that Orient EuroPharma can launch Fortacin™ in Hong Kong and Macau in 2020 but this is very much dependent on PSNW being able to deliver product to Orient EuroPharma from Recordati's batch orders as the minimum purchase order from PSNW is 13,000 units per batch order, and Orient EuroPharma requires significantly less than that for its launch campaign in Hong Kong and Macau.

From a business development standpoint, during the 2019 financial year, the Group looked closely at a number of acquisition and investment opportunities in the wellness sector, mainly opportunities to enter into the hemp sector in China, with a particular focus on hemp cannabidiol ("**CBD**") infused products that had the potential to involve a licence for hemp cultivation and a licence for processing, together with the roll out of a hemp processing facility in China. Unfortunately, the Group's investment objectives were not achieved with any of the diligenced opportunities, largely due to valuation concerns.

The Group is continuing to assess other exciting investment and acquisition opportunities in the healthcare and life sciences sectors.

CEO'S REPORT

As announced by the Company on 29 May 2019 and 23 August 2019, the Company entered into two conditional subscription agreements with certain subscribers, including James Mellon, Galloway Limited ("**Galloway**", an associate of James Mellon who is the Group's Chairman and substantial shareholder) and Jamie Gibson (together, the "**Subscribers**"), pursuant to which the Company issued convertible notes in the principal amount of US\$6.45 million, in one tranche. Both subscription agreements were inter-conditional upon each other and the issue of the convertible notes to James Mellon, Galloway and Jamie Gibson were connected transactions of the Company requiring approval of independent shareholders. While a larger capital raise had initially been envisaged, in light of the discontinuance of a possible acquisition in the hemp sector in China, with a particular focus on hemp CBD infused products, the Company agreed to allow certain Subscribers to withdraw from or reduce their subscriptions of the convertible note issuance and decided to continue to close the financing with the remaining Subscribers, under both subscription agreements, in respect of US\$6.45 million, to be issued in one tranche on the same terms and conditions as previously disclosed. As the two subscription agreements were inter-conditional upon each other, from a technical standpoint, the Subscribers under the connected subscription agreement agreed to waive inter-conditionality with the third party subscription agreement to facilitate closing of the reduced financing. On 23 August 2019, the issue of convertible notes to the Subscribers successfully closed.

In respect of the money raised from the Subscribers, which includes: (i) the actual cash of US\$0.95 million raised by issuance of the convertible notes; and (ii) the releasing of US\$5.5 million from shareholders' loans and accrued salaries, the Group spent approximately US\$3.3 million on the US Phase II validation study of the clinical trial in support of the US NDA, and the balance of approximately US\$3.15 million was spent on supporting the normal operations of the Group for the year ended 31 December 2019.

During the year, the financial needs of the Group were also been assisted by the generous support of Galloway, by way of shareholder's loans in the amount of US\$6.7 million, which were provided on better than market terms.

The Company has also continued to closely monitor developments in respect of its existing investment in Venturex Resources Limited ("**Venturex**"), representing approximately 8.44% of the share capital of the company as at 31 December 2019. While the Company did dispose of some of its holding in Venturex during the year, the proceeds of which were predominantly applied to discharging part of the settlement with the Australian Taxation Office ("**ATO**") (refer below), it remains a significant shareholder and will continue to assess opportunities to extract the further value from its investment at opportune times.

As announced on 18 March 2019, during the year, the Group successfully negotiated and executed a settlement agreement with the 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 ("**BCI**"), a company listed on the Australian Securities Exchange. The settlement reached was in respect of a fixed amount of A\$9.5 million (or approximately US\$6.67 million), which was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation. The Group has paid almost half of the settlement amount and anticipates paying the remaining portion of A\$4.94 million (or approximately US\$3.47 million) during 2020.

During the year of 2019, the Group recorded a loss attributable to shareholders of the Company of approximately US\$66.05 million, which was mainly attributable to: (i) an impairment loss on the intangible asset of US\$26 million; (ii) an amortisation charge of approximately US\$28.05 million on the intangible asset, being Fortacin™, both are non-cash items; (iii) a settlement amount of A\$9.50 million (or approximately of US\$6.67 million) with the ATO in respect of a capital gain tax dispute; (iv) the unrealised marked-to-market loss in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("**FAFVPL**") of approximately US\$1.27 million; and (v) the Group's operating expenses.

CEO'S REPORT

Shareholders' equity decreased by 50.64% to approximately US\$62.50 million as at 31 December 2019 from approximately US\$126.62 million as at 31 December 2018. The decrease being mainly attributable to the impairment and amortisation charges totalling approximately US\$54.05 million as described above.

Apart from the unlisted convertible notes due 2022 issued by the Company on 23 August 2019 in the principal amount of US\$6.45 million and certain shareholders' loans, the Company continues to be debt free with US\$2.26 million in cash and listed securities as at 31 December 2019.

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 and in the UK in February 2019, as well as in the remaining key markets of the US, China, Asia, 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 below.

PLETHORA

Operations Update

Recordati has informed the Company that it has relaunched Fortacin™ in its key countries of France, Germany, Italy, Portugal, Spain and the UK as uptake has been much lower than expected. The roll out has been stifled somewhat by two key factors being: (i) a low number of 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; and (ii) certain manufacturing issues being experienced by PSNW, which has led to the delay of product being delivered to Recordati in a timely manner.

Expanding on these two issues and taking the first one in turn, Recordati has advised that the main issue remains whereby a low number of PE patients are 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 prescribe 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' feedbacks were very positive as well, with the most frequently asked question is about how to use Fortacin™.

In the latter half of 2019, the manufacturer, PSNW, unfortunately experienced further manufacturing issues where the delivery date of certain batches were postponed due to different problems faced by PSNW in the manufacturing process. This also led to lower sales by Recordati during the year and postponed the roll out of Fortacin™ by Recordati in Romania to 2020 that was previously planned in 2019.

Recordati engaged Ipsos, a third party consulting group, to undertake a qualitative and quantitative analysis focused on PE patients in Italy in order to understand the image and the experience of living with PE and the patient's flow and to explore the patients' perception and experience with Fortacin™ since its launch including the specific objectives of:

- the impact of PE on self-perception, relationship and quality of life;
- attitude towards PE and related treatments/remedies in general;
- patient's journey from first occurrence of PE to today;

CEO'S REPORT

PLETHORA (Continued)

Operations Update (Continued)

- awareness, perception and experience with PE products/drugs with a focus on Fortacin™, drivers and barriers and comparison between products/designs; and
- understand who recommended/prescribed Fortacin™ and which information are provided upon recommendation/prescription; drivers and barriers to Fortacin™.

The qualitative analysis involved telephone interviews with patients affected by PE and who have received Fortacin™ as a prescription or the recommendation to use Fortacin™ from their physician. The quantitative analysis was conducted using a structured questionnaire with 250 interviews with PE sufferers in Italy. Overall approximately 40% of the patients that use Fortacin™ in Italy seems to be really intent to repurchase the drug. Recordati is currently analysing the data to determine how best to position Fortacin™ in the market-place, such that it drives underlying sales. Each launch country is undertaking various promotional activities to increase the awareness of patients that there is a new treatment for PE.

In order to address the low level sales, Recordati, has during the latter of 2019, applied for a switch of the status of Fortacin™ to "over-the-counter" ("**OTC**") from prescription ("**Rx**"), as they believe that with direct to consumer advertising (which is prohibited in the European Union ("**EU**") market like all other markets apart from the US and New Zealand), they can drive sales via a multitude of channels as the main barrier for capturing prescriptions remains the embarrassment and awareness factors – i.e. patients embarrassed to visit their physician for a prescription. When assessing the switch to OTC from Rx, it is a balancing act such that the switch will drive higher revenue through increased volume but at a lower price, which will outweigh sales at Rx (lower volume but at a higher price).

In respect of the proposed Rx-OTC switch, Recordati is unable to show the market potential at this point in time. The main reason is that until the European Medicines Agency ("**EMA**") has confirmed the possibility to switch, Recordati does not want to engage in a reliable commercial evaluation by their affiliates, which is a time and resource-consuming activity. However, we remain hopeful that the proposed OTC Switch will drive significant volume of sales of Fortacin™ that will lead to increased royalty revenue for the Group.

We understand that EMA has provided Recordati with a list of questions, that Recordati has responded to and is hopeful of a favourable reply by 31 March 2020.

In most cases, the approval from EMA will be all that is required to launch the OTC product, but some countries may have local requirements such as requiring the European Commission's decision to be issued. This would normally be issued within 12 months of the EMA approval for this type of variation.

Plethora will not have to bear any costs in respect of the proposed OTC switch.

During the year, no efficacy or safety issues were reported to Recordati.

CEO'S REPORT

The UK's withdrawal from the EU ("Brexit")

Following Brexit, the UK and the EU will be separate legal jurisdictions. For British manufacturers and distributors of medicinal products and medical devices, this means that the UK will be a third country for the EU. This third-country status will apply under all Brexit scenarios, because Britain passed a law that will terminate the UK's membership in the European Economic Area (EEA) by the end of 2020. As a consequence, all batch release activities performed by PSNW must be moved from the UK to the EU by 1 January 2021 at the very latest, so that products may still be marketed in the EU. There are inherent risks around the ability of PSNW to achieve this migration of batch release activities, both in terms of quality assurance and timing.

It is difficult to assess the extent to which the UK's pharmaceutical industry will continue to be regulated by EU laws once the UK leaves the EU. A large part of this depends on whether the UK will continue to be part of the European single market and support free movement of medicinal products, a decision for both the UK and remaining EU member states to reach. In this respect, the Group does not know at this stage what regulatory requirements will be imposed and what financial implications will be on the Company.

The consequence for the economies of the EU members and of the UK exiting the EU are unknown and unpredictable. The Group could well face new regulatory costs and challenges and greater volatility in the related currencies. Any adjustments the Group makes to its business and operations as of Brexit could result in significant time and expense to complete. Any of the foregoing factors could have a material adverse effect on the Group's business, results of operations or financial condition.

In parallel with the European and Asian roll out efforts of Fortacin™, the Group has further progressed the approval process with the FDA. In this respect, the Phase II validation study of Fortacin™ in respect of the FDA approval process has continued in the US and is now estimated to complete by the end of 2020, with the main delay to the completion of the study being caused by the slow take up in patient recruitment. 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, pivotal Phase III work could commence in the latter half 2020, with NDA submission possible in the first half of 2021, giving a PDUFA date in Q1 2023, subject to the status of the COVID-19 pandemic. 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 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.

Wanbang Pharmaceutical has informed the Company that it is on course for submitting the IND application for the CTA by Q3 2020, to commence clinical trials in China. The main reason for the delay in the submission is because Siegfried Evionnaz SA, the manufacturer of prilocaine, one of the active pharmaceutical ingredients ("**API(s)**") contained within Fortacin™, must submit its drug master file ("**DMF**") with the National Medical Product Administration ("**NMPA**") in China, which will take approximately 6 to 9 months to complete. The other API manufacturers have already submitted their DMFs previously with NMPA. The IND review is expected to take approximately 60 working days. On the assumption that the IND can be filed per this timeframe, the CTA could be obtained between Q4 2020 and Q1 2021. As per the terms of the licence agreement executed with Wanbang Pharmaceutical, and announced on 3 December 2018, a payment of US\$4 million is payable to the Group upon obtaining Chinese regulatory approval to conduct a human clinical trial of a licensed product.

CEO'S REPORT

Marketing Authorisation in Hong Kong and Macau

Following significant and positive progress made by the Group with the Hong Kong Department of Health - Drug Office and the Macau Government - Health Bureau, under the agreement with Plethora's Taiwan-based Asian licensee, Orient EuroPharma, permission is now in place for marketing and distribution of Fortacin™ in Hong Kong as well as the Macau. Next steps under the agreement with Orient EuroPharma will involve roll out in additional select territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. We are hopeful that Orient EuroPharma can launch Fortacin™ in Hong Kong and Macau in 2020 but this is very much dependent on PSNW being able to deliver product to Orient EuroPharma from Recordati's batch orders as the minimum purchase order from PSNW is 13,000 units per batch order, and Orient EuroPharma requires significantly less than that for its launch campaign in Hong Kong and Macau.

The Company is in discussions with our commercial strategic partners for the Middle East, India, 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.

Trading Update for the financial year ended 31 December 2019

Plethora recorded an operating loss of approximately GBP 2.86 million (or approximately US\$3.65 million) for the financial year ended 31 December 2019 (2018: profit of approximately GBP 2.24 million (or approximately US\$3 million)).

The operating loss for the financial year ended 31 December 2019 included a royalty income of approximately GBP 0.13 million (or approximately US\$0.16 million) (2018: approximately GBP 4.67 million (or approximately US\$6.24 million)), which being offset somewhat by: (i) R&D costs related to the regulatory and Phase II validation study in respect of the FDA approval process of Fortacin™ in the US of approximately GBP 2.59 million (or approximately US\$3.31 million) (2018: approximately GBP 1.76 million (or approximately US\$2.35 million)); and (ii) administrative expenses of approximately GBP 0.40 million (or approximately US\$0.51 million) (2018: GBP 0.53 million (or approximately US\$0.71 million)).

Underlying R&D costs and administrative expenses for the financial year ended 31 December 2019 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 progress of Phase II validation study in respect of the FDA approval process in the US. 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 2019. As at 31 December 2019, Plethora had cash resources of approximately GBP 52,000 (31 December 2018: approximately GBP 0.72 million), with ongoing financial support being provided by the Group.

Outlook

Our strategy remains the same, continue to pursue the successful commercialisation of Fortacin™ as quickly as possible with the European roll out with Recordati successfully launched in March 2018 and in the UK in February 2019. We will continue to pursue the commercial roll out of Fortacin™ in the remaining key markets of the US, China, Asia, Latin America and the Middle East through existing and new strategic commercial partners, while also completing our clinical trial work and submitting our NDA with the FDA in the US.

CEO'S REPORT

VENTUREX

The Company actively monitored and maintained its strategic position in Venturex, representing approximately 8.44% of its issued share capital, which for the year ended 31 December 2019, booked a marked-to-market loss of approximately US\$ 1.14 million.

During 2019, Venturex continued to advance its Sulphur Springs project development and has announced the following developments:

- Acceptance by the Environmental Protection Authority ("**EPA**") of Western Australia of a revised environmental review document to address all outstanding queries and issues in respect of the proposed mine plan.
- Amendments to the existing Mining Lease, which permits underground mining only.
- A revised mine plan that addresses issues with respect to the mine closure and design/location of waste dumps and tailings storage.
- Meetings have now been held with the EPA, Department of Water and Environmental Regulation (DWER) and Department of Mines, Industry Regulation and Safety (DMIRS) to progress permitting for the Sulphur Springs Copper-Zinc Project.
- In consultation with all three key agencies, Venturex has resolved to adjust the proposal to locate the Tailings Storage Facility ("**TSF**") up-gradient and within the catchment of the final mine pit. The new TSF location reduces post-closure environmental risks, which had been identified as matter of concern in previous applications to the EPA.
- In anticipation of a favourable response, work has commenced on an environmental appraisal of the amended proposal that should clear the way for the EPA to complete its assessment.
- The Company now anticipates finalisation of the EPA assessment in Q1 2020. The change is not expected to have a material impact on pre-production capital costs.
- Infill drilling at Sulphur Springs during the Q3 and Q4 of 2019 designed to test areas of inferred mineralisation in the supergene zone has indicated significant resource additions across the entire project area.

As previously stated, Venturex management has also been working toward identifying definitive funding to bring the Sulphur Springs project forward to production in the coming years. To this end, as announced during August 2019, Venturex has received an approved Term Sheet for finance from global commodity trader, Trafigura Pte Ltd, for a US\$70 million (or approximately A\$100 million) senior debt facility (Pre-payment Facility) to underpin the development of the Sulphur Springs Project. The facility is subject to formal documentation and various project approvals and on an appropriate equity component by first drawdown. Drafting of formal documents in relation to this senior debt facility has commenced, including offtake agreements with Trafigura.

Also, in addition to developments at Sulphur Springs, during 2019 Venturex completed a new exploratory drilling program in an area identified as the 'Breakers Prospect'. This new area of interest is 15km south of Sulphur Springs and early results show a similar geologic trend and comparable mineralisation to the Sulphur Springs deposit. If follow up drilling and assay testing is successful, Breakers could provide Venturex with an additional project that would add significant copper and zinc resource potential.

CEO'S REPORT

REVENUE AND PROFIT

The Company recorded a loss attributable to the shareholders of the Company of approximately US\$66.05 million in 2019 (2018: approximately US\$31.09 million).

The Corporate division (revenue and fair value loss on financial instruments) recorded a loss of approximately US\$0.31 million (2018: approximately gain of US\$2.84 million).

The main elements of the loss are analysed as follows:

	Notes	For the year ended 31 December 2019 US\$ million	For the year ended 31 December 2018 US\$ million	Increase/ (decrease) in absolute value %
Signature payment, milestone and royalty income	i	0.16	6.24	(97.44)
Amortisation of an intangible asset, Fortacin™		(28.05)	(28.05)	—
Impairment loss on an intangible asset, Fortacin™	ii	(26.00)	—	N/A
Research and development expenses incurred by Plethora	iii	(3.31)	(2.35)	40.85
Fair value loss on financial instruments	iv	(1.04)	(3.30)	(68.48)
(Taxation)/Income tax credit	v	(1.27)	2.67	N/A
Other/Office general and administrative expenses		(6.54)	(6.30)	3.81
Total loss attributable to shareholders of the Company		(66.05)	(31.09)	112.45

- (i) The signature payment, milestone and royalty income decreased by 97.44% to approximately US\$0.16 million for the year ended 31 December 2019 from approximately US\$6.24 million for the year ended 31 December 2018. The main reasons are: (i) the expected milestone receivable of US\$4 million from Wanbang Pharmaceutical was deferred to 2020; and (ii) the expected royalty income was lower due to two key factors: (a) a low number of premature ejaculation patients seeking advice and visiting a specialist for treatment; and (b) certain manufacturing issues being experienced by the manufacturer, which led to the delay of the product being delivered to the commercial partner in a timely manner.
- (ii) During the year ended 31 December 2019, the Group determined that there was an impairment loss of US\$26 million on the intangible asset, Fortacin™, in respect of the cash generating unit ("CGU"), Plethora. 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.
- (iii) The research and development expenses increased by 40.85% to approximately US\$3.31 million for the year ended 31 December 2019 from approximately US\$2.35 million for the year ended 31 December 2018. This is because the Group has further progressed the Phase II validation study in respect of the FDA approval process during the year.

CEO'S REPORT

REVENUE AND PROFIT (Continued)

- (iv) The fair value loss on FAFVPL decreased by 68.48% for the year ended 31 December 2019 from approximately US\$3.30 million for the year ended 31 December 2018. The main reason is that the unrealised loss on FAFVPL decreased by 61.35% to approximately US\$1.27 million for the year ended 31 December 2019 from approximately US\$3.30 million for the year ended 31 December 2018.
- (v) The Group recorded a net taxation payment of approximately US\$1.27 million for the year ended 31 December 2019 (2018: tax credit of approximately US\$2.67 million). This is because the Group booked a tax payment of approximately US\$6.67 million for the year ended 31 December 2019, which represented the capital gains tax due to the settlement with the ATO in respect of the dispute arising from the disposal of an investment in BC Iron Limited by the Group, which net off against the deferred tax credit of approximately US\$5.40 million.

FINANCIAL POSITION

Shareholders' equity decreased by 50.64% to approximately US\$62.50 million as at 31 December 2019 from approximately US\$126.62 million as at 31 December 2018. The decrease was mainly due to: (i) the loss attributable to shareholders of the Company of approximately US\$66.05 million for the year ended 31 December 2019, which was mainly attributable to the impairment and amortisation charges totalling approximately US\$54.05 million; as described above; (ii) the decrease of foreign currency exchange reserve of approximately US\$0.48 million; and (iii) the decrease in financial assets at fair value through other comprehensive income of approximately US\$0.28 million, and these were offset against the increase of convertible notes equity reserve of approximately US\$2.66 million by issuing the convertible notes.

The Group's assets also comprised: (i) an intangible asset of approximately US\$83.04 million, being Fortacin™; (ii) listed and unlisted investments of approximately US\$2.05 million; (iii) cash and bank balances of approximately US\$0.21 million; (iv) trade receivables of approximately US\$15,000; and (v) property, plant and equipment and other receivables of approximately US\$0.97 million.

The Group's liabilities comprised: (i) deferred tax liabilities of approximately US\$8.30 million; (ii) payables and accruals of approximately US\$4.14 million; (iii) convertible notes (liability portion) of approximately US\$3.98 million; (iv) tax payable of approximately US\$3.47 million; (v) shareholder's loans of approximately US\$3.51 million; and (vi) long-term and short-term lease liabilities of approximately US\$0.37 million.

CEO'S REPORT

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.

FUNDING

As at 31 December 2019, the Group had US\$0.21 million in cash that represented 0.33% of its total shareholders' equity, which does not take into account the Group's holding of securities of FAFVPL that amounted to US\$2.05 million.

Jamie Gibson

Chief Executive Officer

31 March 2020



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 2019 (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 36 to the Financial Statements.

RESULTS AND DIVIDENDS

(1) Results and dividends

The Group's results for the year ended 31 December 2019 are set out in the Consolidated Statement of Comprehensive Income on pages 110 to 111.

No interim dividends were paid for the years ended 31 December 2019 and 2018.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

(2) 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 macro-economic 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.

DIRECTORS' REPORT

RESULTS AND DIVIDENDS (Continued)

(2) Policy on payment of dividends (Continued)

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.

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:

	2019 US\$'000	2018 US\$'000	2017 US\$'000	2016 US\$'000	2015 US\$'000
Total income less fair value (loss)/gain on financial instruments	(313)	2,843	9,493	3,436	(5,685)
Income less expenses before impairment losses and provision	(38,114)	(33,971)	(27,403)	(31,902)	(14,715)
Reversal of impairment	—	—	—	364	1,386
Impairment losses	(26,000)	—	(1,875)	(97)	(194)
Operating loss	(64,114)	(33,971)	(29,278)	(31,635)	(13,523)
Finance cost	(620)	—	—	—	—
Gain on disposal of an associate	—	209	—	—	8,938
Loss on deemed disposal of associates	—	—	—	(5,805)	(3,560)
Gain from bargain purchase of an associate	—	—	—	1,356	—
Gain from bargain purchase of a subsidiary	—	—	—	31,686	—
Share of results of associates	—	—	(1,067)	(831)	(1,193)
Loss before taxation	(64,734)	(33,762)	(30,345)	(5,229)	(9,338)
(Taxation)/Tax credit	(1,265)	2,669	2,982	2,765	—
Loss for the year	(65,999)	(31,093)	(27,363)	(2,464)	(9,338)
Non-controlling interests	(49)	6	4	4	5
Loss attributable to shareholders of the Company	(66,048)	(31,087)	(27,359)	(2,460)	(9,333)

DIRECTORS' REPORT

SUMMARY FINANCIAL INFORMATION (Continued)

Assets and liabilities:

	2019	2018	2017	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Property, plant and equipment	397	77	63	84	48
Intangible asset	83,037	137,084	165,131	193,178	3,441
Interests in associates	1	1	2	3,055	17,295
Financial assets at fair value through other comprehensive income	—	282	—	—	—
Available-for-sale financial assets	—	—	1,925	1,726	5,367
Current assets	2,846	7,318	11,710	8,477	16,684
Total assets	86,281	144,762	178,831	206,520	42,835
Current liabilities	(7,967)	(4,487)	(3,543)	(5,874)	(3,790)
Non-current liabilities	(15,810)	(13,708)	(16,513)	(19,318)	—
TOTAL LIABILITIES	(23,777)	(18,195)	(20,056)	(25,192)	(3,790)
Net assets	62,504	126,567	158,775	181,328	39,045

BUSINESS REVIEW

(1) 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 2019.

2019 was a challenging year for the Group. While the group has successfully teamed with its commercial partners, including Recordati S.p.A ("Recordati"), for the launch by Plethora Solutions Limited ("Plethora"), an indirect wholly-owned subsidiary of the Company, of Fortacin™ in France, Germany, Italy, Spain, Portugal and, as of February 2019, the United Kingdom (the "UK"), the roll out has been stifled somewhat by two key factors being: (i) a low number of premature ejaculation ("PE") patients seeking advice and visiting a specialist for treatment (with key reasons being given due to the embarrassment factor and lack of awareness about treatments available for PE); and (ii) certain manufacturing issues being experienced by Pharmaserve North West Limited ("PSNW"), which has led to the delay of product being delivered to Recordati in a timely manner.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(1) Fair review of the Company's business (Continued)

Expanding on these two issues and taking the first one in turn, Recordati has advised that the main issue remains whereby a low number of PE patients are 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 on 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 prescribe 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' feedbacks were very positive as well, with the most frequently asked question is about how to use Fortacin™.

So the key factor that Recordati is looking to address is how to drive patients who suffer from PE to seek a prescription for Fortacin™ with their primary care physician. In this respect, Recordati engaged Ipsos, a third party consulting group, to undertake a qualitative and quantitative analysis focused on PE patients in Italy in order to understand the image and the experience of living with PE and the patient's flow and to explore the patients' perception and experience with Fortacin™ since its launch.

The qualitative analysis involved telephone interviews with patients affected by PE and who have received Fortacin™ as a prescription or the recommendation to use Fortacin™ from their physician. The quantitative analysis was conducted using a structured questionnaire with 250 interviews with PE sufferers in Italy. Overall, approximately 40% of the patients that use Fortacin™ in Italy seem to be really intent to repurchase the drug. Recordati is currently analysing the data to determine how best to position Fortacin™ in the market-place, such that it drives underlying sales. Each launch country is undertaking various promotional activities to increase the awareness of patients that there is a new treatment for PE.

Compounding the low take up rate for Fortacin™, in the latter half of the year, the manufacturer, PSNW, unfortunately experienced further manufacturing issues where the delivery date of certain batches were postponed due to different problems faced by PSNW in the manufacturing process. This also led to lower sales by Recordati during the year and postponed the roll out of Fortacin™ by Recordati in Romania to 2020 that was previously planned in 2019.

In order to address the low level sales, Recordati has, during the latter part of 2019, applied for a switch of the status of Fortacin™ to "over-the-counter" ("OTC") from prescription ("Rx"), as they believe that with direct to consumer advertising (which is prohibited in the European Union ("EU") market like all other markets apart from the United States (the "US") and New Zealand), they can drive sales higher via a multitude of channels as the main barrier for capturing prescriptions remains the embarrassment and awareness factors – i.e. patients being embarrassed to visit their physician for a prescription. When assessing the switch to OTC from Rx, it is a balancing act such that the switch will drive higher revenue through increased volume but at a lower price, which will outweigh sales at Rx (lower volume but at a higher price).

In respect of the proposed Rx-OTC switch, Recordati is unable to show the market potential at this point in time. The main reason is that until the European Medicines Agency has confirmed the possibility to switch, Recordati does not want to engage in a reliable commercial evaluation by their affiliates, which is a time and resource-consuming activity. However, we remain hopeful that the proposed OTC switch will drive significant volume of sales of Fortacin™ that will lead to increased royalty revenue for the Group.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(1) Fair review of the Company's business (Continued)

Following the UK's withdrawal from the EU ("**Brexit**"), the United Kingdom and the EU will be separate legal jurisdictions. For British manufacturers and distributors of medicinal products and medical devices, this means that the UK will be a third country for the EU. This third-country status will apply under all Brexit scenarios, because Britain passed a law that will terminate the UK's membership in the European Economic Area (EEA) by the end of 2020. As a consequence, all batch release activities performed by PSNW must be moved from the UK to the EU by 1 January 2021 at the very latest, so that products may still be marketed in the EU. There are inherent risks around the ability of PSNW to achieve this migration of batch release activities, both in terms of quality assurance and timing.

It is difficult to assess the extent to which the UK's pharmaceutical industry will continue to be regulated by EU laws once the UK leaves the EU. A large part of this depends on whether the UK will continue to be part of the European single market and support free movement of medicinal products, a decision for both the UK and remaining EU member states to reach. In this respect the Group does not know at this stage what regulatory requirements will be imposed and what financial implications will be on the Company.

The consequence for the economies of the EU members and of the UK exiting the EU are unknown and unpredictable. The Group could well face new regulatory costs and challenges and greater volatility in the related currencies. Any adjustments the Group makes to its business and operations as of Brexit could result in significant time and expense to complete. Any of the foregoing factors could have a material adverse effect on the Group's business, results of operations or financial condition.

In parallel with the European and Asian roll out efforts of Fortacin™, the Group has further progressed the approval process with the US Food and Drug Administration (the "**FDA**"). In this respect, the Phase II validation study of Fortacin™ in respect of the FDA approval process has continued in the US and is now estimated to complete by the end of 2020, with the main delay to the completion of the study being caused by the slow take up in patient recruitment. On the assumption that the trial is sufficient to convince the FDA that the Premature Ejaculation Bothersome Evaluation Questionnaire serves as an appropriate measure for support of a label claim, pivotal Phase III work could commence in the latter half 2021, with a New Drug Application ("**NDA**") submission possible in the first half of 2022, giving a Prescription Drug User Fee Act date in Q1 2023, subject to the status of the COVID-19 pandemic. 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 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.

Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**"), a wholly-controlled company of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., has informed the Company that it is on course for submitting the investigational new drug ("**IND**") application for the clinical trial approval ("**CTA**") by Q3 2020, to commence clinical trials in China. The main reason for the delay in the submission is because Siegfried Evionnaz SA, the manufacturer of prilocaine, one of the active pharmaceutical ingredients ("**API(s)**") contained within Fortacin™, must submit its drug master file ("**DMF**") with the National Medical Product Administration ("**NMPA**") in China, which will take approximately 6 to 9 months to complete. The other API manufacturers have already submitted their DMFs previously with NMPA. The IND review is expected to take approximately 60 working days. On the assumption that the IND can be filed per this timeframe, the CTA could be obtained between Q4 2020 and Q1 2021. As per the terms of the licence agreement executed with Wanbang Pharmaceutical, and announced on 3 December 2018, a payment of US\$4 million is payable to the Group upon obtaining Chinese regulatory approval to conduct a human clinical trial of a licensed product.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(1) Fair review of the Company's business (Continued)

Following significant and positive progress made by the Group with the Hong Kong Department of Health – Drug Office and the Macau Government – Health Bureau, under the agreement with Plethora's Taiwan-based Asian licensee, Orient EuroPharma Co., Ltd. ("**Orient EuroPharma**"), permission is now in place for marketing and distribution of Fortacin™ in the Hong Kong Special Administrative Region ("**Hong Kong**") as well as the Macau Special Administrative Region ("**Macau**"). Next steps under the agreement with Orient EuroPharma will involve roll out in additional select territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China. We are hopeful that Orient EuroPharma can launch Fortacin™ in Hong Kong and Macau in 2020 but this is very much dependent on PSNW being able to deliver product to Orient EuroPharma from Recordati's batch orders as the minimum purchase order from PSNW is 13,000 units per batch order, and Orient EuroPharma requires significantly less than that for its launch campaign in Hong Kong and Macau.

From a business development standpoint, during the 2019 financial year, the Group looked closely at a number of acquisition and investment opportunities in the wellness sector, mainly opportunities to enter into the hemp sector in China, with a particular focus on hemp cannabidiol ("**CBD**") infused products that had the potential to involve a licence for hemp cultivation and a licence for processing, together with the roll out of a hemp processing facility in China. Unfortunately, the Group's investment objectives were not achieved with any of the diligenced opportunities, largely due to valuation concerns.

As announced by the Company on 29 May 2019 and 23 August 2019, the Company entered into two conditional subscription agreements with certain subscribers, including James Mellon, Galloway Limited (an associate of James Mellon) and Jamie Gibson (together, the "**Subscribers**"), pursuant to which the Company issued convertible notes in the principal amount of US\$6.45 million, in one tranche. Both subscription agreements were inter-conditional upon each other and the issue of the convertible notes to James Mellon, Galloway Limited and Jamie Gibson were connected transactions of the Company requiring approval of independent shareholders. While a larger capital raise had initially been envisaged, in light of the discontinuance of a possible acquisition in the hemp sector in China, with a particular focus on hemp CBD infused products, the Company agreed to allow certain Subscribers to withdraw from or reduce their subscriptions of the convertible note issuance and decided to continue to close the financing with the remaining Subscribers, under both subscription agreements, in respect of US\$6.45 million, which includes: (i) the actual cash of US\$0.95 million raised by issuance of the convertible notes; and (ii) the releasing of US\$5.5 million from shareholders' loans and accrued salaries, to be issued in one tranche on the same terms and conditions as previously disclosed. In respect of the money raised from the Subscribers, the Group spent approximately US\$3.3 million on the US Phase II validation study (as described above), and the balance of approximately US\$3.15 million was spent on supporting the normal operations of the Group for the year ended 31 December 2019. As the two subscription agreements were inter-conditional upon each other, from a technical standpoint, the Subscribers under the connected subscription agreement agreed to waive inter-conditionality with the third party subscription agreement to facilitate closing of the reduced financing. On 23 August 2019, the issue of convertible notes to the Subscribers successfully closed.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(1) Fair review of the Company's business (Continued)

As announced on 18 March 2019, during the year the Group was also pleased to successfully negotiate and execute 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 ("**BCI**"), a company listed on the Australian Securities Exchange. The settlement reached was in respect of a fixed amount of A\$9.5 million (or approximately US\$6.67 million), which was well below the total potential amount payable to the ATO and facilitated the discontinuance of the litigation. Up to 31 December 2019, the Company has repaid approximately A\$4.56 million (or approximately US\$3.20 million) to the ATO, and the remaining balance of approximately A\$4.94 million (or approximately US\$3.47 million) remained unsettled and interest expenses on overdue tax of A\$183,000 (or approximately US\$129,000) has been provided for during the year ended 31 December 2019. The Company anticipates paying the remaining portion of approximately A\$4.94 million (or approximately US\$3.47 million) and any accrued interests during 2020. The Company's management is currently under negotiation with the ATO on the payment schedule of the outstanding amount.

During the year, the Group recorded a loss attributable to shareholders of the Company of approximately US\$66.05 million, which was mainly attributable to: (i) an impairment loss on Fortacin™, the intangible asset, of US\$26 million, a non-cash item; (ii) an amortisation charge of approximately US\$28.05 million on Fortacin™, the intangible asset, a non-cash item; (iii) a settlement amount of A\$9.50 million (or approximately of US\$6.67 million) with the ATO in respect of a capital gain tax dispute; (iv) the unrealised marked-to-market loss in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("**FAFVPL**") of approximately US\$1.27 million; and (v) the Group's operating expenses.

In analysing the loss compared to the previous financial year were:

- (i) The signature payment, milestone and royalty income decreased by 97.44% to approximately US\$0.16 million for the year ended 31 December 2019 from approximately US\$6.24 million for the year ended 31 December 2018. The main reasons are: (i) the expected milestone receivable of US\$4 million from Wanbang Pharmaceutical was deferred to 2020; and (ii) the expected royalty income was lower due to two key factors: (a) a low number of premature ejaculation patients seeking advice and visiting a specialist for treatment; and (b) certain manufacturing issuers being experienced by the manufacturer, which led to the delay of the product being delivered to the commercial partner in a timely manner.
- (ii) During the year ended 31 December 2019, the Group determined that there was an impairment loss of US\$26 million of intangible asset, patent Fortacin™, in respect of the cash generating unit ("**CGU**"), Plethora. 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.
- (iii) The research and development expenses increased by 40.85% to approximately US\$3.31 million, which is due to the increased activity in the progression of the Phase II validation study in respect of the US FDA approval process during the year.
- (iv) The fair value loss on FAFVPL decreased by 68.48%. The main reason is that the unrealised loss on FAFVPL was decreased by 61.52% to approximately US\$1.27 million for the year ended 31 December 2019 from approximately US\$3.30 million for the year ended 31 December 2018.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(1) Fair review of the Company's business (Continued)

- (v) The Group recorded a net taxation payment of approximately US\$1.27 million for the year ended 31 December 2019 (2018: tax credit of approximately US\$2.67 million), which is due to the Group recording a tax payment of approximately US\$6.67 million for the year ended 31 December 2019, which represented the capital gains tax due to the settlement with the ATO in respect of the dispute arising from the disposal of an investment in BCI by the Group, which was net off against the deferred tax credit of approximately US\$5.40 million.
- (vi) Shareholders' equity decreased by 50.64% to approximately US\$62.50 million as at 31 December 2019 from approximately US\$126.62, which was mainly due to the impairment and amortisation charges totalling approximately US\$54.05 million as described above.

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 and in the UK in February 2019, as well as in the remaining key markets of the US, China, Asia, 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.

(2) Significant post balance sheet events

Please refer to note 38 to the Financial Statements.

(3) 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 and, in respect of the UK, in February 2019, but also in the remaining key markets of the US, China, Asia, Latin America and the Middle East.

Following the commercial launch of Fortacin™ in Europe and in the UK, the Company is focussed on achieving key business development milestones in key Asian markets in respect of its licence agreements with: (i) Wanbang Pharmaceutical in respect of the rights to commercialise Fortacin™ in The People's Republic of China, excluding Taiwan, Hong Kong and Macau; and (ii) Orient EuroPharma in respect of the rights to commercialise Fortacin™ in select territories in Asia, being Taiwan, Hong Kong, 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; and (ii) US\$1.45 million, respectively and in each case excluding royalties after achieving certain milestones related to the respective roll outs.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

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

Looking ahead, much of the Group's attention will continue to be directed towards: (i) completing the phase II validation study in the US and submitting the clinical data to the FDA; (ii) helping Recordati continue with the successful roll out across Europe and the potential OTC switch to help maximise the potential payments the Group is eligible to receive under its licence agreement with it; (iii) working closely with 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 responsible; and (iv) negotiating and signing new licence agreements with key commercial partners for other territories including the US, Middle East, Latin America. 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.

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 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 an NDA with the FDA. In this respect, it is expected that the NDA will be filed with the FDA by the first half of 2022, and in accordance with mandates set forth by the Prescription Drug User Fee Act, the FDA will be required to respond to the dossier within a 10-month timescale, which would facilitate approval in the US in Q1 2023, with a commercial launch shortly thereafter, subject to the status of the COVID-19 pandemic. 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.

The Group has made significant and positive progress with the Hong Kong Department of Health – Drug Office and the Macau Government – Health Bureau. Under the licence agreement with Plethora's licensee, Orient EuroPharma, permission is now in place for marketing and distribution of Fortacin™ in Hong Kong as well as Macau. Next steps under the agreement with Orient EuroPharma will involve roll out in additional select territories in Asia, being Taiwan, Malaysia, Brunei, Singapore, Philippines, Thailand and Vietnam, but excluding The People's Republic of China.

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)

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

The Group's longer-term vision is to significantly and aggressively expand its existing business by acquiring other revenue producing assets in the health care and life sciences sector, such that the Company has a steady and recurrent income stream, which will in turn strengthen its balance sheet and diversify its business from Plethora. In addition, the Group will continue, 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 and the UK with Recordati, but also in the remaining key markets of the US, China, Asia, 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, which can lead to increased revenue.

A summary analysis of the performance and position of the Company's business for the year ended 31 December 2019 is set out below:

Fair value gain/(loss) on financial instruments	For the year ended 31 December 2019 US\$'000	For the year ended 31 December 2018 US\$'000	Increase/ (Decrease) in absolute value %
Unrealised (loss)/gain FAFVPL	(1,274)	(3,296)	(61.35)
Realised profit on disposal of FAFVPL	239	—	N/A
	(1,035)	(3,296)	(68.60)

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

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

The fair value loss on financial instruments was US\$1,035,000 for the year ended 31 December 2019 (2018: US\$3,296,000). The fair value loss was mainly due to the unrealised loss on FAFVPL of US\$1,274,000 for the year ended 31 December 2019 (2018: US\$3,296,000).

	For the year ended 31 December 2019 US\$'000	For the year ended 31 December 2018 US\$'000	Increase/ (Decrease) in absolute value %
FAFVPL			
As at 1 January	5,501	8,778	(37.33)
Reclassification (initial application of HKFRS 9)	—	19	(100.00)
Additions	—	—	—
Disposals	(2,176)	—	N/A
Change in fair value	(1,274)	(3,296)	(61.35)
As at 31 December	2,051	5,501	(62.72)

The investment in FAFVPL decreased by 62.72% to US\$2.05 million as at 31 December 2019 from US\$5.50 million as at 31 December 2018. It was mainly due to: (i) the unrealised loss of US\$1.27 million; and (ii) the disposal of US\$2.18 million.

(a) Funding

As at 31 December 2019, the Group had US\$0.21 million in cash that represented 0.33% 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\$2.05 million.

(b) Gearing ratio

As at 31 December 2019, the gearing ratio (being long-term debts over total equity and long-term debts) was approximately 10.72% (2018: nil).

(4) 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 2019. 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.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(5) 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.

(6) 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.

(a) 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 BCI, 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. The exchange rates used in this paragraph are the historic exchange rates at the relevant time.

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\$6.67 million), payable by 31 August 2019. 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 paragraph titled "Charge on Assets" in the Management's Discussion and Analysis of the Group's performance, has been lifted so as to allow the sale of such securities to discharge the settlement amount, which does not preclude other funding measures being utilised to discharge the settlement amount in full.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(6) Principal risks and uncertainties facing the Company (Continued)

(a) *Contingent liability in respect of Australian Capital Gains Tax (Continued)*

In the event that the Company is unable to sell such 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.

As at the date of this report, the Company has repaid approximately A\$4.56 million (or approximately US\$3.20 million) to the ATO, and the remaining balance of approximately A\$4.94 million (or approximately US\$3.47 million) remained unsettled and interest expenses on overdue tax of A\$183,000 (or approximately US\$129,000) has been provided for during the year ended 31 December 2019. The Company anticipates paying the remaining portion of approximately A\$4.94 million (or approximately US\$3.47 million) and any accrued interests during 2020. The Company's management is currently under negotiation with the ATO on the payment schedule of the outstanding amount.

(b) *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.

(c) *The Company is exposed to fluctuating prices of gold, copper, zinc and coal*

The Company is exposed to fluctuating prices of gold, copper, zinc and coal in relation to its Non-Core Assets. The prices of gold, copper, zinc 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.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(6) Principal risks and uncertainties facing the Company (Continued)

- (d) *Plethora depends to a material extent on the success of its lead product candidate, Fortacin™, which it has developed for the EU and the UK and is developing in respect of other markets for the treatment of premature ejaculation. If Plethora is unable to obtain regulatory approval beyond the EU, the UK, Hong Kong and Macau, or to commercialise Fortacin™ beyond these markets, 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 PSNW 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, the UK, Hong Kong and Macau; and the successful launching of commercial sales of Fortacin™ by Plethora's commercial partners at expected prices.

- (e) *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.

- (f) *Development risk*

The Group currently has or will have 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(g) *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.

(h) *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)

(6) Principal risks and uncertainties facing the Company (Continued)

(i) 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.

(j) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(k) 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.

(l) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(m) 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.

(n) 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.

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

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(6) Principal risks and uncertainties facing the Company (Continued)

(n) Protection of patents and proprietary rights (Continued)

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.

(o) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(p) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(q) 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.

(r) 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.

(s) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(t) 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.

(u) 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;
- impact of the novel coronavirus and any other outbreak of infectious disease;
- 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.

(v) 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)

(6) Principal risks and uncertainties facing the Company (Continued)

(w) 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.

(x) 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.

(y) The Group is subject to risks related to the outbreak of the novel coronavirus disease of 2019

In late December 2019, an outbreak of a novel coronavirus disease of 2019 (later named as "COVID-19") was detected in Wuhan City in the Hubei Province, China. The coronavirus outbreak in China has led to governmental shutdowns of cities and various business operations. While the gravity of the situation in China is still to be fully realised, it is very possible that it could negatively impact the Group's efforts to achieve a timely and successful commercialisation of Fortacin™ in China. In late February 2020, the coronavirus spread rapidly outside of China, with the biggest outbreak outside of Asia occurring in Italy. Since the Group's European marketing and distribution partner for its lead product Fortacin™ is based in Italy, there is a significant risk that the outbreak of the coronavirus in Italy could have a significant adverse effect on the Group's operations, including the manufacturing and distribution capacity of its European partners. Coronavirus outbreaks are highly likely to occur also in other parts of the world. Moreover, should outbreaks continue in the US, completion of the phase II pivotal study in the US could be delayed due to the inability to recruit the final patients to the study in the event that test centres are required to close their offices. Given the complex and constantly evolving situation around COVID-19, it is not possible to predict the possible future impacts, a protracted uncertainty and a lack of containment of the virus could have several negative consequences for the Group, including negatively impacting the Group's efforts to achieve a timely and successful commercialisation of Fortacin™ in China and elsewhere, as well as subsequent impact on the Group's cash flow, net sales, profitability and prospects. Depending on the spread of the coronavirus, it is also reasonable to assume that stock exchanges over the world will be very volatile and shares may be subject to extraordinary swings. There is thus a risk that the price of the Company's shares might follow general market volatility, regardless of results and performance of the Group and decline significantly in value.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

(6) Principal risks and uncertainties facing the Company (Continued)

(z) Brexit could harm the Group's business and financial results

Following Brexit, the UK and the EU will be separate legal jurisdictions. For British manufacturers and distributors of medicinal products and medical devices, this means that the UK will be a third country for the EU. This third-country status will apply under all Brexit scenarios, because Britain passed a law that will terminate the UK's membership in the European Economic Area (EEA) by the end of 2020. As a consequence, all batch release activities performed by PSNW must be moved from the UK to the EU by 1 January 2021 at the very latest, so that products may still be marketed in the EU. There are inherent risks around the ability of PSNW to achieve this migration of batch release activities, both in terms of quality assurance and timing.

It is difficult to assess the extent to which the UK's pharmaceutical industry will continue to be regulated by EU laws once the UK leaves the EU. A large part of this depends on whether the UK will continue to be part of the European single market and support free movement of medicinal products, a decision for both the UK and remaining EU member states to reach. In this respect, the Group does not know at this stage what regulatory requirements will be imposed and what financial implications will be on the Company.

The consequence for the economies of the EU members and of the UK exiting the EU are unknown and unpredictable. The Group could well face new regulatory costs and challenges and greater volatility in the related currencies. Any adjustments the Group makes to its business and operations as of Brexit could result in significant time and expense to complete. Any of the foregoing factors could have a material adverse effect on the Group's business, results of operations or financial condition.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 36 to the Financial Statements.

GOODWILL

Goodwill of the Group was fully impaired in prior years as set out in note 12 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 13 to the Financial Statements.

DIRECTORS' REPORT

SHARE CAPITAL, OPTIONS AND CONVERTIBLE NOTES

Details of the Company's share capital, convertible notes and outstanding share options under the Share Option Scheme (2016) are set out below and in notes 21 and 24 to the Financial Statements.

(1) Share capital

- (a) An ordinary resolution was duly passed at the Company's extraordinary general meeting held on 30 July 2019 to seek shareholders' approval for the increase in the Company's authorised share capital from US\$23,550,000 comprising: (a) 2,300,000,000 ordinary shares of US\$0.01 each; and (b) 55,000,000 unclassified shares of US\$0.01 each (which may be issued as ordinary shares or non-voting convertible deferred shares) to US\$143,550,000 by the creation of 12,000,000,000 additional ordinary shares of US\$0.01 each, so that the share capital comprises: (i) 14,300,000,000 ordinary shares of US\$0.01 each; and (ii) 55,000,000 unclassified shares of US\$0.01 each (which may be issued as ordinary shares or non-voting convertible deferred shares), in order to provide for the issue and allotment of the new shares to be issued and allotted to the subscribers pursuant to the two subscription agreements entered into 29 May 2019 (as noted in sub-paragraph (3) below) upon conversion of the convertible notes and to provide the Company with greater flexibility to issue future equity capital.
- (b) As at 1 January 2019, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares. During the year ended 31 December 2019 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 2019 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 21(2) 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.

DIRECTORS' REPORT

SHARE CAPITAL, OPTIONS AND CONVERTIBLE NOTES (Continued)

(3) Convertible Notes

As detailed in the announcement and shareholders' circular issued by the Company on 29 May 2019 and 11 July 2019 respectively and the announcement issued on 23 August 2019 on the updates, on 23 August 2019, the Company issued and allotted 4% coupon unlisted convertible notes due 2022 in the principal amount of US\$6.45 million, as reduced (being the "**Convertible Note(s)**" referred on in note 21(3) to the Financial Statements), pursuant to two conditional subscription agreements entered into by the Company on 29 May 2019 with various subscribers (including the Company's Directors) (being the "**Subscription Agreement(s)**" referred on in note 21(3) to the Financial Statements).

The Convertible Notes are convertible into a maximum of 265,163,294 new shares in the Company (assuming that all Convertible Notes were converted on the maturity date (being 23 August 2022) and that any and all interest that would accrue was capitalised) at the conversion price of HK\$0.2125 per share, representing approximately 14.43% of the then issued share capital of the Company and approximately 12.61% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of new shares.

During the period from 23 August 2019 to 31 December 2019, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.

On 31 December 2019, all noteholders elected to receive cash in respect of the accrued interest on the Convertible Notes for the period from 23 August 2019 to 31 December 2019, and accordingly, the maximum number of new shares to be issued and allotted upon full conversion of the Convertible Notes (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised for the remaining period from 1 January 2020 to 23 August 2022) has reduced to 261,816,342 new shares, representing approximately 14.25% of the then issued share capital of the Company and approximately 12.47% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of new shares.

Subsequent to the year end date and prior to the date of this report, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.

Details of the Subscription Agreements and the principal terms of the Convertible Notes were set out in the shareholders' circular issued on 11 July 2019, a summary of which is set out in note 21(3) to the Financial Statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 22 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

- (1) A general mandate was granted to the Directors at the Company's annual general meeting held on 14 June 2018 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, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2018 Repurchase Mandate.
- (2) The 2018 Repurchase Mandate expired upon close of the Company's annual general meeting held on 6 June 2019, 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 "**2019 Repurchase Mandate**"). Since 6 June 2019 and prior to the date of this report, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2019 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 2019 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 2019 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 2019 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:

- James Mellon (alias: Jim Mellon)**, aged 63, 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) the non-executive director of Agronomics Limited (having changed its name on 16 April 2019 from "Port Erin Biopharma Investments Limited"), having stepped down as the chairman of its board on 31 May 2019 and remaining as a non-executive director, a non-executive director of Condor Gold plc, the non-executive chairman of the board of FastForward Innovations Limited and the executive chairman of the board of Manx Financial 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 Holdings 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 non-executive chairman of the board of SalvaRx Group Plc (an AIM-listed company), which, following a group re-structuring in March 2017, disposed of all its investments and business interests to its subsidiary, namely SalvaRx Limited, and is therefore classified as an AIM Rule 15 cash shell; (5) 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 (6) a non-executive director of West African Minerals Corporation (an AIM-listed company), having resigned on 13 November 2017.
- Jamie Alexander Gibson**, aged 54, 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.

DIRECTORS' REPORT

DIRECTORS (Continued)

3. **Charles David Andrew Comba**, aged 76, 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 58, 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 76, 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.
6. **Jayne Allison Sutcliffe (maiden name: Jayne Allison Wigley)**, aged 56, 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.

DIRECTORS' REPORT

DIRECTORS (Continued)

It is the opinion of the Directors that each of them has the character, skill, experience and integrity and is able to demonstrate a standard of competence commensurate with his/her position as a director of the Company for discharging his/her duties as a director 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 he/she must, in performance of his/her 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/her 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/her knowledge and experience and holding his/her 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 any authorisation as may be required by the Members 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 Corporate Governance Code (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 2020 (the "**2020 Annual General Meeting**"), and James Mellon and David Comba will retire by rotation pursuant to Article 87 at the 2020 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 2020 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2020 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 2020 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.

DIRECTORS' REPORT

DIRECTORS (Continued)

In compliance with Rules 3.10(1) and (2) 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.

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 a semi-annual confirmation:

- (i) that he/she (including his/her "immediate family members", as defined under Rule 14A.12(1)(a)) 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 change brought about by 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 by a semi-annual confirmation that he/she considers that each of the Independent Non-Executive Directors continues to be independent under the independence criteria referred to in Rule 3.13(1) to (8) and has proved to be 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.

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/her 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/she is still independent and should be elected.

DIRECTORS' REPORT

DIRECTORS (Continued)

Save for disclosed in this annual report, none of the Directors (including those proposed for re-election at the 2020 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 Securities and Futures Ordinance of Hong Kong (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.

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.

SENIOR MANAGEMENT

1. **David Samuel Church**, Head of Mergers and Acquisitions and General Counsel, aged 45, 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 15 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.

DIRECTORS' REPORT

SENIOR MANAGEMENT (Continued)

2. **Paul Eric Jones**, Investment Director, aged 55, 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 69, 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES, OPTIONS AND DERIVATIVES

As at 31 December 2019, 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 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:

1. 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%

* These numbers do not include the number of shares to be issued upon conversion of the Convertible Notes (as defined below) held by the Directors, which are disclosed in sub-paragraph (c) below.

** The total issued ordinary share capital of the Company as at 31 December 2019 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.

b. Options under Share Option Scheme (2016)

Please refer to note 21(2) 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 2019 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES, OPTIONS AND DERIVATIVES (Continued)

1. Securities of the Company (Continued)

c. Convertible Notes

On 23 August 2019, the Company issued 4% coupon unlisted convertible notes due 2022 in the principal amount of US\$6.45 million, as reduced (being the "Convertible Note(s)" referred on in note 21(3) to the Financial Statements), which are convertible into new shares in the capital of the Company at the conversion price of HK\$0.2125 per share, pursuant to two subscription agreements dated 29 May 2019 (being the "Subscription Agreement(s)" referred on in note 21(3) to the Financial Statements), which were duly approved by the independent shareholders by ordinary resolutions at the Company's extraordinary general meeting held on 30 July 2019.

Please refer to note 21(3) to the Financial Statements as to the details of the Convertible Notes.

As at 31 December 2019, pursuant to the relevant subscription agreement, the following Directors of the Company had the following beneficial interests in the shares to be issued upon full conversion of the Convertible Notes:

Name of Director	Note	Capacity in which the Convertible Notes are held	Principal amount of Convertible Notes held (US\$)	Number of shares to subscribe for upon full conversion of the Convertible Notes held [#]	Subscription price per share (HK\$)	Conversion period
James Mellon		Beneficial owner	1,650,000	66,976,270	0.2125	23 August 2019 – 23 August 2022
	D	Interests held by controlled corporation	3,000,000	121,775,032	0.2125	23 August 2019 – 23 August 2022
Jamie Gibson		Beneficial owner	850,000	34,502,942	0.2125	23 August 2019 – 23 August 2022

[#] These numbers assumed that all Convertible Notes were converted on the maturity date (being 23 August 2022) and that any and all interest that would accrue was capitalised for the remaining period from 1 January 2020 to 23 August 2022.

During the year ended 31 December 2019, none of the above Directors converted their Convertible Notes and subscribed for shares in the Company. However, both James Mellon and Jamie Gibson elected to receive cash in respect of the accrued interest on the Convertible Notes for the period from 23 August 2019 to 31 December 2019, and accordingly, the total numbers of shares to subscribe for upon full conversion of the Convertible Notes held by them have reduced by an aggregate of 2,412,934 shares (for James Mellon and his associate) and 441,058 shares (for Jamie Gibson) respectively.

Subsequent to the year end date and prior to the date of this report, no Convertible Notes were converted by the Directors.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES, OPTIONS AND DERIVATIVES (Continued)

2. Securities of associated corporations

– Ordinary shares of US\$0.01 of AstroEast.com Limited (note E)

Notes:

- A. The 25,791,905 ordinary shares in the Company are held by a private limited liability 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. The Convertible Notes in the principal amount of US\$3,000,000, which entitles the holder to subscribe for an aggregate of 121,775,032 new shares upon full conversion, are held by a private limited liability company indirectly wholly-owned by James Mellon.
- E. AstroEast.com Limited was an indirect 50.99% owned subsidiary of the Company.

Pursuant to the Certificate of Dissolution issued by the Registrar of Companies of the Cayman Islands on 31 December 2019, AstroEast.com Limited was struck off from the Register of Companies on 31 March 2020.

Save as disclosed herein, as at 31 December 2019 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 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 2019 and prior to the date of this report, there were the following connected transactions of the Company which were disclosable under Chapter 14A of the HK Listing Rules:

- (1) (a) On 29 May 2019, the Company announced that on 29 May 2019, it entered into two conditional subscription agreements (being the "**Subscription Agreement(s)**"), being:
- (i) a Subscription Agreement (the "**Connected Subscription Agreement**") entered into between the Company, on the one hand as issuer, and:
- James Mellon (the Non-Executive Chairman of the Board of the Company), holding, by himself and his associates, 21.11% of the total issued share capital of the Company;
 - Galloway Limited ("**Galloway**", which is a private limited liability company indirectly wholly-owned by James Mellon);
 - Jamie Gibson (the Executive Director and Chief Executive Director of the Company), holding, by himself, 3.77% of the total issued share capital of the Company; and
 - David Church (a consultant to the Group and director of a number of subsidiaries of the Group),
- on the other as subscribers; and
- (ii) a Subscription Agreement (the "**Third Party Subscription Agreement**") entered into between the Company, as issuer, and various independent third party subscribers and MAC Financial Pension Trustees Ltd (being the trustee of a pension fund, of which Anderson Whamond (a former but not an existing Director of the Company and a member of the "declared concert party group" with James Mellon and Jayne Sutcliffe (both being Directors of the Company) registered under The Hong Kong Code on Takeovers and Mergers)), as subscribers,

in relation to the issue of 4% coupon unlisted convertible notes due 2022 in the principal amount of US\$17.50 million (the "**Convertible Note(s)**").

Given that James Mellon, Galloway and Jamie Gibson, all being subscribers of the Convertible Notes, were connected persons of the Group, the Connected Subscription Agreement relating to the issuance of the Convertible Notes and the new shares in the Company to be issued and allotted upon conversion of the Convertible Notes to James Mellon, Galloway and Jamie Gibson constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules and were therefore subject to the written agreement, announcement, shareholders' circular (including independent board committee's and independent financial adviser's advice), independent shareholders' approval and annual reporting requirements under Chapter 14A. It was noted that David Church was a consultant to the Group and was a director of a number of "insignificant subsidiaries" of the Group and was consequently not a connected person for the purposes of Rule 14A.09(1) to (3).

The two Subscription Agreements were inter-conditional upon each other and were subject to independent shareholders' approval.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(1) (Continued)

(a) (Continued)

The Convertible Notes would be issued in one tranche in an aggregate amount of US\$17.5 million, bearing an interest at the rate of 4% per annum and would mature on the third anniversary of the issue date. A maximum of 719,435,294 new shares in the Company ("**Conversion Share(s)**") (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised) might be issued at the conversion price of HK\$0.2125 per share, representing approximately 39.16% of the then issued share capital of the Company and approximately 28.14% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares. The Conversion Shares would be issued and allotted pursuant to a specific mandate to be sought at a general meeting (the "**Extraordinary General Meeting**"). The subscribers from both Subscription Agreements would be subject to a 6-month lock-up period from the issue date.

Following the re-categorisation of the previously advanced funds owed by the Company to James Mellon, Galloway and Jamie Gibson of, in aggregate, US\$5.5 million (the "**Previously Advanced Funds**", as detailed in the said announcement) as subscriptions for the Convertible Notes under the Connected Subscription Agreement, the gross proceeds of the new funds under the subscription (the "**New Funds**") would be US\$12 million, and the net proceeds of the New Funds, of approximately US\$11.90 million, together with existing resources available to the Group, would be applied towards meeting its general corporate purposes and for providing working capital to the Group. The Directors considered that such applications of funds would be in the interests of the Company and its Shareholders as a whole.

The Directors (including the Independent Non-Executive Directors) considered that the Subscription Agreements were entered into upon normal commercial terms following arm's length negotiations between the Company and the various subscribers and that the terms and conditions of the Subscription Agreements were fair and reasonable so far as the interests of the Company and the shareholders as a whole were concerned. The Directors (including the Independent Non-Executive Directors) also considered that the subscription would strengthen the financial position of the Group.

Both of James Mellon and Jamie Gibson abstained from voting on the board resolutions approving:

- the re-categorisation of the Previously Advanced Funds;
- the Connected Subscription Agreement and the issuance of the Convertible Notes thereunder to James Mellon, Galloway and Jamie Gibson; and
- the subscription pursuant to the Connected Subscription Agreement.

Details of the Subscription Agreements and the principal terms of the Convertible Notes were set out in the said announcement, a summary of which is set out in note 21(3) to the Financial Statements.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(1) (Continued)

- (b) On 11 July 2019, a shareholders' circular was issued by the Company relating to the proposed issue of the Convertible Notes, with the letters from the independent board committee (the "**Independent Board Committee**", comprising all the three Independent Non-Executive Directors of the Company, namely David Comba, Julie Oates and Mark Searle, who did not have a material interest in the Subscription Agreements) and the independent financial adviser (the "**Independent Financial Adviser**", being Altus Capital Limited) setting out their advice and recommendations to the independent shareholders enclosed therein.

The Independent Board Committee, having taken into account the terms and conditions of the Connected Subscription Agreement and the issuance of Convertible Notes thereunder and taken into account the recommendation and advice from the Independent Financial Adviser in relation thereto, was of the view that:

- the terms and conditions of the Connected Subscription Agreement and the issuance of Convertible Notes thereunder were fair and reasonable so far as the Company and the independent shareholders were concerned; and
- the Connected Subscription Agreement and the issuance of Convertible Notes thereunder were in the interests of the Company and its shareholders as a whole.

Accordingly, the Independent Board Committee recommended the independent shareholders to vote at the Extraordinary General Meeting in favour of the resolution approving the Connected Subscription Agreement and the issuance of Convertible Notes thereunder.

- (c) On 30 July 2019, the independent shareholders' approval of the Subscription Agreements and the transactions contemplated thereunder were duly sought at the Extraordinary General Meeting.

An approval was duly received from the HK Stock Exchange on 31 July 2019 for the listing of, and permission to deal in, up to 719,435,294 new share in the Company (being the "**Conversion Shares**" referred to above) to be issued and allotted upon full conversion of the Convertible Notes (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised).

- (d) On 23 August 2019, the Company announced that the Company allowed:
- (i) certain subscribers to withdraw their subscriptions of the Convertible Notes (in an aggregate amount of US\$10,050,000); and
 - (ii) Jamie Gibson to withdraw his subscription in respect of the New Funds (in the amount of US\$1 million) but continue to subscribe for the Convertible Notes in respect of the Previously Advanced Funds,

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(1) (Continued)

(d) (Continued)

and given that the subscribers under the Subscription Agreements, in accordance with their rights under such agreements, agreed to waive the inter-conditionality with the other Subscription Agreement to facilitate closing of the reduced financing, the Company continued to close, on 23 August 2019, the reduced financing with the remaining subscribers, under both Subscription Agreements, in respect of US\$6.45 million, to be issued in one single tranche on the same terms and conditions as previously disclosed.

In light of the agreed non-participation of certain subscribers, a maximum of 265,163,294 Conversion Shares (assuming that all Convertible Notes were converted on the maturity date (being 23 August 2022) and that any and all interest that would accrue was capitalised) might be issued at the conversion price of HK\$0.2125 per share, representing approximately 14.43% of the then issued share capital of the Company and approximately 12.61% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares.

The gross proceeds of the reduced subscription, excluding the Previously Advanced Funds, would be US\$0.95 million, and the net proceeds of the New Funds, of approximately US\$0.88 million, together with existing resources available to the Group, would continue to be applied towards meeting its general corporate purposes and for providing working capital to the Group. The Directors considered that such applications of funds would be in the interests of the Company and its shareholders as a whole.

- (e) During the period from 23 August 2019 to 31 December 2019, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.
- (f) On 31 December 2019, all noteholders elected to receive cash in respect of the accrued interest on the Convertible Notes for the period from 23 August 2019 to 31 December 2019, and accordingly, the maximum number of Conversion Shares to be issued and allotted upon full conversion of the Convertible Notes (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised for the remaining period from 1 January 2020 to 23 August 2022) has reduced to 261,816,342 Conversion Shares, representing approximately 14.25% of the then issued share capital of the Company and approximately 12.47% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares.
- (g) It is noted that of the money raised from the subscribers, which includes: (i) the actual cash of US\$0.95 million raised by issuance of the Convertible Notes; and (ii) the releasing of US\$5.5 million from shareholders' loans and accrued salaries, and as intended (as referred to in sub-paragraph (d) above), the Group spent approximately US\$3.3 million on the US Phase II validation study (as described in the section headed "Business Review" above), and the balance of approximately US\$3.15 million was spent on supporting the normal operations of the Group for the year ended 31 December 2019.
- (h) Subsequent to the year end date and prior to the date of this report, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(2) On 12 December 2019, the Company announced that during period from 2 April 2019 to 3 December 2019, it disposed of an aggregate of 15,296,186 shares ("**VXR Share(s)**") in Venturex Resources Limited ("**VXR**" (ASX: VXR), a company, whose shares were listed on the Australian Securities Exchange ("**ASX**")), representing approximately 5.47% of VXR's then issued share capital, for an aggregate consideration of approximately A\$3.05 million (or approximately US\$2.11 million at the then applicable exchange rates for the relevant transactions) in cash, being:

- (a) During the period from 30 July 2019 to 3 December 2019, it disposed or agreed to dispose of an aggregate of 10,690,817 VXR Shares via a broker, representing approximately 3.82% of VXR's existing issued share capital, being:
- (i) 2,500,000 VXR Shares to independent third parties in the market; and
 - (ii) separately, an aggregate of 8,190,817 VXR Shares to Galloway (which, as noted in sub-paragraph (1) above, is a private limited liability company indirectly wholly-owned by James Mellon (the Executive Chairman of the Board of the Company, holding, by himself and his associates, 21.11% of the total issued share capital of the Company)),

at prices ranging from A\$0.10 to A\$0.20 per VXR Share, for an aggregate consideration of approximately A\$2.03 million (or approximately US\$1.39 million) in cash (the "**Recent VXR Disposals**").

An irrevocable instruction to sell was executed with the broker in respect of the Recent VXR Disposals.

- (b) Prior to the Recent VXR Disposals, the Company disposed of an aggregate of 4,605,369 VXR Shares, representing approximately 1.65% of VXR's issued share capital as at 12 December 2019, being:
- (i) on 2 April 2019, 2,170,000 VXR Shares to independent third parties via a broker; and
 - (ii) on 3 April 2019:
 - 1,217,684 VXR Shares to James Mellon via a broker; and
 - 1,217,685 VXR Shares to Jamie Gibson via a broker (which, collectively, is referred to as the "**April VXR Disposal**"),

in all cases, at the price of A\$0.22 per VXR Share, for an aggregate consideration of approximately A\$1.02 million (or approximately US\$0.72 million) in cash.

Irrevocable instructions to sell were, in each case, executed with the broker in respect of all disposals conducted in April 2019 (including the April VXR Disposal).

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(2) (Continued)

- (c) The consideration for the April VXR Disposal and the Recent VXR Disposals were determined on the basis of normal commercial terms and arm's length negotiations.

In assessing the fairness and reasonableness of the consideration for the April VXR Disposal and the Recent VXR Disposals, the Company had considered and made reference to, among other matters:

- (i) the prevailing market prices of the VXR Shares, together with the historical performance of the VXR Shares, both in terms of market prices and limited liquidity, on the relevant dates when the respective disposals took place;
- (ii) the feedback and advice received from several brokerage securities firms as to the likely discount that would be necessary to attract interested buyers should a disposal of the Company's stake in VXR be considered;
- (iii) the size of the April VXR Disposal and the Recent VXR Disposals, which, together, were relatively large compared to VXR's market liquidity of the VXR Shares on those respective days; and
- (iv) the Group's imminent funding requirements.

In particular, it was noted that:

- The April VXR Disposal was conducted at a price of A\$0.22 per VXR Share, representing a discount of only 4.35% to the closing price of VXR Shares on the ASX of A\$0.23 per VXR Share on 1 April 2019, being the day immediately preceding the date of execution of the irrevocable instruction with the broker.
- The disposals of VXR Shares to Galloway, being part of the Recent VXR Disposals, were conducted at prices that ranged from A\$0.10 to A\$0.20 per VXR Share, representing a maximum discount of only 4.76% through to a premium of 6.38% to the closing price of VXR Shares on the ASX on the day immediately preceding the date of execution of the relevant irrevocable instruction with the broker or the day on which the terms of the trade were otherwise agreed. The prices paid per VXR Share by Galloway during such period were solely or predominantly at either the then market trading price of VXR Shares on the ASX or at the same price as was negotiated and agreed between a broker and independent third party buyers of VXR Shares on market.

In light of the foregoing, the Company considered that the price at which the VXR Shares were sold pursuant to the April VXR Disposal and the Recent VXR Disposals were fair and reasonable, as they struck a reasonable and considered balance between achieving the best price possible for the Group, while preserving demand from the ultimate buyers.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(2) (Continued)

- (d) The net proceeds from the disposal of an aggregate of 4,605,369 VXR Shares (inclusive of the April VXR Disposal) of approximately A\$1.02 million (or approximately US\$0.72 million) were used for the Company's general working capital and corporate requirements, while the net proceeds of the disposal of 10,690,817 VXR Shares (being the Recent VXR Disposals) of approximately A\$2.03 million (or approximately US\$1.39 million), together with existing resources available to the Company (including the New Funds raised by the issuance of the Convertible Notes, as referred to in Paragraph (1) above) were and would be applied towards financing the Company's general working capital requirements and, in particular, facilitating funding of the settlement of Australian taxation litigation in the amount of A\$9.50 million (or approximately US\$6.67 million). The Directors considered that such applications of funds would be in the interests of the Company and its shareholders as a whole.
- (e) Given that as noted in Paragraph (1) above, James Mellon, Galloway and Jamie Gibson, all being purchasers of the VXR Shares, were connected persons of the Group, each of:
- (i) the disposal of an aggregate of 2,435,369 VXR Shares to James Mellon and Jamie Gibson (being the April VXR Disposal); and
 - (ii) the disposal of an aggregate of 8,190,817 VXR Shares to Galloway (being part of the Recent VXR Disposals),
- constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules.

The April VXR Disposal, at that time, was fully exempt from the written agreement, announcement, circular (including independent board committee's and independent financial adviser's advice), independent shareholders' approval and the annual reporting requirements under the de minimis provision of Rule 14A.76(1) of the HK Listing Rules.

However, the disposal of 8,190,817 VXR Shares to Galloway (as part of the Recent VXR Disposals), when aggregated with the April VXR Disposal, was exempt only from the circular (including independent board committee's and independent financial adviser's advice) and independent shareholders' approval requirements under the de minimis provision of Rule 14A.76(2) of the HK Listing Rules.

Both James Mellon and Jamie Gibson abstained from voting on the board resolutions approving the April VXR Disposal and the disposal of an aggregate of 8,190,817 VXR Shares to Galloway (as part of the Recent VXR Disposals).

Save for the above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of VXR, the brokers through which the disposal of VXR shares (including the April VXR Disposal and the Recent VXR Disposals) were conducted, the counterparties to the disposals of the VXR Shares and their respective beneficial owner(s) and associate(s) was a third party independent from the Company and was not a connected person of the Group.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(2) (Continued)

(e) (Continued)

Having taken into account the terms and conditions of the April VXR Disposal, together with the Recent VXR Disposals, the Independent Non-Executive Directors were of the views that:

- the terms and conditions of the April VXR Disposal and the Recent VXR Disposals were fair and reasonable so far as the Company and the independent shareholders were concerned;
 - such disposals were on normal commercial terms and in the ordinary and usual course of business of the Group; and
 - such disposals were in the interests of the Company and its shareholders as a whole.
- (f) Given that the total cash consideration received from the Recent VXR Disposals in respect of the disposal of an aggregate of 10,690,817 VXR Shares of approximately A\$2.03 million (or approximately US\$1.39 million), together with the total cash consideration received from the disposal of an aggregate of 4,605,369 VXR Shares pursuant to, among others, the April VXR Disposal of approximately A\$1.02 million (or approximately US\$0.72 million), being approximately A\$3.05 million (or approximately US\$2.11 million), exceeded 5% but are less than 25% of the Company's total market capitalisation, the disposal of an aggregate of 15,296,186 VXR Shares since April 2019 constituted a discloseable transaction of the Company under Chapter 14 of the HK Listing Rules.
- (g) A discloseable and connected transaction announcement was issued by the Company on 12 December 2019, giving details of the disposal of an aggregate of 15,296,186 VXR Shares by the Company during period from 2 April 2019 to 3 December 2019, with the views of the Independent Non-Executive Directors (as set out in sub-paragraph (e) above) included.
- (h) It is noted that of the proceeds received from the above disposals and as intended (as referred to in sub-paragraph (d) above):
- (i) an amount of approximately A\$1.93 million (or approximately US\$1.32 million) was applied for funding of the settlement of Australian taxation litigation;
 - (ii) an amount of approximately A\$1.01 million (or approximately US\$0.72 million) was applied for financing the Company's general working capital requirements; and
 - (iii) the remaining amount of approximately A\$0.11 million (or approximately US\$71,000) was applied for repayment of a shareholder's loan.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

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 2019 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 two Independent Non-Executive Directors, namely Julie Oates (the Chairlady) and Mark Searle and the Executive Director and Chief Executive Officer (Jamie Gibson).

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 2019 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 2019 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 close 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) Agronomics Limited (formerly known as "Port Erin Biopharma Investments Limited" and changed its name on 16 April 2019)

Agronomics Limited ("**Agronomics**", AIM: ANIC) is an AIM-listed company, which has just changed its investing policy, so that the company will invest in opportunities within the life science section, concentrating on, but not limited to, environmentally friendly alternatives to the traditional production of meat and plant-based nutrition sources (clean food).

James Mellon is a non-executive director of Agronomics (having stepped down as the chairman of its board on 31 May 2019 and remaining as a non-executive director), 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 19.63 per cent of its total issued share capital.

As at the date of this report, Agronomics holds:

- approximately 1.17 per cent of the total issued share capital of The Diabetic Boot Company Limited (as referred to below); and
- approximately 0.30 per cent of the total issued share capital of Portage Biotech Inc (as referred to below).

(2) Bradda Head Holdings Limited (formerly known as "Life Science Developments Limited")

Bradda Head Holdings Limited ("**Bradda Head Holdings**") is a private company making investments and/or acquisitions in the natural resources sector.

James Mellon is a non-executive director of Bradda Head Holdings, 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 22.98 per cent of its total issued share capital.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(3) Condor Gold plc

Condor Gold plc ("**Condor Gold**", AIM: CNR; TSX: COG; and FSX: W5XA) is a UK-based exploration company listed on the 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 15.49 per cent of its total issued share capital.

(4) The Diabetic Boot Company Limited ("**Diabetic Boot**")

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; 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 £ 7,097,372 which are being converted into shares of Diabetic Boot.

And, as at the date of this report:

- Agronomics (as referred to above) holds approximately 1.17 per cent of the total issued share capital of Diabetic Boot; and
- FastForward Innovations Limited (as referred to below) holds approximately 4.29 per cent of the total issued share capital of Diabetic Boot.

(5) FastForward Innovations Limited

FastForward Innovations Limited ("**FastForward 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. FastForward Innovations invests in visionary entrepreneurs developing innovative technologies that solve problems in their industries.

James Mellon is the non-executive chairman of the board of FastForward 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, FastForward Innovations holds approximately 4.29 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 27.99 per cent of its total issued share capital.

As at the date of this report, Agronomics (as referred to above) holds approximately 0.30 per cent of the total issued share capital of Portae Biotech.

(7) 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 8.44 per cent of its total issued share capital;
- James Mellon (himself and 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); and
- Jamie Gibson 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.

Note:

SalvaRx Group Plc (AIM: SALV), which was disclosed under the "Directors' Interests in Competing Businesses" in the Company's annual report for the year ended 31 December 2018, was an AIM-listed drug development company, focused on cancer immunotherapy and complementary areas of oncology. Following a group restructuring in March 2017, all the company's investments and business interests were held by its subsidiary, namely SalvaRx Limited.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

In January 2019:

- (i) SalvaRx Limited was disposed of to Portage Biotech (as referred to above); and
- (ii) the new shares issued by Portage Biotech as the consideration for the acquisition were distributed to the shareholders of SalvaRx Group Plc.

SalvaRx Group Plc is therefore classified as an AIM Rule 15 cash shell.

SUBSTANTIAL SHAREHOLDERS

The Directors are not aware of any persons (other than James Mellon and Jamie Gibson, whose interests are set out in details under the section headed "Directors' Interests in Securities, Options and Derivatives"), who, as at 31 December 2019 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 2020 Annual General Meeting and, being eligible, offer itself for re-appointment. An ordinary resolution has been proposed for the 2020 Annual General Meeting for the re-appointment of BDO Limited as the Auditor of the Company.

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

31 March 2020

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 approximately US\$66.05 million in 2019 (2018: approximately US\$31.09 million).

The Corporate division (revenue and fair value loss on financial instruments) recorded a loss of approximately US\$0.31 million (2018: gain of approximately US\$2.84 million).

The main elements of the loss are analysed as follows:

	Notes	For the year ended 31 December 2019 US\$ million	For the year ended 31 December 2018 US\$ million	Increase/ (decrease) in absolute value %
Signature payment, milestone and royalty income	i	0.16	6.24	(97.44)
Amortisation of an intangible asset, Fortacin™		(28.05)	(28.05)	—
Impairment loss on an intangible asset, Fortacin™	ii	(26.00)	—	N/A
Research and development expenses incurred by Plethora	iii	(3.31)	(2.35)	40.85
Fair value loss on financial instruments	iv	(1.04)	(3.30)	(68.48)
(Taxation)/Income tax credit	v	(1.27)	2.67	N/A
Other/Office general and administrative expenses		(6.54)	(6.30)	3.81
Total loss attributable to shareholders of the Company		(66.05)	(31.09)	112.45

- (i) The signature payment, milestone and royalty income decreased by 97.44% to approximately US\$0.16 million for the year ended 31 December 2019 from approximately US\$6.24 million for the year ended 31 December 2018. The main reasons are: (i) the expected milestone receivable of US\$4 million from Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. was deferred to 2020 and (ii) the expected royalty income was lower due to two key factors: (a) a low number of premature ejaculation patients seeking advice and visiting a specialist for treatment and (b) certain manufacturing issues being experienced by the manufacturer, which led to the delay of the product being delivered to the commercial partner in a timely manner.
- (ii) During the year ended 31 December 2019, the Group determined that there was an impairment loss of US\$26 million of the intangible asset, Fortacin™, in respect of the cash generating unit ("CGU"), Plethora. 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.
- (iii) The research and development expenses increased by 40.85% to approximately US\$3.31 million for the year ended 31 December 2019 from approximately US\$2.35 million for the year ended 31 December 2018. This is because the Group further progressed the Phase II validation study in respect of the The Food and Drug Administration of the United States (the "US") Department of Health and Human Services (FDA) approval process during the year.

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

REVENUE AND PROFIT (Continued)

- (iv) The fair value loss on financial assets at fair value through profit or loss ("**FAFVPL**") decreased by 68.48% for the year ended 31 December 2019 from approximately US\$3.30 million for the year ended 31 December 2018. The main reason is that the unrealised loss on FAFVPL was decreased by 61.35% to approximately US\$1.27 million for the year ended 31 December 2019 from approximately US\$3.30 million for the year ended 31 December 2018.
- (v) The Group recorded a net taxation payment of approximately US\$1.27 million for the year ended 31 December 2019 (2018: tax credit of approximately US\$2.67 million). This is because the Group booked a tax payment of approximately US\$6.67 million for the year ended 31 December 2019, which represented the capital gains tax due to the settlement with the Australian Taxation Office in respect of the dispute arising from the disposal of an investment in BC Iron Limited by the Group, which was net off against the deferred tax credit of approximately US\$5.40 million.

FINANCIAL POSITION

Shareholders' equity decreased by 50.64% to US\$62.50 million as at 31 December 2019 from US\$126.62 million as at 31 December 2018. The decrease was mainly due to: (i) loss attributable to shareholders of the Company of US\$66.05 million for the year ended 31 December 2019, which was mainly attributable to the impairment and amortisation charges totalling approximately US\$54.05 million as described above; (ii) the decrease of foreign currency exchange reserve of US\$0.48 million; and (iii) the decrease in financial assets at fair value through other comprehensive income (FAFVOCI) of approximately US\$0.28 million, and these were offset against the increase of convertible notes equity reserve of approximately US\$2.66 million by issuing the convertible notes.

The Group's assets also comprised: (i) an intangible asset of approximately US\$83.04 million, being Fortacin™; (ii) listed and unlisted investments of approximately US\$2.05 million; (iii) cash and bank balances of approximately US\$0.21 million; (iv) trade receivables of approximately US\$15,000; and (v) property, plant and equipment and other receivables of approximately US\$0.97 million.

The Group's liabilities comprised: (i) deferred tax liabilities of approximately US\$8.30 million; (ii) payables and accruals of approximately US\$4.14 million; (iii) convertible notes (liability portion) of US\$3.98 million; (iv) tax payable of approximately US\$3.47 million; (v) shareholder's loans of approximately US\$3.51 million; and (vi) long-term and short-term lease liabilities of approximately US\$0.37 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.

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

STRATEGIC PLAN (Continued)

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.

FUNDING

As at 31 December 2019, the Group had US\$0.21 million in cash that represented 0.33% of its total shareholders' equity, which does not take into account the Group's holding of securities of FAFVPL that amounted to US\$2.05 million.

GEARING RATIO

As at 31 December 2019, the gearing ratio (being long-term debts over total equity and long-term debts) was approximately 10.72% (2018: nil).

CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2019.

CHARGE ON ASSETS

Save as those disclosed in note 34 to the Financial Statements, the Group had no other material contingent liabilities as at 31 December 2019.

MANAGEMENT OF RISK

In 2019, the most significant risk affecting the profitability and viability in respect of the Group is in respect of the Group's interest in Plethora and the continued success and revenue derived from its listed equity portfolio. Risks relating to the Group's interests include:

Equity Markets

Global financial markets are continuing to experience significant levels of volatility, driven largely by the COVID-19 pandemic, the collapse of the oil price and other 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.

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

MANAGEMENT OF RISK (Continued)

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.

Interest Rate Risk

Other than the shareholder's loans and convertible notes with fixed interest rates, the Group does not have any other 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 clinical work and regulatory approval processes in the US 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.

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

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 ACQUISITION AND DISPOSAL

There were no material acquisitions or disposals for the year ended 31 December 2019.

SEGMENTAL INFORMATION

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

EMPLOYEES

The Group, including subsidiaries but excluding associate, employed 19 employees at 31 December 2019 (2018: 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 2019 (2018: 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 "**Directors**" or 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 2019 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 and its code of conduct regarding directors' securities transactions during the year ended 31 December 2019 and prior to the date of this report.

Directors' interests in securities, options and convertible notes of the Company are set out in details under the paragraph headed "Directors' Interests in Securities, Options and Derivatives" in the Directors' Report.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

(1) Composition

During the year ended 31 December 2019 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 2019 and up to the date of this report, accompanied by their respective biographical details, are listed under the paragraph headed "Directors" in the Directors' Report.

It is the opinion of the Directors that each of them has the character, skill, experience and integrity and is able to demonstrate a standard of competence commensurate with his/her position as a director of the Company for discharging his/her duties as a director 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 he/she must, in performance of his/her duties as a director:

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

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 any authorisation as may be required by the Members 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(1) Composition (Continued)

No Directors will retire pursuant to Article 86(3) at the annual general meeting to be held by the Company for Year 2020 (the “**2020 Annual General Meeting**”), and James Mellon and David Comba will retire by rotation pursuant to Article 87 at the 2020 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 2020 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2020 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 2020 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.

Save for disclosed in this annual report, none of the Directors (including those proposed for re-election at the 2020 Annual General Meeting):

- (i) holds any directorships in any listed company; or
- (ii) 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
- (iii) 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
- (iv) 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(2) Board meetings and attendance and written resolutions

During the year ended 31 December 2019, 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	3	1	75%
Jamie Gibson	4	4	0	100%
David Comba	4	4	0	100%
Julie Oates	4	4	0	100%
Mark Searle	4	4	0	100%
Jayne Sutcliffe	4	2	2	50%

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.

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).

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(3) General meetings and attendance

The Company held its annual general meeting for Year 2019 (the “**2019 Annual General Meeting**”) on 6 June 2019, 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 2019 Annual General Meeting, with apologies duly noted. He, in accordance with Code Provision E.1.2 of the CG Code, appointed Jamie Gibson to take the chair of the meeting. Shareholders also noted that:

- (a) James Mellon was also the Chairman of the Company’s nomination committee (the “**Nomination Committee**”);
- (b) Julie Oates was the Chairlady of the Company’s audit committee (the “**Audit Committee**”); and
- (c) Mark Searle was the Chairman of the Company’s remuneration committee (the “**Remuneration Committee**”).

The Chairman or Chairlady of the above board committees were not available to attend the 2019 Annual General Meeting due to other business commitments, with apologies duly noted. They, 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 invited representatives of its external Auditor, BDO Limited, to attend the 2019 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.

In addition, during the year ended 31 December 2019, the Company held on 30 July 2019 an extraordinary general meeting to approve the issue of the 4% coupon unlisted convertible notes due 2022, 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 such extraordinary general meeting, with apologies duly noted. He, in accordance with Code Provision E.1.2 of the CG Code, appointed Jamie Gibson to take the chair of the 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	2	0	2	0.00%
Jamie Gibson	2	2	0	100.00%
David Comba	2	0	2	0.00%
Julie Oates	2	0	2	0.00%
Mark Searle	2	0	2	0.00%
Jayne Sutcliffe	2	0	2	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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(4) Time commitment

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

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

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 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.

In addition, the Directors noted The Consultation Conclusions on "Review of The Corporate Governance Code and Related Listing Rules" issued by the HK Stock Exchange on 27 July 2018 and the newly-introduced sub-paragraph 2 of Code Provision A.5.5 of the CG Code, which took effect on 1 January 2019 and provides that where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting if the proposed independent non-executive director will be holding his/her seventh (or more) listed company directorship, the reason(s) as to why the board believes the individual would still be able to devote sufficient time to the board. In this regard, 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 a semi-annual confirmation, among other things, that he/she does not hold more than six listed company directorships (as referred to in the paragraph headed "Independent Non-Executive Directors" below).

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).

Subsequent to the year end date, the Board conducted a review of the Directors' contribution to the Company in March 2020, 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(5) 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.

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:

- (a) the daily operations of the Company, including the management of all aspects of the Company's principal activities;
- (b) 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;
- (c) the company secretarial activities, including the preparation and timely despatch of minutes of Board meetings; and
- (d) 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:
 - (i) 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);
 - (ii) issuance, purchase or redemption of securities (including options);
 - (iii) significant contracts with any Director (as referred to in Paragraph 15 of Appendix 16 to the HK Listing Rules) and connected transactions;
 - (iv) 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
 - (v) 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 under the paragraph headed "Directors" in the Directors' Report, 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)

(6) 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 2019 included:

- The letter in relation to the publication of the "Consultation Conclusions 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 the "Review of Issuers' Annual Report Disclosure Report 2018" issued by the HK Stock Exchange on 31 January 2019;
- 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;
- The letter in relation to the "Consultation Conclusions on the Proposal Relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements" issued by the HK Stock Exchange on 24 May 2019;
- The "Statement on the Conduct and Duties of Directors When Considering Corporate Acquisitions or Disposals" issued by the Securities and Futures Commission on 4 July 2019;
- The letter in relation to the "Consultation Conclusions on Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments" issued by the HK Stock Exchange on 26 July 2019;
- The letter in relation to the publication of "FAQs on recognition of overseas audit firms in relation to the amendments to the Financial Reporting Council Ordinance – Effective on 1 October 2019" issued by the HK Stock Exchange on 6 September 2019;
- The Consultation Conclusions on "Proposed Enhancements to the Investor Compensation Regime and Related Legislative Amendments" issued by the Securities and Futures Commission on 8 October 2019;
- The letter in relation to the "Exchange Publishes Listed Issuer Regulation Newsletter" issued by the HK Stock Exchange on 22 November 2019; and
- The letter in relation to the publication of the "Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules, and Findings of ESG Disclosure Review" issued by the HK Stock Exchange on 18 December 2019.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

(6) Directors' training (Continued)

Further, during the year ended 31 December 2019, the Company arranged with a professional body to launch a seminar on the following topics, which was attended by all Directors:

- Updates on "Economic Substance" and other relevant laws in the Cayman Islands and the British Virgin Islands;
- Recent update on the HK Listing Rules and relevant laws, in particular the continuing listing criteria; and
- Overview of the general corporate governance issue.

Directors have reported to the Company in an annual training review 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 and the above seminar provided by the Company) during the year ended 31 December 2019 (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 "Exchange Publishes Results of Latest Review of Issuers' Annual Report Disclosure" issued by the HK Stock Exchange on 31 January 2020; and
- The letter in relation to the "Launch of E-Training and Publication of Guidance Materials of ESG Reporting" issued by the HK Stock Exchange on 6 March 2020.

(7) Board evaluation

In compliance with Recommended Best Practice 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 2019, with no exceptions being reported.

Subsequent to the year end date, the Board conducted an evaluation of the Board's performance in March 2020, with no exceptions being reported.

In addition, the Directors noted The Consultation Conclusions on "Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments" issued by the HK Stock Exchange on 26 July 2019 and the amendments referred to therein regarding the continuing listing criteria, which took effect on 1 October 2019.

(8) 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 Rules 3.10(1) and (2) 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.

(1) 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 a semi-annual confirmation:

- (a) that he/she (including his/her "immediate family members", as defined under Rule 14A.12(1)(a)) 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);
- (b) 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;
- (c) 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 change brought about by the newly-introduced Code Provision A.3.3 of the CG Code, which took effect on 1 January 2019);
- (d) 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
- (e) 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 by a semi-annual confirmation that he/she considers that each of the Independent Non-Executive Directors continues to be independent under the independence criteria referred to in Rule 3.13(1) to (8) and has proved to be 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)

(2) 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/her 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/she is still independent and should be elected.

- (a) It is noted that there were no Independent Non-Executive Directors standing for the rotational re-election at the 2019 Annual General Meeting.
- (b) In accordance with Article 87 of the Company's Articles of Association, James Mellon and David Comba will retire by rotation at the 2020 Annual General Meeting. Both of them, being eligible, offer themselves for re-election. In particular regard to Code Provision A.4.3, it is noted that David Comba, who was appointed as an Independent Non-Executive Director on 27 October 2005, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2017.

As noted from sub-paragraph (1) headed "Confirmation of independence" above, each of the non-independent Directors has confirmed by a semi-annual confirmation that he/she considers that each of the Independent Non-Executive Directors continues to be independent under the independence criteria referred to in Rule 3.13(1) to (8) of the HK Listing Rules and has proved to be 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). Each of the independent Directors continues to serve on the respective committees (as noted above). Accordingly, at its meeting held in March 2020, the Nomination Committee has resolved that subject to shareholders' approval, David Comba should be re-elected as an Independent Non-Executive Director at the 2020 Annual General Meeting. Such view was noted at a Board meeting held in March 2020.

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, are set out in the shareholders' circular issued by the Company on 29 April 2020.

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 2020 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:

- (a) 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
- (b) 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 2019 with the Independent Non-Executive Directors, without the presence of the other Directors, which was attended by all Independent 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 Code Provision A.2.7 of the CG Code, held a private meeting in March 2020 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 2019, 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 held one meeting, which was attended by all members of the committee, with respect to the compensation of the Directors and the employees.

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.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (Continued)

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

(1) 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 2019, the Nomination Committee held one meeting with respect to:

- (a) an annual review of the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board;
- (b) an annual review of the "Board Diversity Policy" (as set out in details in sub-paragraph (2) below), including an assessment of its effectiveness; and
- (c) an annual review of the independence of the Independent Non-Executive Directors.

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%
Julie Oates	1	1	0	100.00%
Mark Searle	1	1	0	100.00%

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

(1) 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 the skills, knowledge, experience and diversity of perspectives) of the Board;
- (ii) an annual review of the "Board Diversity Policy" (as set out in details in sub-paragraph (2) below), including an assessment of its effectiveness;
- (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 2020 Annual General Meeting.

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 2019 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).

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

(2) 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.

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.

- (a) 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.
- (b) 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.
- (c) 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 discusses and agrees annually all measurable objectives for achieving diversity on the Board and recommends 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 assesses its current diversity levels and identifies 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:

- (i) procedural and structural objectives: for example, implementing internal review and reporting procedures or ensuring that candidates are interviewed by a diverse selection/interview panel;
- (ii) 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
- (iii) 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)

(2) Board Diversity Policy (Continued)

The Nomination Committee reviews the policy on Board diversity annually, which includes an assessment of the effectiveness of the policy. The Nomination Committee discusses any revisions that may be required and recommends any such revisions to the Board for approval.

An annual review of the Board Diversity Policy was conducted in March 2019. 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 2020, 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 2019 and prior to the date of this report, among other things, the Board 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.

In addition, the Directors noted The Consultation Conclusions on "Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments" issued by the HK Stock Exchange on 26 July 2019 and the amendments referred to therein regarding the continuing listing criteria, which took effect on 1 October 2019.

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2019 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:

- (a) providing an independent review of the effectiveness of the Company's financial reporting process;
- (b) 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
- (c) 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).

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

During the year ended 31 December 2019, the Audit Committee held two meetings:

- (i) in March, with respect to:
- the review and approval of the Company's audited financial statements for the year ended 31 December 2018;
 - a semi-annual review of the Group's risk management and internal control systems;
 - an annual evaluation of the external and internal Auditors of the Company;
 - an annual evaluation of the performance of the committee; and
 - an annual review of adequacy of resources, staff qualifications and training for the accounting and financial reporting function; and
- (ii) in August, with respect to:
- the review and approval of the Company's interim financial statements for the six months ended 30 June 2019; and
 - 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%

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:

- the review and approval of the Company's audited financial statements for the year ended 31 December 2019;
- a semi-annual review of the Group's risk management and internal control systems;
- an annual evaluation of the external and internal Auditors of the Company;
- an annual evaluation of the performance of the committee; and
- an annual review of adequacy of resources, staff qualifications and training for the accounting and financial reporting function.

No separate risk committee has been established by the Company.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

A separate paragraph headed "Risk Management and Internal Control" is set out below in this report.

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).

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).

During the year ended 31 December 2019 and prior to the date of this report, the Connected Transactions Committee did not hold any meetings.

CORPORATE GOVERNANCE REPORT

CONNECTED TRANSACTIONS COMMITTEE (Continued)

However, as noted from the paragraph headed “Connected Transactions and Significant Contracts” set out in the Directors’ Report, during the year ended 31 December 2019 and prior to the date of this report, there was a connected transaction of the Company in relation to the issue of the 4% coupon unlisted convertible notes due 2022 (as detailed in the shareholders’ circular issued by the Company on 11 July 2019 under Chapter 14A of the HK Listing Rules). In compliance with Rule 14A.41 of the HK Listing Rules, an independent board committee comprising all the three Independent Non-Executive Directors of the Company (namely David Comba, Julie Oates and Mark Searle), who did not have a material interest in the transaction, was established. Pursuant to Rule 14A.40, the independent board committee, having taken into account: (i) the terms and conditions of the subscription agreement entered into with and the convertible notes to be issued to the connected persons; and (ii) the recommendation and advice received from the independent financial adviser appointed by the Company for the transaction in compliance with Rule 14A.44, gave its views on the transaction and advised the independent shareholders as to how to vote on the connected transaction at the Company’s extraordinary general meeting. Letters from the independent board committee and the independent financial adviser setting out their advice and recommendations to the independent shareholders under the requirements of Rules 14A.43 and 14A.45 were duly included in the said circular.

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

The financial statements of the Company for the year ended 31 December 2019 have been audited by BDO Limited.

Please also note the paragraph headed “Financial Reporting” below in this report.

BDO Limited will retire at the 2020 Annual General Meeting and, being eligible, offers itself for re-appointment. An ordinary resolution has been proposed for the 2020 Annual General Meeting for the re-appointment of BDO Limited as the Auditor of the Company.

(1) 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\$6,600 during the year ended 31 December 2019.

(2) 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 2019 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 Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

She has confirmed to the Company in an annual training review 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 2019.

SHAREHOLDERS' RIGHTS AND COMMUNICATION

(1) Shareholders' communication policy

The Company adopted on 13 March 2012 a set of 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).

Upon the formal adoption of a new set of amended and re-stated Articles of Association of the Company at the 2019 Annual General Meeting (the "**Amended and Re-stated Articles of Association**", as detailed in the paragraph headed "Investor Relations" below in this report), the Company's shareholders' communication policy, which is available from the "Corporate Documents" on the website of the Company (www.regentpac.com), was updated accordingly, as below:

(1) Article 58 of the Company's Articles of Association provides that the Board may whenever thinks fit call extraordinary general meetings, and:

- A Member or Members (acting together) holding at the date of deposit of the requisition not less than ten per cent 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)

(1) 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.

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

The Company adopted on 13 March 2012 a set of procedures for shareholders to propose a person for election as a Director of the Company.

Upon the formal adoption of the Amended and Re-stated Articles of Association (as detailed in the paragraph headed "Investor Relations" below in this report), the Company's "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), were updated accordingly, as below:

- (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.
 - (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 any authorisation as may be required 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.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

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

- (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.

(3) 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 2019, 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 2020, which concluded that the Company had in place a compliant (under the CG Code) and effective means of communication with its shareholders.

(4) Policy on payment of dividends

Pursuant to the newly-introduced Code Provision E.1.5 of the CG Code, which took effect on 1 January 2019, 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.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

During the year ended 31 December 2019 and prior to the date of this report, a new set of Articles of Association of the Company (as referred to as the “**Amended and Re-stated Articles of Association**” above) was adopted by a special resolution passed at the 2019 Annual General Meeting 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. The amendments made to the respective provisions were set out in details in the appendix to the shareholders’ circular issued by the Company on 18 April 2019, with a summary set out as follows:

- (a) to provide that a member or members (acting together) of the Company representing not less than 10 per cent (previously, this was one-fifth) of the paid up capital of the Company which carries the right of voting at the general meetings may call for general meetings of the Company on written requisitions;
- (b) to provide that the duly appointed proxy or proxies have the right to speak at the general meetings of the Company;
- (c) to provide that the shareholders have the right to elect to receive corporate communications by electronic means;
- (d) to require deemed service by post to be the second business day after posting of the relevant notice (previously, deemed service occurred on the day following posting);
- (e) to insert the definition of “close associate” and update the provisions covering conflicts of interest by “close associate” of directors in the Articles of Association in light of the related amendments to HK Listing Rules; and
- (f) to incorporate certain housekeeping amendments.

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).

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 2019, 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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

As noted under the paragraph headed "Audit Committee" above, it was confirmed that the Audit Committee conducted a semi-annual review on the Group's risk management and internal control systems, which, in particular, considered the following as set out in Code Provision C.2.3 of the CG Code:

- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- (b) the scope and quality of Management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (c) the extent and frequency of communication of monitoring results to the Board (or board committee(s)) which enable it to assess control of the Company and the effectiveness of risk management;
- (d) significant control failings or weaknesses that have been identified during the period and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- (e) the effectiveness of the Company's processes for financial reporting and the compliance with the HK Listing Rules.

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

(1) 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 2019, 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.

(2) 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 2019, the Group also conducted a post-audit review of the actions executed to remediate internal control deficiencies identified in prior years internal audit reviews.

(3) 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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

(3) Internal audit function (Continued)

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.

FINANCIAL REPORTING

The financial statements of the Company for the year ended 31 December 2019 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. The Directors draw shareholders' attention to note 3.1 to the consolidated financial statements, which indicates that the Group incurred a loss of US\$65,999,000 for the year ended 31 December 2019, and as at that date, the Group had net current liabilities of US\$5,121,000. As stated in the said note 3.1, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. However, the Directors note that the independent Auditor's opinion is not modified in respect of this matter. Apart from this item, the Directors 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 in the paragraph headed "Strategic Plan" in the Management's Discussion and Analysis of the Group's Performance.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING (Continued)

In addition, the Directors noted The Consultation Conclusions on “Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments” issued by the Company on 1 February 2019 and the amended paragraphs 45 and 46 of Appendix 16 to the HK Listing Rules, which took effect on 1 March 2019, require that a listed issuer shall include in its preliminary results announcements:

- (i) as for the final audited results, which have been agreed with its Auditor, the details of the modification where the Auditor is likely to issue a modified report on the Company’s annual financial statements; and
- (ii) as for the interim results, the details of the modification where the accounting information contained in the announcement has been audited by the Auditor and the Auditor is likely to issue a modified report on the Company’s interim financial statements.

A report of the independent Auditor with respect to the Company’s financial statements for the year ended 31 December 2019 is included in this annual report.

On Behalf of the Board

James Mellon

Chairman

31 March 2020



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 2019 (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

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (Continued)

As of 31 December 2019, 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	2018	2019
A1.1 Air Pollutants Emission	<i>N/A (Note 1)</i>	
A1.2 GHG Emission	<i>N/A (Note 1)</i>	
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>)	36.13 tonnes	36.58 tonnes
➤ Paper waste disposed at landfills	0.43 tonnes	0.70 tonnes
➤ Business air travel by employees	38.70 tonnes	44.63 tonnes
	75.26 tonnes	81.91 tonnes
CO ₂ emission per employee	5.79 tonnes per employee	6.30 tonnes per employee
CO ₂ emission per square feet of office premises	0.01 tonnes per sq. ft.	0.01 tonnes per sq. ft.
A1.3 Hazardous waste produced	<i>N/A (Note 1)</i>	
A1.4 Non-hazardous waste produced		
Paper waste disposed at landfills (<i>Note 3</i>)	0.09 tonnes	0.15 tonnes
Paper waste produced per employee	0.01 tonnes per employee	0.01 tonnes per employee
A2.1 Energy consumption	<i>N/A (Note 1)</i>	
Direct energy consumption	<i>N/A (Note 1)</i>	
Indirect energy consumption from electricity purchased (<i>Note 2</i>)	46,321 kWh	45,724 kWh
Energy consumption per employee	3,563 kWh per employee	3,517 kWh 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>	
A2.3 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 is not directly involved 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 were reflected in the reduction of electricity consumed during the reporting period.

In spite of the endeavour to minimise the paper usage and CO₂ emission, there was a slight increase in the paper waste produced and CO₂ emission from business travel to meet the operational needs. We have been adhering to the ESG principles in the way we conduct our business. The rise in the CO₂ emission from business travel was mainly due to longer journey on average.

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.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (Continued)

Operating Practices (Continued)

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.

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

31 March 2020

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 110 to 200, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 (“**HKSA**s”) 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3.1 to the consolidated financial statements, which indicates that the Group incurred a loss of US\$65,999,000 for the year ended 31 December 2019, and as at that date, the Group had net current liabilities of US\$5,121,000. As stated in note 3.1 to the consolidated financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Gong Concern" section, we have determined the matter described below to be the key audit matter to be communicated in our report.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSET (PATENT PSD502®)

Refer to notes 3.12, 4.1 and 14 to the consolidated financial statements.

At 31 December 2019, the net carrying amount of PSD502® (also known as Fortacin™) was approximately US\$83,037,000 (net of impairment) as set out in note 14.

Management has carried out impairment assessment in accordance with the Group's accounting policies and concluded that there was an impairment of US\$26,000,000 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 judgment 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 judgments and assumptions.

Our procedures in relation to management's impairment assessment of PSD502®/Fortacin™ at 31 December 2019 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

Jonathan Russell Leong

Practising Certificate no. P03246

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Revenue:	5		
Signature payment, milestone and royalty income		164	6,235
Corporate investment income		464	(115)
Other income		94	19
		722	6,139
Fair value loss on financial instruments	6(a)	(1,035)	(3,296)
Total income less fair value loss on financial instruments		(313)	2,843
Expenses:			
Employee benefit expenses	7	(3,924)	(3,958)
Rental and office expenses		(718)	(744)
Information and technology expenses		(180)	(167)
Marketing costs and commissions		(111)	(101)
Professional and consulting fees		(1,161)	(1,054)
Research and development expenses		(3,306)	(2,347)
Amortisation of intangible asset (Fortacin™)	14	(28,047)	(28,047)
Other operating expenses		(354)	(396)
Operating loss	6(a)	(38,114)	(33,971)
Gain on disposal of an associate	6(b)	—	209
Impairment loss on intangible asset (Fortacin™)	14	(26,000)	—
Finance costs	8	(620)	—
Loss before taxation		(64,734)	(33,762)
(Taxation)/Tax credit	9	(1,265)	2,669
Loss for the year		(65,999)	(31,093)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of financial statements of foreign operations		(478)	191
Reclassification to profit or loss on disposal of an associate		—	129
Item that will not be reclassified subsequently to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		(282)	(25)
Other comprehensive income for the year, before and net of tax		(760)	295
Total comprehensive income for the year		(66,759)	(30,798)
(Loss)/Profit for the year attributable to:			
Shareholders of the Company		(66,048)	(31,087)
Non-controlling interests		49	(6)
		(65,999)	(31,093)
Total comprehensive income attributable to:			
Shareholders of the Company		(66,808)	(30,797)
Non-controlling interests		49	(1)
		(66,759)	(30,798)
Losses per share attributable to shareholders of the Company during the year			
	11	US cents	US cents
– Basic		(3.59)	(1.69)
– Diluted		(3.59)	(1.69)
		HK cents	HK cents
– Basic		(28.13)	(13.25)
– Diluted		(28.13)	(13.25)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	397	77
Intangible asset (Fortacin™)	14	83,037	137,084
Interest in an associate		1	1
Financial assets at fair value through other comprehensive income	15	—	282
		83,435	137,444
Current assets			
Financial assets at fair value through profit or loss	16	2,051	5,501
Trade receivables	18	15	297
Prepayments, deposits and other receivables	19	574	498
Cash and bank balances	17	206	1,022
		2,846	7,318
Current liabilities			
Trade payables, deposits received, accruals and other payables	20	(4,137)	(4,487)
Lease liabilities	23	(359)	—
Tax payable		(3,471)	—
		(7,967)	(4,487)
Net current (liabilities)/assets		(5,121)	2,831
Total assets less current liabilities		78,314	140,275
Non-current liabilities			
Lease liabilities	23	(11)	—
Convertible notes	24	(3,981)	—
Shareholder's loans	25	(3,514)	—
Deferred tax liabilities	26	(8,304)	(13,708)
		(15,810)	(13,708)
NET ASSETS		62,504	126,567
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	21	18,372	18,372
Reserves	22	44,131	108,243
Equity attributable to shareholders of the Company		62,503	126,615
Non-controlling interests		1	(48)
TOTAL EQUITY		62,504	126,567

The consolidated financial statements on pages 110 to 200 were approved and authorised for issue by the Board of Directors on 31 March 2020.

James Mellon
Chairman

Jamie Gibson
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

2019	Equity attributable to shareholders of the Company										
	Share capital US\$'000	Accumulated losses* US\$'000	Share premium* US\$'000	Convertible notes equity reserve* US\$'000	Investment revaluation reserve* US\$'000	Capital redemption reserve* US\$'000	Statutory and other reserves* US\$'000	Foreign currency exchange reserve* US\$'000	Total	Non-controlling interests US\$'000	Total equity US\$'000
At 1 January 2019	18,372	(186,375)	283,534	—	(1,425)	8,228	176	4,105	126,615	(48)	126,567
Loss for the year	—	(66,048)	—	—	—	—	—	—	(66,048)	49	(65,999)
Other comprehensive income											
Foreign currency translation adjustment	—	—	—	—	—	—	—	(478)	(478)	—	(478)
Change in fair value of financial assets at fair value through other comprehensive income (note 15)	—	—	—	—	(282)	—	—	—	(282)	—	(282)
Total comprehensive income for the year	—	(66,048)	—	—	(282)	—	—	(478)	(66,808)	49	(66,759)
Issue of convertible notes (note 24)	—	—	—	2,657	—	—	—	—	2,657	—	2,657
Deemed capital contribution arising from interest-free shareholder's loan (note 25)	—	—	—	—	—	—	39	—	39	—	39
	—	—	—	2,657	—	—	39	—	2,696	—	2,696
At 31 December 2019	18,372	(252,423)	283,534	2,657	(1,707)	8,228	215	3,627	62,503	1	62,504

* As at 31 December 2019, the total of these reserves amount to a surplus of US\$44,131,000 (2018: US\$108,243,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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 and other reserves* US\$'000	Foreign currency exchange reserve* US\$'000	Total	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	—	—	—	(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 (note 15)	—	—	—	(25)	—	—	—	(25)	—	(25)
Reclassification to profit or loss on disposal of an associate (note 6(b))	—	—	—	—	—	—	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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Cash flows from operating activities:			
Loss before taxation		(64,734)	(33,762)
Adjustments for:			
Depreciation of property, plant and equipment	13	47	52
Depreciation of right-of-use assets	13	573	—
Amortisation of intangible asset	14	28,047	28,047
Impairment loss on intangible asset	14	26,000	—
Finance costs	8	620	—
Gain arising from extinguishment of interest-free shareholder's loan	5	(90)	—
Interest income on bank deposits	5	—	(16)
Unrealised loss on financial assets at fair value through profit or loss	6(a), 16	1,274	3,296
Gain on disposal of an associate	6(b)	—	(209)
		(8,263)	(2,592)
Change in working capital			
Decrease/(increase) in trade receivables		282	(297)
(Increase)/decrease in prepayments, deposits and other receivables		(76)	183
Decrease in financial assets at fair value through profit or loss		2,176	—
Increase in trade payables, deposits received, accruals and other payables		41	944
Cash used in operations		(5,840)	(1,762)
Interest received on bank deposits		—	16
Income tax paid	34	(3,198)	(136)
Net cash used in operating activities		(9,038)	(1,882)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Cash flows from investing activities:			
Purchase of property, plant and equipment	13	(8)	(68)
Proceeds from disposal of financial assets at fair value through other comprehensive income	15	—	189
Proceeds from disposal of an associate	6(b)	—	339
Net cash (used in)/generated from investing activities		(8)	460
Cash flow from financing activities:			
Proceeds from shareholders' loans	25	8,520	—
Repayment of shareholders' loans	25	(91)	—
Proceeds from issue of convertible notes	24	950	—
Transaction costs on issue of convertible notes	24	(68)	—
Interest paid on shareholder's loans	25	(5)	—
Principal element of lease payments		(565)	—
Interest element of lease payments	8	(36)	—
Net cash generated from financing activities		8,705	—
Net decrease in cash and cash equivalents		(341)	(1,422)
Cash and cash equivalents at the beginning of the year		1,022	2,251
Effects of foreign currency fluctuations		(475)	193
Cash and cash equivalents at the end of the year		206	1,022
Represented by:			
Cash and bank balances	17	206	1,022

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is at P.O. Box 309, Uglan 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 2019 were approved and authorised for issue by the Board of Directors on 31 March 2020.

2. ADOPTION OF NEW OR REVISED HKFRSs

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2019

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 2019:

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Venture
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments

The impact of the adoption of HKFRS 16 "Leases" has been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 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 2019 (Continued)

HKFRS 16 – Leases (“HKFRS 16”)

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“**HKAS 17**”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and accordingly, has recognised the cumulative effect of initial application as an adjustment to the opening balance of accumulated losses at 1 January 2019, if any. Comparative information has not been restated and continues to be reported under HKAS 17.

The following table summarises the impacts upon the adoption of HKFRS 16 on the Group’s consolidated statement of financial position. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018 US\$'000	Impacts upon the adoption of HKFRS 16 US\$'000	Carrying amount under HKFRS 16 at 1 January 2019 US\$'000
Right-of-use assets presented in property, plant and equipment	77	903	980
Lease liabilities (current liabilities)	—	(560)	(560)
Net current assets	2,831	(560)	2,271
Total assets less current liabilities	140,275	343	140,618
Lease liabilities (non-current liabilities)	—	(343)	(343)

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 2019 (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(i) Impact of the adoption of HKFRS 16 (Continued)

The following table reconciles the operating lease commitments as disclosed in note 28 as at 31 December 2018 to the opening balance of lease liabilities recognised as at 1 January 2019:

	At 1 January 2019 US\$'000
Operating lease commitments at 31 December 2018 (note 28)	1,063
Less: Commitments relating to leases exempt for capitalisation:	
– Short-term leases with remaining lease term ending on or before 31 December 2019	(16)
– Leases of low-value assets	(13)
Less: Service charges not capitalised	(89)
Less: Total future interest expenses	(42)
Total lease liabilities recognised at 1 January 2019 (note 23)	903
Analysed as:	
Current	560
Non-current	343
	903

The weighted average of the incremental borrowing rate of the lessee applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 was 6%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

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 2019 (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(ii) **The new definition of a lease** (Continued)

The Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

(iii) **Accounting as a lessee**

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

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 2019 (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(iii) Accounting as a lessee (Continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group’s incremental borrowing rate.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

At the date of transition to HKFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in line item “property, plant and equipment” and presents lease liabilities separately in the statement of financial position.

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 2019 (Continued)

Amendments to HKFRS 9 - Prepayment Features with Negative Compensation

The amendments clarify that prepayment 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 (“FVTPL”).

Amendments to HKAS 28 - Long-term Interests in Associates and Joint Venture

The amendments clarify that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using HKFRS 9 Financial Instruments.

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.

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.

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

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.

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹

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

² 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.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not 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.

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.

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 HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation and going concern assumption

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

The Group has incurred a loss of approximately US\$65,999,000 for the year ended 31 December 2019, and as of that date, its current liabilities exceeded its current assets by approximately US\$5,121,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The Directors have prepared the consolidated financial statements based on the assumption that the Group can continue as a going concern and are of the view that the Group will have sufficient working capital and financial resources to finance its operations for the next twelve months from the end of the reporting period, after taking into consideration that Galloway Limited (“**Galloway**”) (a private limited liability company indirectly wholly-owned by James Mellon, a substantial shareholder who is also a director and Chairman of the Company) has undertaken to provide sufficient funds to the Group to enable it to meet all current obligations as they fall due in the coming twelve months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation and going concern assumption (Continued)

After the year end date, the Company has entered into three shareholder's loan agreements with Galloway, with summary terms described below:

- (i) A shareholder's loan agreement with principal amount of US\$1 million was entered into and executed in January 2020. This loan was unsecured, interest bearing at 5% per annum and repayable on the date falling three years after the date of the agreement.
- (ii) A shareholder's loan agreement with principal amount of US\$1 million was entered into and executed in February 2020. This loan was unsecured, interest bearing at 5% per annum and repayable on the date falling three years after the date of the agreement.
- (iii) A shareholder's loan agreement with principal amount of US\$850,000 was entered into and executed in March 2020. This loan was unsecured, interest bearing at 5% per annum and repayable on the date falling three years after the date of the agreement.

The Group experienced a significant drop in revenue in 2019 as compared to the previous financial year, which is a result of: (i) the intended receipt of milestone income of US\$4 million from Wanbang Pharmaceutical Marketing and Distribution Co., Ltd. ("**Wanbang Pharmaceutical**") being delayed to 2020; and (ii) the low level of royalty income received from its commercial partner due to lower sales than forecast by this partner.

The main reason for the delay of the milestone income of US\$4 million was because the manufacturer of prilocaine, one of the active pharmaceutical ingredients ("**API(s)**"), unfortunately had not submitted a drug master file ("**DMF**") with the National Medical Product Administration ("**NMPA**") in China. This DMF is now under preparation by the prilocaine manufacturer. The other API manufacturers have already submitted their DMFs previously with NMPA. The investigational new drug ("**IND**") review is expected to take approximately 60 working days. On the assumption that the IND can be filed by Q3 2020, the approval for commencement of the clinical trial by NMPA could be obtained between Q4 2020 and Q1 2021. As per the terms of the licence agreement executed with Wanbang Pharmaceutical, and announced on 3 December 2018, a payment of US\$4 million is payable to the Group upon obtaining NMPA approval to conduct a human clinical trial of a licensed product.

The low level of royalty income was due to two key factors being: (i) a low number of premature ejaculation ("**PE**") patients seeking advice and visiting a specialist for treatment (with key reasons being given due to the embarrassment factor and lack of awareness about treatments available for PE); and (ii) certain manufacturing issues being experienced by Pharmaserve North West Limited, which has led to the delay of product being delivered to Recordati S.p.A. in a timely manner.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation and going concern assumption (Continued)

The Group's commercial partner is looking to address the low level of sales by switching the status of Fortacin™ to "over-the-counter" ("OTC") from prescription ("Rx"), as they believe that with direct to consumer (DTC) advertising (which is prohibited in the European Union market like all other markets apart from the US and New Zealand), they can drive sales higher via a multitude of channels as the main barrier for capturing prescriptions remains the embarrassment and awareness factors – i.e. patients being embarrassed to visit their physician for a prescription. When assessing the switch to OTC from Rx, the Company believe it is a fine balancing act such that the switch will drive higher revenue through increased volume but at a lower price which will outweigh sales at Rx (lower volume but at a higher price). The Company understands that its commercial partner will know by the end of July 2020 whether its application has been successful or not. The Group expects to hear further detail from its commercial partner in this respect as they complete the submission process as the Group is understandably keen for much higher royalty revenue to be generated from the sales of Fortacin™, which in turn would lead to increased royalty revenue for the Group.

As explained in note 38, the evolving COVID-19 pandemic may have adverse effects on the Group's efforts to timely and successfully commercialise Fortacin™ in China and elsewhere, as well impact the commercial partner's ability to manufacture, distribute and sell Fortacin™ in Europe and the United Kingdom ("UK"). The Group has made some allowance for these potential difficulties in its internal cash flow projections and funding requirements in the coming twelve months, but cannot be assured that such projections will be realised.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to reclassify all non-current assets and non-current liabilities as current assets and current liabilities respectively, to reduce the carrying amounts of assets to their estimated net realisable amounts, and to provide for any further liabilities which may arise. The effect of these potential adjustments has not been reflected in the consolidated financial statements.

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 judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Associate

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 an associate 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 an associate" 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 interest in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investment in an associate 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Goodwill (Continued)

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.

3.8 Leasing

Accounting policies applied from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. The right-of-use asset is depreciated over the shorter of the asset's estimated useful life and the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Leasing (Continued)

Accounting policies applied from 1 January 2019 (Continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting policies applied until 31 December 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments

(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.

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 FVTPL, 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 FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(i) *Financial assets* (Continued)

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.

(ii) *Impairment loss on financial assets*

The Group recognises loss allowances for the expected credit loss ("**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 "Financial Instruments" ("**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)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL 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, debt element of convertible notes issued by the Company and shareholder's loans 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) Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible notes equity reserve will be released to the retained profits/accumulated losses. No gain or loss is recognised upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(v) *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.

(vi) *Equity instruments*

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

(vii) *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.

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 (including right-of-use assets); and
- interests in subsidiaries and an associate

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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(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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee benefits (Continued)

(ii) Retirement benefits (Continued)

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 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.

(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

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 judgment to determine: (a) the performance obligations; (b) the transaction price; and (c) the timing of revenue recognition, including the appropriate measure of progress.

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 judgment 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

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.

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 judgment 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Related parties (Continued)

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.

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 JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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:

Critical accounting estimates and assumptions

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 *Provision for income taxes*

The Group is subject to income tax in different jurisdictions and significant judgment 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.

4.3 *Fair value of financial instruments*

The Directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Liability component of the convertible notes is valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Critical accounting estimates and assumptions (Continued)

4.4 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, 16 and 31.

Critical judgments in applying the Group's accounting policies

Going concern

The financial statements have been prepared on going concern basis, further details of which are provided in note 3.1 to the consolidated financial statements.

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:

	2019 US\$'000	2018 US\$'000
Signature payment, milestone and royalty income		
Signature payment	—	1,300
Milestone and royalty income	164	4,935
	164	6,235
Corporate investment income		
Bank interest income	—	16
Foreign exchange gains/(losses), net	464	(131)
	464	(115)
Other income		
Sundry income	94*	19
	722	6,139

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.

*- It includes US\$90,000 gain arising from the extinguishment of an interest-free shareholder's loan (note 25).

For management's 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.

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 intangible asset;
- taxation/tax credit;
- corporate income and expenses which are not directly attributable to the business activities of any operating segment; and
- gain on disposal of an associate.

are not included in arriving at the operating results of the operating segment.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets include all assets except for interest in an associate and financial assets at fair value through other comprehensive income ("FAFVOCI").

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment.

Information regarding the Group's reportable segments is set out below:

For the year ended 31 December 2019

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Revenue from external customers	164	558	722
Segment results	(31,669)	(7,065)	(38,734)
Impairment loss on intangible asset (note 14)	(26,000)	—	(26,000)
Consolidated loss before taxation	(57,669)	(7,065)	(64,734)

As at 31 December 2019

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Segment assets	83,290	2,990	86,280
Interest in an associate			1
Total assets			86,281
Segment liabilities	566	11,436	12,002
Unallocated tax payable			3,471
Deferred tax liabilities			8,304
Total liabilities			23,777

For the year ended 31 December 2019

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Depreciation	(17)	(603)	(620)
Amortisation	(28,047)	—	(28,047)
Net loss on financial assets at fair value through profit or loss ("FAFVPL")	—	(1,035)	(1,035)
Capital expenditure	—	(36)	(36)

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

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)

As at 31 December 2018

	Biopharma US\$'000	Corporate Investment US\$'000	Total US\$'000
Segment assets	138,388	6,091	144,479
Interest in an associate			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)

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
China	—	1,000	1	1
Europe	254	4,789	83,039	137,102
Hong Kong (domicile)	468	50	395	59
Taiwan	—	300	—	—
	722	6,139	83,435	137,162

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.

Disaggregation of revenue

Disaggregation of revenue from the Group's Biopharma segment and timing of revenue recognition are as follows:

	2019 US\$'000	2018 US\$'000
Timing of revenue recognition		
<i>At a point in time</i>		
Signature payment	—	1,300
Milestone and royalty income	164	4,935
	164	6,235

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:

	2019 US\$'000	2018 US\$'000
Customer A	164	4,935
Customer B	—	1,000
	164	5,935

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING LOSS AND GAIN ON DISPOSAL OF AN ASSOCIATE

(a) Operating loss

	2019 US\$'000	2018 US\$'000
Operating loss is arrived at after charging:		
Auditors' remuneration		
– audit services	212	208
– review services	51	51
Depreciation of (note 13):		
– Property, plant and equipment	47	52
– Right-of-use assets	573	—
Amortisation of intangible asset (Fortacin™) (note 14)	28,047	28,047
Short-term lease expenses	24	—
Low-value assets lease expenses	3	—
Operating lease charges on property and equipment	—	702
Unrealised loss on FAFVPL® (note 16)	1,274	3,296
Foreign exchange losses, net*	—	131
and crediting:		
Interest income on bank deposits*	—	16
Realised gain on FAFVPL®	239	—
Foreign exchange gains, net*	464	—

® These amounts constitute the marked-to-market fair value loss on FAFVPL of US\$1,035,000 (2018: US\$3,296,000) in the consolidated statement of comprehensive income.

* These amounts are included in revenue.

(b) Gain on disposal of an associate

On 7 December 2018, the Group disposed of all of its shareholding of 133,231 ordinary shares in The Diabetic Boot Company Limited ("**Diabetic Boot**") for an aggregate consideration of approximately GBP 266,000 (or approximately US\$339,000) to Galloway. This transaction resulted in a gain on disposal of an associate of approximately 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	(1)
Reclassification adjustment resulting from disposal:	
– foreign currency exchange reserve	(129)
Gain on disposal of an associate	209

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS)

	2019 US\$'000	2018 US\$'000
Salaries, discretionary bonuses and benefits in kind (note)	3,883	3,915
Pension costs - defined contribution plans (note 27)	41	43
	3,924	3,958

Note: No bonuses were paid in the financial years ended 31 December 2019 and 2018.

(a) Directors' and Chief Executive's emoluments

The remuneration of every Director and Chief Executive for the year ended 31 December 2019 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 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

No Directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2019 and 2018.

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 (2018: 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:

	2019 US\$'000	2018 US\$'000
Fees	—	—
Salaries and other emoluments	3,120	3,134
Pension costs - defined contribution plans	5	5
	3,125	3,139

The above remuneration of the top five individuals fell within the following bands:

		Number of individuals	
		2019	2018
HK\$1,500,001 - HK\$2,000,000	(US\$191,446-US\$255,261)	1	1
HK\$2,000,001 - HK\$2,500,000	(US\$255,261-US\$319,076)	1	1
HK\$3,000,001 - HK\$3,500,000	(US\$382,892-US\$446,707)	1	1
HK\$5,500,001 - HK\$6,000,000	(US\$701,969-US\$765,784)	1	1
HK\$11,500,001 - HK\$12,000,000	(US\$1,467,754-US\$1,531,569)	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 2019 and 2018.

(c) Senior management

The emoluments paid or payable to members of senior management were within the following bands:

		Number of individuals	
		2019	2018
HK\$2,000,001 - HK\$2,500,000	(US\$255,261-US\$319,076)	1	1
HK\$3,000,001 - HK\$3,500,000	(US\$382,892-US\$446,707)	1	1
HK\$5,500,001 - HK\$6,000,000	(US\$701,969-US\$765,784)	1	1
HK\$11,500,001 - HK\$12,000,000	(US\$1,467,754-US\$1,531,569)	1 [#]	1 [#]
		4	4

[#] Emoluments relate to a Director

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCE COSTS

	2019 US\$'000	2018 US\$'000
Imputed interest expense on interest-free shareholder's loan (note 25)	14	—
Interest expense on shareholders' loans (note 25)	94	—
Interest expense on lease liabilities (note 23)	36	—
Interest expense on tax payable (note 34)	129	—
Implicit interest expense on convertible notes (note 24)	347	—
	620	—

9. TAXATION/(TAX CREDIT)

The amount of taxation/(tax credit) in the consolidation statement of comprehensive income represents:

	2019 US\$'000	2018 US\$'000
Australia		
– Current year	6,669	—
China		
– Current year	—	106
Taiwan		
– Current year	—	30
Deferred tax credit (note 26)	(5,404)	(2,805)
Taxation/(tax credit)	1,265	(2,669)

No provision for Hong Kong 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 2019 and 2018. Overseas tax is calculated at the rates applicable in the respective jurisdictions.

A tax charge of US\$6,669,000 for the year ended 31 December 2019 (2018: nil) represented the capital gains tax ("CGT") due to the settlement with the Australian Taxation Office (the "ATO") in respect of the dispute arising from CGT payable on the disposal in 2013 of an investment in BC Iron Limited by the Group as announced on 18 March 2019 and 27 May 2019. Further details of the settlement with the ATO are set out in note 34.

A tax credit of US\$5,404,000 (2018: 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™ and the release of deferred tax on the impairment loss of US\$26 million (2018: nil) (referred to note 14) on the intangible asset made for the year.

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION/(TAX CREDIT) (Continued)

Reconciliation between the Group's taxation/(tax credit) and accounting loss at applicable tax rates are as follows:

	2019 US\$'000	2018 US\$'000
Loss before taxation	(64,734)	(33,762)
Nominal tax on loss before taxation, calculated at the rate applicable to profits in the tax jurisdictions concerned	(6,275)	(2,688)
Income not subject to taxation	(41)	(82)
Expenses not deductible for taxation purposes	223	568
Tax effect of tax loss not recognised	689	—
Australian capital gains tax (note 34)	6,669	—
Utilisation of tax loss previously not recognised	—	(603)
Withholding tax on milestone income	—	136
Taxation/(tax credit)	1,265	(2,669)

10. DIVIDENDS

No dividend was paid or proposed during the year of 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

11. LOSSES PER SHARE

The calculation of basic losses per share is based on the loss attributable to the shareholders for the year of US\$66,048,000 (2018: US\$31,087,000) and on the weighted average number of ordinary shares of 1,837,251,182 (2018: 1,837,251,182) in issue during the year.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes as they are anti-dilutive. Accordingly, diluted loss per share is the same as the basic loss per share for the year ended 31 December 2019. Diluted loss per share was the same as basic loss per share for the year ended 31 December 2018 as there were no potential dilutive ordinary shares outstanding for the year.

12. GOODWILL

	2019 US\$'000	2018 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

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets US\$'000	Furniture and fixtures US\$'000	Computer and other equipment US\$'000	Total US\$'000
At 1 January 2018				
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
Year ended 31 December 2019				
Opening net book amount as at 1 January 2019	—	—	77	77
Initial application of HKFRS 16 (note 2.1(ii))	903	—	—	903
Restated balance as at 1 January 2019	903	—	77	980
Additions	28	—	8	36
Disposals	—	—	(9)	(9)
Depreciation charge for the year	(573)	—	(47)	(620)
Depreciation written back on disposals	—	—	9	9
Foreign currency translation adjustment	2	—	(1)	1
Closing net book amount	360	—	37	397
At 31 December 2019				
Cost	937	345	285	1,567
Accumulated depreciation	(577)	(345)	(248)	(1,170)
Net book amount	360	—	37	397

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Right-of-use assets

The Group entered into a number of lease agreements for the use of office premise and warehouse in Hong Kong with lease terms ranging from two to three years. The right-of-use assets comprise:

	As at 31 December 2019 US\$'000	As at 1 January 2019 US\$'000
Buildings	360	903

For the year ended 31 December 2019, the total cash payments for the Group's lease arrangements (including repayment of lease liabilities) amounted to US\$601,000.

14. INTANGIBLE ASSET

	Patent (Fortacin™) US\$'000
At 1 January 2018	
Cost	216,000
Accumulated amortisation	(50,869)
Net carrying amount	165,131
Year ended 31 December 2018	
Opening net carrying amount	165,131
Amortisation charge for the year	(28,047)
Closing net carrying amount	137,084
At 31 December 2018	
Cost	216,000
Accumulated amortisation	(78,916)
Net carrying amount	137,084
Year ended 31 December 2019	
Opening net carrying amount	137,084
Amortisation charge for the year	(28,047)
Impairment loss for the year	(26,000)
Closing net carrying amount	83,037
At 31 December 2019	
Cost	216,000
Accumulated amortisation and impairment	(132,963)
Net carrying amount	83,037

NOTES TO THE FINANCIAL STATEMENTS

14. INTANGIBLE ASSET (Continued)

As at 31 December 2019, intangible asset of US\$83,037,000 (2018: US\$137,084,000) represents patent Fortacin™, the principal asset of Plethora Solutions Holdings plc ("**Plethora**"), which was acquired by the Group in 2016.

During the year ended 31 December 2019, the Group determined that there was an impairment loss of US\$26 million on the intangible asset, patent Fortacin™, in respect of the CGU, Plethora, (2018: nil) as the value in use figure determined as at 31 December 2019 was lower than the carrying amount of the CGU. 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 ("**Grant Sherman**"), 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 on its initial recognition at 9 March 2016 and covered a period either up to 2023 representing the remaining estimated useful life of the patent Fortacin™ or the licensing period estimated by management. The rates used to discount the cash flows forecast were in the range of 21% to 24% (2018: 20% to 24%).

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 five (2018: eight) major regions identified in management's business model and the premature ejaculation prevalence rates from 20% to 30% (2018: 20% to 30%).

The impairment loss was primarily due to the unexpected manufacturing issues, have been resolved after the reporting date, which caused the delay on delivery of Fortacin™ product in certain European countries in a timely manner and resulted in the low level of royalty income received, and the further postponement for submitting the regulatory new drug applications in The People's Republic of China, the selected territories in Asia and the US respectively.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 US\$'000	2018 US\$'000
Unlisted equity securities	—	282

Movements in FVFOCI are summarised as follows:

	2019 US\$'000	2018 US\$'000
As at 1 January	282	496
Disposal	—	(189)
Fair value change recognised in other comprehensive income	(282)	(25)
As at 31 December	—	282

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

As at 31 December 2018, FAFVOCI included investments in unlisted securities, which were measured at fair value. The Group planned to hold these investments for the foreseeable future.

During the year ended 31 December 2019, there was a significant decline in the fair value of the Company's FAFVOCI such that the Directors considered that the investment was impaired. Accordingly, the fair value loss of US\$282,000 was recognised in the investment revaluation reserve (2018: US\$25,000).

During the year ended 31 December 2018, the Group sold its equity interest in one of its unlisted securities with a fair value of US\$189,000 at a cash consideration of US\$189,000, 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.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 US\$'000	2018 US\$'000
Held for trading – overseas		
Listed equities, at fair value	2,032	5,482
Unlisted club debenture, at fair value	19	19
	2,051	5,501

Movements in financial assets at fair value through profit or loss are as follows:

	2019 US\$'000	2018 US\$'000
As at 1 January	5,501	8,797
Disposals	(2,176)	—
Change in fair value (note 6(a))	(1,274)	(3,296)
As at 31 December	2,051	5,501

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.

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Particulars of the Group's principal investment in listed equities as at 31 December 2019 and 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 2019	Carrying value at 31 December 2018
			2019	2018		
Venturex Resources Limited ("Venturex")	Australia	282,529,315 ordinary shares	8.44%	15.16%	US\$1,926,000	US\$4,825,000

17. CASH AND BANK BALANCES

	2019 US\$'000	2018 US\$'000
Cash and balances with banks	205	1,012
Money at call and short notice	1	10
	206	1,022

18. TRADE RECEIVABLES

	2019 US\$'000	2018 US\$'000
Trade receivables	15	297
Less: Impairment loss allowance	—	—
	15	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 2019 and 2018, the ageing analysis of trade receivables, based on invoice date, was as follows:

	2019 US\$'000	2018 US\$'000
Within 1 month	15	297

As at 31 December 2019 and 2018, the ageing analysis of trade receivables which are past due but not impaired is as follows:

	2019 US\$'000	2018 US\$'000
Current	15	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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 US\$'000	2018 US\$'000
Prepayments, deposits and other receivables	574	498

The fair value of deposits and other receivables were the same as illustrated above.

The balance outstanding as at 31 December 2019 and 2018 were neither past due nor impaired.

20. TRADE PAYABLES, DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	2019 US\$'000	2018 US\$'000
Trade payables	426	972
Deposits received, accruals and other payables [#]	3,711	3,515
	4,137	4,487

[#] As at 31 December 2018, loans from directors of US\$150,000, included in the deposits received, accruals and other payables, were unsecured, interest bearing at 5% per annum and repayable on 20 December 2019. During the year ended 31 December 2019, the loans were released for the purchase of convertible notes by the directors in August 2019 (refer notes 24 and 25).

At 31 December 2019 and 2018, the ageing analysis of the trade payables, based on their invoice date, was as follows:

	2019 US\$'000	2018 US\$'000
Within 1 month or on demand	241	203
After 1 month but within 3 months	40	406
After 3 months but within 6 months	145	363
	426	972

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

21. 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	2,300,000,000	23,000	55,000,000	550	2,355,000,000	23,550
Increase in capital	12,000,000,000	120,000	—	—	12,000,000,000	120,000
At 31 December 2019	14,300,000,000	143,000	55,000,000	550	14,355,000,000	143,550

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 31 December 2018 and 31 December 2019	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.

(1) Share capital

- (a) An ordinary resolution was duly passed at the Company's extraordinary general meeting held on 30 July 2019 to seek shareholders' approval for the increase in the Company's authorised share capital from US\$23,550,000 comprising: (a) 2,300,000,000 ordinary shares of US\$0.01 each; and (b) 55,000,000 unclassified shares of US\$0.01 each (which may be issued as ordinary shares or non-voting convertible deferred shares) to US\$143,550,000 by the creation of 12,000,000,000 additional ordinary shares of US\$0.01 each, so that the share capital comprises: (i) 14,300,000,000 ordinary shares of US\$0.01 each; and (ii) 55,000,000 unclassified shares of US\$0.01 each (which may be issued as ordinary shares or non-voting convertible deferred shares), in order to provide for the issue and allotment of the new shares to be issued and allotted to the subscribers pursuant to the two subscription agreements entered into 29 May 2019 (as noted in sub-paragraph (3) below) upon conversion of the convertible notes and to provide the Company with greater flexibility to issue future equity capital.
- (b) As at 1 January 2019, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares. During the year ended 31 December 2019 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 2019 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

21. SHARE CAPITAL (Continued)

(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.

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 2019 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(2) Share Option Scheme (2016) (Continued)

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 schemes 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(2) Share Option Scheme (2016) (Continued)

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 2019, 31 December 2019 and the date of this report and at any time during the relevant period:

- (a) 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);
- (b) 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);
- (c) 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;
- (d) no outstanding options were/are held by any suppliers of goods or service of the Group, entitling them to subscribe for the ordinary shares of the Company under the Share Option Scheme (2016); and
- (e) 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 (a) to (d) above.

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 the Share Option Scheme (2016) for the years ended 31 December 2019 and 2018.

(3) Convertible notes

- (a) On 29 May 2019, the Company announced that on 29 May 2019, it entered into two conditional subscription agreements (being the "**Subscription Agreement(s)**"), being:
 - (i) a Subscription Agreement (the "**Connected Subscription Agreement**") entered into between the Company, on the one hand as issuer, and:
 - James Mellon (the Non-Executive Chairman of the Board of the Company), holding, by himself and his associates, 21.11% of the total issued share capital of the Company;
 - Galloway Limited ("**Galloway**", which is a private limited liability company indirectly wholly-owned by James Mellon);
 - Jamie Gibson (the Executive Director and Chief Executive Director of the Company), holding, by himself, 3.77% of the total issued share capital of the Company; and
 - David Church (a consultant to the Group and director of a number of subsidiaries of the Group),
 on the other as subscribers; and

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(a) (Continued)

- (ii) a Subscription Agreement (the "**Third Party Subscription Agreement**") entered into between the Company, as issuer, and various independent third party subscribers and MAC Financial Pension Trustees Ltd (being the trustee of a pension fund, of which Anderson Whamond (a former but not an existing Director of the Company and a member of the "declared concert party group" with James Mellon and Jayne Sutcliffe (both being Directors of the Company) registered under The Hong Kong Code on Takeovers and Mergers)), as subscribers,

in relation to the issue of 4% coupon unlisted convertible notes due 2022 in the principal amount of US\$17.50 million (the "**Convertible Note(s)**").

Given that James Mellon, Galloway and Jamie Gibson, all being subscribers of the Convertible Notes, were connected persons of the Group, the Connected Subscription Agreement relating to the issuance of the Convertible Notes and the new shares in the Company to be issued and allotted upon conversion of the Convertible Notes to James Mellon, Galloway and Jamie Gibson constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules and were therefore subject to the written agreement, announcement, shareholders' circular (including independent board committee's and independent financial adviser's advice), independent shareholders' approval and annual reporting requirements under Chapter 14A. It was noted that David Church was a consultant to the Group and was a director of a number of "insignificant subsidiaries" of the Group and was consequently not a connected person for the purposes of Rule 14A.09(1) to (3).

The two Subscription Agreements were inter-conditional upon each other and were subject to independent shareholders' approval.

The Convertible Notes would be issued in one tranche in an aggregate amount of US\$17.5 million, bearing an interest at the rate of 4% per annum and would mature on the third anniversary of the issue date. A maximum of 719,435,294 new shares in the Company ("**Conversion Share(s)**") (assuming that the Convertible Notes were converted on the maturity date and that any and all interest that would accrued was capitalised) might be issued at the conversion price of HK\$0.2125 per share, representing approximately 39.16% of the then issued share capital of the Company and approximately 28.14% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares. The Conversion Shares would be issued and allotted pursuant to a specific mandate to be sought at a general meeting (the "**Extraordinary General Meeting**"). The subscribers from both Subscription Agreements would be subject to a 6-month lock-up period from the issue date.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(a) (Continued)

Following the re-categorisation of the previously advanced funds owed by the Company to James Mellon, Galloway and Jamie Gibson of, in aggregate, US\$5.5 million (the "**Previously Advanced Funds**", as detailed in the said announcement) as subscriptions for the Convertible Notes under the Connected Subscription Agreement, the gross proceeds of the new funds under the subscription (the "**New Funds**") would be US\$12 million, and the net proceeds of the New Funds, of approximately US\$11.90 million, together with existing resources available to the Group, would be applied towards meeting its general corporate purposes and for providing working capital to the Group. The Directors considered that such applications of funds would be in the interests of the Company and its Shareholders as a whole.

The Directors (including the Independent Non-Executive Directors) considered that the Subscription Agreements were entered into upon normal commercial terms following arm's length negotiations between the Company and the various subscribers and that the terms and conditions of the Subscription Agreements were fair and reasonable so far as the interests of the Company and the shareholders as a whole were concerned. The Directors (including the Independent Non-Executive Directors) also considered that the subscription would strengthen the financial position of the Group.

Both of James Mellon and Jamie Gibson abstained from voting on the board resolutions approving:

- the re-categorisation of the Previously Advanced Funds;
- the Connected Subscription Agreement and the issuance of the Convertible Notes thereunder to James Mellon, Galloway and Jamie Gibson; and
- the subscription pursuant to the Connected Subscription Agreement.

Details of the Subscription Agreements and the principal terms of the Convertible Notes were set out in the said announcement, a summary of which is set out in sub-paragraph (i) below in this note.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

- (b) On 11 July 2019, a shareholders' circular was issued by the Company relating to the proposed issue of the Convertible Notes, with the letters from the independent board committee (the "**Independent Board Committee**", comprising all the three Independent Non-Executive Directors of the Company, namely David Comba, Julie Oates and Mark Searle, who did not have a material interest in the Subscription Agreements) and the independent financial adviser (the "**Independent Financial Adviser**", being Altus Capital Limited) setting out their advice and recommendations to the independent shareholders enclosed therein.

The Independent Board Committee, having taken into account the terms and conditions of the Connected Subscription Agreement and the issuance of Convertible Notes thereunder and taken into account the recommendation and advice from the Independent Financial Adviser in relation thereto, was of the view that:

- the terms and conditions of the Connected Subscription Agreement and the issuance of Convertible Notes thereunder were fair and reasonable so far as the Company and the independent shareholders were concerned; and
- the Connected Subscription Agreement and the issuance of Convertible Notes thereunder were in the interests of the Company and its shareholders as a whole.

Accordingly, the Independent Board Committee recommended the independent shareholders to vote at the Extraordinary General Meeting in favour of the resolution approving the Connected Subscription Agreement and the issuance of Convertible Notes thereunder.

- (c) On 30 July 2019, the independent shareholders' approval of the Subscription Agreements and the transactions contemplated thereunder were duly sought at the Extraordinary General Meeting.

An approval was duly received from the HK Stock Exchange on 31 July 2019 for the listing of, and permission to deal in, up to 719,435,294 new shares in the Company (being the "**Conversion Shares**" referred to above) to be issued and allotted upon full conversion of the Convertible Notes (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised).

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

- (d) On 23 August 2019, the Company announced that the Company allowed:
- (i) certain subscribers to withdraw their subscriptions of the Convertible Notes (in an aggregate amount of US\$10,050,000); and
 - (ii) Jamie Gibson to withdraw his subscription in respect of the New Funds (in the amount of US\$1 million) but continue to subscribe for the Convertible Notes in respect of the Previously Advanced Funds,

and given that the subscribers under the Subscription Agreements, in accordance with their rights under such agreements, agreed to waive the inter-conditionality with the other Subscription Agreement to facilitate closing of the reduced financing, the Company continued to close, on 23 August 2019, the reduced financing with the remaining subscribers, under both Subscription Agreements, in respect of US\$6.45 million, to be issued in one single tranche on the same terms and conditions as previously disclosed.

In light of the agreed non-participation of certain subscribers, a maximum of 265,163,294 Conversion Shares (assuming that all Convertible Notes were converted on the maturity date (being 23 August 2022) and that any and all interest that would accrue was capitalised) might be issued at the conversion price of HK\$0.2125 per share, representing approximately 14.43% of the then issued share capital of the Company and approximately 12.61% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares.

The gross proceeds of the reduced subscription, excluding the Previously Advanced Funds, would be US\$0.95 million, and the net proceeds of the New Funds, of approximately US\$0.88 million, together with existing resources available to the Group, would continue to be applied towards meeting its general corporate purposes and for providing working capital to the Group. The Directors considered that such applications of funds would be in the interests of the Company and its shareholders as a whole.

- (e) During the period from 23 August 2019 to 31 December 2019, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.
- (f) On 31 December 2019, all noteholders elected to receive cash in respect of the accrued interest on the Convertible Notes for the period from 23 August 2019 to 31 December 2019, and accordingly, the maximum number of Conversion Shares to be issued and allotted upon full conversion of the Convertible Notes (assuming that all Convertible Notes were converted on the maturity date and that any and all interest that would accrue was capitalised for the remaining period from 1 January 2020 to 23 August 2022) has reduced to 261,816,342 Conversion Shares, representing approximately 14.25% of the then issued share capital of the Company and approximately 12.47% of the issued share capital of the Company as to be enlarged by the issue and allotment of the said maximum number of Conversion Shares.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(g) It is noted that in respect of the money raised from the subscribers, which includes: (i) the actual cash of US\$0.95 million raised by issuance of the Convertible Notes; and (ii) the releasing of US\$5.5 million from shareholders' loans and accrued salaries, and as intended (as referred to in sub-paragraph (d) above), the Group spent approximately US\$3.3 million on the US Phase II validation study (as described in the section headed "Business Review" in the Directors' Report), and the balance of approximately US\$3.15 million was spent on supporting the normal operations of the Group for the year ended 31 December 2019.

(h) Subsequent to the year end date and prior to the date of this report, none of the noteholders converted their Convertible Notes and subscribed for shares in the Company.

(i) Principal terms of the Convertible Notes are as follows:

Issuer	:	The Company.
Principal amount	:	US\$6,450,000, in one tranche (which includes the Convertible Notes to be issued against relinquishment of the Previously Advanced Funds).
Denomination	:	The Convertible Notes are in registered form in the denomination of US\$50,000 each.
Issue price	:	100% of the principal amount of the Convertible Notes.
Maturity date (the " Maturity Date ")	:	The date falling on the third anniversary of the date of issue, (being 23 August 2022).
Interest	:	The Convertible Notes shall bear interest at the rate of 4% per annum.
Status	:	The Convertible Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Notes shall, save for such exceptions as may be provided by mandatory provisions of applicable laws or regulations, at all times rank at least equally with all of its other present and future unsubordinated and unsecured obligations.
Redemption	:	(i) Redemption on Maturity Date: the Company will redeem each Convertible Note at 100% of its principal amount, together with any accrued interest thereon on the Maturity Date, unless previously redeemed, converted or purchased and cancelled as provided by the terms and conditions of the Convertible Notes.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(i) (Continued)

(ii) Early redemption at the option of the Company: on giving not less than seven business days' notice to the noteholders, the Convertible Notes may be redeemed by the Company in whole or in part (if in part, in authorised holdings only), at 100% of their principal amount, together with interest accrued to the date fixed for redemption.

(iii) Redemption for Relevant Event: following the occurrence of any of the following events (the "**Relevant Event(s)**"), each noteholder will have the option to require the Company to redeem all or in part (if in part, in authorised holdings only) of its Convertible Notes at 100% of their principal amount, together with interest accrued to the date fixed for redemption, on giving not less than seven business days' notice to the Company:

- (a) the trading of the shares is suspended, or has been suspended on the HK Stock Exchange for at least 10 consecutive trading days at any time, during the previous 60 days, unless such suspension is related to a positive event for the Company, as determined by the calculation agent (as appointed in the Subscription Agreements);
- (b) the shares cease to be listed on the HK Stock Exchange;
- (c) there has been a change of control of the Company; or
- (d) the Company fails to deliver any of the shares converted in accordance with the terms and conditions of the Convertible Notes.

Conversion : Subject to and upon compliance with the terms and conditions of the Convertible Notes and the Subscription Agreements made between the subscribers and the Company, each Convertible Note entitles the noteholder to convert the Convertible Note into Conversion Shares at any time during the conversion period at the conversion price of HK\$0.2125 per share (as detailed below).

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(i) (Continued)

Notwithstanding the above, if:

- (i) the Convertible Notes have become due and payable prior to the Maturity Date by reason of the occurrence of any Event of Default (as defined below); or
- (ii) any Convertible Note is not redeemed on the Maturity Date in accordance with the terms and conditions of the Convertible Notes,

the conversion rights attached to the Convertible Notes will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the certificate(s) evidencing the Convertible Notes are deposited for conversion) on the date upon which the full amount of the moneys payable in respect of the Convertible Notes have been duly received by the noteholders, in each case and at all times subject to the conditions set out in the Subscription Agreements made between the noteholders and the Company.

A noteholder may not request a conversion if:

- (i) the number of Conversion Shares to be issued pursuant to a conversion notice results in a noteholder (and/or persons with whom that noteholder might then be acting in concert, presumed or otherwise, under The Hong Kong Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "**HK Takeovers Code**") having to make a mandatory general offer for the shares pursuant to the HK Takeovers Code; or
- (ii) the shares of the Company held by the public, after Conversion Shares are issued on the intended conversion of Convertible Notes, would be less than the minimum public shareholding requirement under the HK Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(i) (Continued)

Conversion price : The conversion price is HK\$0.2125 per share, which is subject to adjustments in the following conditions (with the formulae of the respective adjustments detailed in the shareholders' circular issued on 11 July 2019):

- (1) consolidation, sub-division or re-classification;
- (2) capitalisation of profits or reserves;
- (3) distributions;
- (4) rights issues of shares or options over shares;
- (5) rights issues of other securities;
- (6) issues at less than current market price;
- (7) other issues at less than current market price;
- (8) modification of rights of conversion etc.; and
- (9) other offers to shareholders.

The Company undertakes and agrees not to do any corporate actions other than those listed in (1) to (9) above.

If a conversion date falls on the date on which an adjustment becomes effective, but the relevant adjustment has not been reflected in the then conversion price, the conversion price in respect of the conversion date shall be adjusted by using the same formulae and methods as set out in (1) to (9) above. References to conversion price in adjustment related provisions in these conditions shall be deemed to include such conversion price as appropriate. In such case, for the avoidance of doubt, the conversion price in respect of such conversion and conversion date shall be the resultant conversion price after adjustment.

The Company shall, in consultation with the calculation agent (as appointed in the Subscription Agreements), adjust the maximum number of shares accordingly in a similar manner as it adjusts the conversion price, with a view to maintaining the economics of the Convertible Notes.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL (Continued)

(3) Convertible notes (Continued)

(i) (Continued)

Events of default ("Event(s) of Default")	: If, among others, any of the following events occurs and is continuing, the noteholders at their discretion may give notice to the Company that the Convertible Notes are, and they shall accordingly thereby become, immediately due and payable at their principal amount (with the details of the respective Events of Default set out in the shareholders' circular issued on 11 July 2019):
	(1) non-payment; or
	(2) failure to deliver shares; or
	(3) breach of other obligations; or
	(4) cross-default; or
	(5) enforcement proceedings; or
	(6) security enforced; or
	(7) winding-up; or
	(8) insolvency; or
	(9) authorisation and consents; or
	(10) illegality; or
	(11) anti-money laundering; or
	(12) sanctions; or
	(13) environmental and social risk; or
	(14) analogous events.

Subsequent to the date of the Subscription Agreements, a supplemental letter was executed in March 2020 by the Company with each of the subscribers of the Convertible Notes, pursuant to which both parties acknowledged and confirmed that the applicable exchange rate of United States dollars to Hong Kong dollars to be used when calculating the number of shares to be issued upon valid exercise of any rights under the Convertible Notes should be US\$1.00 = HK\$7.80.

NOTES TO THE FINANCIAL STATEMENTS

22. RESERVES

Group	Accumulated losses US\$'000	Share premium US\$'000	Convertible	Investment	Capital	Statutory	Foreign	Total US\$'000
			notes equity reserve US\$'000	revaluation reserve US\$'000	redemption reserve US\$'000	and other reserves US\$'000	currency exchange reserve US\$'000	
At 1 January 2018	(155,278)	283,534	—	—	8,228	176	3,790	140,450
Initial application of HKFRS 9	—	—	—	(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 (note 15)	—	—	—	(25)	—	—	—	(25)
Foreign currency translation adjustment	—	—	—	—	—	—	186	186
Reclassification to profit or loss on disposal of an associate (note 6(b))	—	—	—	—	—	—	129	129
Loss for the year	(31,087)	—	—	—	—	—	—	(31,087)
Transfer of cumulative loss on disposal of equity investments at FAFVOCI 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
Foreign currency translation adjustment	—	—	—	—	—	—	(478)	(478)
Change in fair value of FAFVOCI (note 15)	—	—	—	(282)	—	—	—	(282)
Issue of convertible notes (note 24)	—	—	2,657	—	—	—	—	2,657
Deemed capital contribution arising from interest-free shareholder's loan (note 25)	—	—	—	—	—	39	—	39
Loss for the year	(66,048)	—	—	—	—	—	—	(66,048)
At 31 December 2019	(252,423)	283,534	2,657	(1,707)	8,228	215	3,627	44,131

NOTES TO THE FINANCIAL STATEMENTS

22. RESERVES (Continued)

<i>Company (note 37)</i>	Accumulated losses US\$'000	Share premium US\$'000	Convertible notes equity reserve US\$'000	Investment revaluation reserve US\$'000	Capital redemption reserve US\$'000	Other reserve US\$'000	Foreign currency exchange reserve US\$'000	Total US\$'000
At 1 January 2018	(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 (note 15)	—	—	—	(25)	—	—	—	(25)
Loss for the year	(28,275)	—	—	—	—	—	—	(28,275)
Transfer of cumulative loss on disposal of equity investments at FAFVOCI 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
Change in fair value of FAFVOCI (note 15)	—	—	—	(282)	—	—	—	(282)
Issue of convertible notes (note 24)	—	—	2,657	—	—	—	—	2,657
Deemed capital contribution arising from interest-free shareholder's loan (note 25)	—	—	—	—	—	39	—	39
Loss for the year	(76,162)	—	—	—	—	—	—	(76,162)
At 31 December 2019	(258,510)	285,799	2,657	(1,707)	8,228	39	1	36,507

NOTES TO THE FINANCIAL STATEMENTS

22. 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) Convertible notes equity reserve

The convertible notes equity reserve comprises the carrying value of equity component of unconverted convertible notes issued by the Company which are recognised in accordance with the accounting policy adopted for convertible notes as disclosed in note 3.9(iv).

(d) Investment revaluation reserve

This represents accumulated gains and losses arising on the revaluation of FAFVOCI.

(e) 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.

(f) Statutory and other reserves

This represents statutory reserve of US\$176,000 (2018: US\$176,000) and other reserve of US\$39,000 (2018: nil) as at 31 December 2019.

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.

During the year ended 31 December 2019, an interest-free one year US\$800,000 loan from a shareholder was measured at fair value on inception resulting in a deemed capital contribution of US\$39,000 which has been credited to the other reserve (note 25).

(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

23. LEASE LIABILITIES

	31 December 2019 US\$'000	1 January 2019* US\$'000
Current liabilities	359	560
Non-current liabilities	11	343
	370	903

* - refer to note 2.1(i)

	Present value 31 December 2019 US\$'000	Interest 31 December 2019 US\$'000	Minimum lease payments 31 December 2019 US\$'000
Within one year	359	5	364
After one year but within two years	11	1	12
	370	6	376

Interest expenses on lease liabilities of US\$36,000 (2018: nil) has been recognised in finance costs during the year ended 31 December 2019 (note 8).

	Present value 1 January 2019 US\$'000	Interest 1 January 2019 US\$'000	Minimum lease payments 1 January 2019 US\$'000
Within one year	560	38	598
After one year but within two years	343	4	347
	903	42	945

NOTES TO THE FINANCIAL STATEMENTS

24. CONVERTIBLE NOTES

As explained in note 21(3), the Group issued a 4% coupon convertible notes with a principal amount of US\$6,450,000 on 23 August 2019. The convertible notes are denominated in United States dollars and are unsecured. The convertible notes mature three years from the issue date at their principal amount or can be converted with accrued interests into ordinary shares of the Group at the note holder's option at a fixed price of HK\$0.2125 (or approximately of US\$0.0272) per share on the outstanding principal. The Company may, having given not less than 7 business days' notice to the note holders, redeem the convertible notes in whole or in part in an authorised holding only, at 100% of the principal amount together with interest accrued to the date fixed for redemption. The gross proceeds of the convertible notes comprised: the release of total directors' and shareholders' loans of US\$4,950,000 (notes 20 and 25), the deferred salaries of the directors, Messrs. James Mellon and Jamie Gibson, of US\$550,000 for the period from February to May 2019 and total proceeds from the unrelated third parties of US\$950,000.

The fair values of the liability component and the equity conversion component were determined at the issuance of the convertible notes based on the valuation conducted by Grant Sherman on the convertible notes as at 23 August 2019. The fair value of the liability component, include in non-current financial liabilities, was calculated using a market interest rate for an equivalent non-convertible notes. The residual amount, representing the value of the equity conversion component, is included in equity as convertible notes equity reserve. The redemption option of the Company is not separated from the host debt because its economic characteristics and risks are closely related to those of the host debt and accordingly, is included in the liability component of the convertible notes.

The convertible notes recognised in the consolidated statement of financial position is calculated as follows:

	2019 US\$'000
Equity conversion component:	
Equity component of convertible notes on initial recognition	2,685
Transaction costs incurred	(28)
Equity component of convertible notes at 31 December 2019	2,657
Liability component:	
Liability component of convertible notes on initial recognition	3,765
Transaction costs incurred	(40)
Implicit interest expense recognised for the year (note 8)	347
Interest payable	(91)
Liability component at 31 December 2019	3,981
Categories as:	
Current liabilities	—
Non-current liabilities	3,981
	3,981

The interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 25.16% per annum to the liability component.

NOTES TO THE FINANCIAL STATEMENTS

25. SHAREHOLDER'S LOANS

The movements in shareholder's loans during the year are set out below:

	Notes	James Mellon US\$'000	Jamie Gibson US\$'000	Galloway US\$'000	Total US\$'000
Balance at 1 January 2019		—	—	—	—
Reclassification from trade payables, deposits received, accruals and other payables to loans from directors (note 20)		100	50	—	150
Deferred directors' salaries included in trade payables, deposits received, accruals and other payables		50	500	—	550
Loans advanced during the year	(i)	1,520	300	5,900	7,720
Conversion of directors'/shareholders' loans and deferred directors' salaries to convertible notes	(ii)	(1,650)	(850)	(3,000)	(5,500)
Interest-free loan advanced during the year	(iii)	—	—	800	800
Deemed capital contribution arising from interest-free shareholder's loan	(iii)	—	—	(39)	(39)
Repayment during the year		(20)	—	(71)	(91)
Gain arising from extinguishment of interest-free shareholder's loan (note 5)	(iii)	—	—	(90)	(90)
Imputed interest expense on interest-free shareholder's loan (note 8)		—	—	14	14
Interest expense (note 8)		30	5	59	94
Interest paid		—	(5)	—	(5)
Interest payable		(30)	—	(59)	(89)
Balance at 31 December 2019		—	—	3,514	3,514

NOTES TO THE FINANCIAL STATEMENTS

25. SHAREHOLDER'S LOANS (Continued)

Notes:

- (i) These loans, which were borrowed in February to May 2019 and October 2019, were unsecured, interest bearing at 5% per annum and repayable on the date falling one year after the date of the respective loan agreement.

The loans from Galloway as at 31 December 2019 included a US\$2,900,000 loan borrowed in October 2019 is unsecured, interest bearing at 5% per annum and repayable on 7 October 2022.

- (ii) In August 2019, the deferred directors' salaries of US\$550,000 and the directors' and shareholders' loans of US\$4,950,000 were converted into convertible notes (note 24).

- (iii) In September 2019, a one-year unsecured interest-free loan with principal of US\$800,000 was borrowed from Galloway. The loan was repayable on 5 September 2020.

The loan was initially recognised at fair value and subsequently stated at amortised cost which was estimated by discounting the nominal value of the loan at an effective interest rate of 5.116% per annum and accordingly, a deemed capital contribution arising from interest-free shareholder's loan of US\$39,000 was credited to other reserve for the year ended 31 December 2019.

During the year ended 31 December 2019, the Company made partial repayment of US\$71,000 and extended the repayment term to 5 September 2022. The Directors of the Company consider that such early repayment and extension of repayment term represented a substantial modification of the original loan and accordingly, extinguishing accounting has been adopted to derecognise the existing loan and new loan has been recognised at its fair value. As a result, the Group recognised a gain arising from extinguishment of interest-free shareholder's loan of US\$90,000 as sundry income in profit or loss for the year.

During the year ended 31 December 2019, the effective interest rates of the loans were in the range of 5.000% to 5.123% per annum.

26. 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 on recognition of intangible asset arising from the acquisition of subsidiaries	
	2019 US\$'000	2018 US\$'000
At 1 January	13,708	16,513
Credited to profit or loss (note 9)	(5,404)	(2,805)
At 31 December	8,304	13,708

NOTES TO THE FINANCIAL STATEMENTS

26. DEFERRED TAX LIABILITIES (Continued)

The amount credited to profit or loss relates to the amortisation of intangible asset and impairment loss of US\$26 million (2018: nil) on intangible asset made during the year ended 31 December 2019.

As at 31 December 2019, certain subsidiaries incorporated in the UK of the Group have unused tax losses of approximately US\$77 million (2018: US\$69 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.

27. RETIREMENT BENEFIT OBLIGATIONS

The Group (excluding Plethora and its subsidiaries) 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 2019, the Group's contributions (excluding Plethora) were US\$23,000 (2018: US\$23,000) (note 7). There were no forfeited contributions during the year (2018: 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 2019, Plethora's contributions were US\$18,000 (2018: US\$20,000) (note 7).

NOTES TO THE FINANCIAL STATEMENTS

28. OPERATING LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 US\$'000
Property:*	
– within one year	669
– in the second to fifth years, inclusive	381
	1,050
Equipment:*	
– within one year	3
– in the second to fifth years, inclusive	10
	13
	1,063

* The amount only represented the operating lease commitment under HKAS 17 as at 31 December 2018.

The Group leased a number of properties under operating leases. The leases typically ran for an initial period of one to three years. None of the leases included contingent rentals.

29. CAPITAL COMMITMENTS

The Group has no material capital commitments as at 31 December 2019 and 2018.

30. CONTINGENT LIABILITIES

Save as those disclosed in note 34, the Group has no other material contingent liabilities as at 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

31. 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 2019	US\$'000 GBP	US\$'000 AUD	US\$'000 CAD
Cash and bank balances	1	—	—
FAFVOCI	—	—	—
FAFVPL	—	2,027	5
Prepayments, deposits and other receivables	1	—	—
Accruals and other payables	(8)	(129)	—
Current net exposures	(6)	1,898	5
At 31 December 2018	US\$'000 GBP	US\$'000 AUD	US\$'000 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

NOTES TO THE FINANCIAL STATEMENTS

31. 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 2019		
If US\$ weaken against GBP	5	—
If US\$ strengthen against GBP	(5)	—
If US\$ weaken against AUD	5	95
If US\$ strengthen against AUD	(5)	(95)
If US\$ weaken against CAD	5	—
If US\$ strengthen against CAD	(5)	—
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)

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.

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

(iv) Investments in listed and unlisted securities (Continued)

For the year ended 31 December 2019, there was no loss allowance provision recognised in profit or loss (2018: nil). As at 31 December 2019, the loss allowance provision is nil (2018: nil).

As at 31 December 2019, the Group has a concentration of credit risk on trade receivables from the Group's top trade receivable amounting to US\$15,000, representing 100% of the total trade receivable (2018: the top trade receivable of US\$272,000 and the top two trade receivables of US\$297,000, representing 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 18.

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:

At 31 December 2019	Carrying amount US\$'000	Total contractual undiscounted cash flows US\$'000	Within 1 year or on demand US\$'000	More than 1 year but less than 2 years US\$'000	More than 2 years but less than 3 years US\$'000
Trade payables	426	426	426	—	—
Accruals and other payables	3,711	3,711	3,711	—	—
Lease liabilities	370	376	364	12	—
Convertible notes	3,981	7,133	—	—	7,133
Shareholder's loans	3,514	4,110	—	—	4,110
	12,002	15,756	4,501	12	11,243

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

At 31 December 2018	Carrying amount US\$'000	Total contractual undiscounted cash flows US\$'000	Within 1 year or on demand US\$'000
Trade payables	972	972	972
Accruals and other payables	3,515	3,523	3,523
	4,487	4,495	4,495

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. As disclosed in note 3.1 to the consolidated financial statements, the Company's Directors have taken active steps to improve the liquidity of the Group. Based on these actions, the Group believe it will have sufficient working capital and financial resources to satisfy its future working capital for the foreseeable future to continue as a going concern.

Interest rate risk

The Group has no long-term external borrowings which bear floating interest rates. The Group's exposure to interest rate risk relates primarily to its convertible notes and shareholder's loans which are denominated in US\$. The interest rate and terms of repayments of convertible notes and shareholder's loans are disclosed in notes 24 and 25, respectively. The Group did not use any financial instruments to hedge potential fluctuations in interest rate.

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rate, with all other variables held constant, would increase/decrease the Group's loss after tax and accumulated losses by approximately US\$38,000 (2018: negative of US\$32,000). The general increase/decrease in interest rate would have no significant impact on other components of the consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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 2019

	Notes	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Financial assets measured at fair value					
Unlisted club debenture	(b)	—	19	—	19
Listed equity investments	(c)	2,032	—	—	2,032
		2,032	19	—	2,051

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

(a) Unlisted equity investments

As at 31 December 2018, the unlisted equity investments were 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 rates 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.

The movements in fair value measurement within Level 3 during the year are as follows:

FAFVOCI (unlisted equity investments)

	2019 US\$'000	2018 US\$'000
At 1 January	282	496
Disposal	—	(189)
Fair value change recognised in other comprehensive income	(282)	(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\$2,032,000 classified as FAFVPL (2018: US\$5,482,000).

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.

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Price risk (Continued)

At 31 December 2019, if equity prices had increased/decreased by 20% and all other variables were held constant, loss for the year would decrease/increase by US\$406,000 (2018: US\$1,096,000). 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.

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.

	2019 US\$'000	2018 US\$'000
(i) Financial assets		
Non-current assets		
FAFVOCI	—	282
Current assets		
FAFVPL	2,051	5,501
Financial assets measured at amortised cost:		
– Cash and bank balances	206	1,022
– Trade receivables	15	297
– Deposits and other receivables*	425	288
	2,697	7,108
	2,697	7,390
(ii) Financial liabilities		
Current liabilities		
Financial liabilities measured at amortised cost:		
– Trade payables, accruals and other payables	4,137	4,487
– Lease liabilities	359	—
	4,496	4,487
Non-current liabilities		
– Lease liabilities	11	—
– Convertible notes	3,981	—
– Shareholder's loans	3,514	—
	7,506	—
	12,002	4,487

* Excluded from prepayments, deposits and other receivables as disclosed in the consolidated statement of financial position of US\$574,000 (2018: US\$498,000) is an amount of US\$149,000 (2018: US\$210,000) representing prepayments.

NOTES TO THE FINANCIAL STATEMENTS

32. 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 shareholders as capital, for capital management purpose. The amount of capital as at 31 December 2019 amounted to approximately US\$62,503,000 (2018: US\$126,615,000), which management considers as satisfactory having considered the projected capital expenditures and the projected strategic investment opportunities.

33. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties:

	2019 US\$'000	2018 US\$'000
Gain arising from extinguishment of interest-free shareholder's loan	90	—
Interest expenses on convertible notes to Galloway [^]	42	—
Interest expenses on convertible notes to James Mellon	23	—
Interest expenses on convertible notes to Jamie Gibson	12	—
Interest expenses on shareholders' loan to Galloway [^]	59	—
Interest expenses on shareholders' loan to James Mellon	30	—
Interest expenses on shareholders' loan to Jamie Gibson	5	—
Imputed interest expense on interest-free shareholder's loan from Galloway	14	—
Management service fee charge by a related company, Burnbrae Limited [#]	28	13

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.

[^] Galloway, being a company indirectly wholly-owned by James Mellon (a substantial shareholder who is also a director and chairman of the Company) is the sole beneficiary.

NOTES TO THE FINANCIAL STATEMENTS

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

In April 2019, the Company disposed of certain FAFVPL, representing 1,217,685 shares of Venturex to Mr. Jamie Gibson for an amount of cash consideration of approximately A\$0.27 million (or approximately US\$0.19 million), resulting in a gain on disposal of approximately US\$40,000 for the year.

In April, July and December 2019, the Company disposed of certain FAFVPL, representing an aggregate of 9,408,501 shares of Venturex to Mr. James Mellon and Galloway for an aggregate amount of cash consideration of approximately A\$1.80 million (or approximately US\$1.24 million), resulting in a gain on disposal of US\$1,000.

On 7 December 2018, the Company disposed all of the shareholding in Diabetic Boot (133,231 shares) and 21,739 fundraising warrants to Galloway 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 for the year ended 31 December 2018.

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 consolidated financial statements.

34. CHARGE ON ASSETS

As announced on 18 March 2019, the Company entered into a settlement agreement with the ATO in respect of the dispute as set out in note 9 for an amount of A\$9.5 million (or approximately US\$6.67 million), payable within 90 days of the date of the settlement agreement.

As announced on 27 May 2019, the Company entered into the deed of instruction and release with the ATO, pursuant to which the previously charged securities have been released from security to permit their sale and apply the funds realised towards the settlement amount of A\$9.5 million (or approximately US\$6.67 million).

In addition, the Company entered into an amendment agreement with the ATO amending the settlement agreement to extend the due date for the payment of the settlement amount from 17 June 2019 to 1 August 2019. Such extension is necessary due to the length of time required to agree the above-mentioned deed of instruction and release.

On 12 August 2019, the ATO further agreed to extend the settlement date to 31 August 2019, after which penalty interest will apply to any unpaid portion of the settlement amount.

Up to 31 December 2019, the Company has repaid approximately A\$4.56 million (or approximately US\$3.20 million) to the ATO, and the remaining balance of approximately A\$4.94 million (or approximately US\$3.47 million) remained unsettled and interest expenses on overdue tax of A\$183,000 (or approximately US\$129,000) has been provided for during the year ended 31 December 2019 (note 8). The Company anticipates paying the remaining portion of approximately A\$4.94 million (or approximately US\$3.47 million) and any accrued interests during 2020. The Company's management is currently under negotiation with the ATO on the payment schedule of the outstanding amount.

None of the Group's other assets was pledged as at 31 December 2019 (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Shareholder's loans US\$'000 (note 25)	Convertible notes US\$'000 (note 24)	Lease liabilities US\$'000 (note 23)	Total US\$'000
At 31 December 2018	—	—	—	—
Adoption of HKFRS 16 Leases (note 2.1(i))	—	—	903	903
At 1 January 2019	—	—	903	903
Changes from cash flows:				
Reclassification trade payables, deposits received, accruals and other payables to directors' loans				
	150	—	—	150
Proceeds from shareholders' loans	8,520	—	—	8,520
Repayment of shareholders' loans	(91)	—	—	(91)
Proceeds from convertible notes	—	950	—	950
Transaction costs on issue of convertible notes				
	—	(68)	—	(68)
Interest paid on shareholders' loans	(5)	—	—	(5)
Payment of principal element of lease payments				
	—	—	(565)	(565)
Payment of interest element of lease payments				
	—	—	(36)	(36)
Total changes from financing cash flows	8,574	882	(601)	8,855
Exchange differences	—	—	4	4

NOTES TO THE FINANCIAL STATEMENTS

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Reconciliation of liabilities arising from financing activities (Continued)

	Shareholder's loans US\$'000 (note 25)	Convertible notes US\$'000 (note 24)	Lease liabilities US\$'000 (note 23)	Total US\$'000
Other changes:				
Release of shareholders' loans for the purchase of convertible notes	(4,950)	4,950	—	—
Release of accrued directors' salaries for the purchase of convertible notes (included in trade payables, deposits received, accruals and other payables)	—	550	—	550
Equity component of convertible notes	—	(2,657)	—	(2,657)
Deemed capital contribution arising from interest-free shareholder's loan	(39)	—	—	(39)
Gain arising from extinguishment of interest-free shareholder's loan	(90)	—	—	(90)
Imputed interest expense on interest-free shareholder's loan	14	—	—	14
Interest expenses on shareholders' loans [^]	94	—	—	94
Interest payable on shareholders' loans [^]	(89)	—	—	(89)
Interest expenses of convertible notes	—	347	—	347
Interest payable on convertible notes [^]	—	(91)	—	(91)
Addition of new lease	—	—	28	28
Interest expenses of lease liabilities	—	—	36	36
Total other changes	(5,060)	3,099	64	(1,897)
At 31 December 2019	3,514	3,981	370	7,865

[^] These items are included in trade payables, deposits received, accrued and other payables as presented in the consolidated statement of financial position.

During the year ended 31 December 2018, the Group had no liabilities arising from financing activities.

Major non-cash transactions

During the year ended 31 December 2019, the directors' and shareholders' loans of US\$4,950,000 and the deferred salaries of the Directors, Messrs. James Mellon and Jamie Gibson, of US\$550,000 for the period from February to May 2019 were released for the purchase of convertible notes (note 24).

During the year ended 31 December 2018, the Group had no major non-cash transactions.

NOTES TO THE FINANCIAL STATEMENTS

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2019 and 2018 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	
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
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
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 (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

NOTES TO THE FINANCIAL STATEMENTS

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2019 and 2018 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	
RPG (Bahamas) Limited	Bahamas	Ordinary shares of US\$134,220	100%	—	Investment holding
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
Plethora Pharma Solutions Limited	Ireland	Ordinary shares of EUR 100	—	100%	Development and marketing of products for the treatment and management of urological disorders

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

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2019 US\$'000	2018 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		69,644	139,644
Financial assets at fair value through other comprehensive income		—	282
		69,644	139,926
Current assets			
Amounts due from subsidiaries		3,969	704
Financial assets at fair value through profit or loss		2,051	5,501
Prepayments, deposits and other receivables		139	106
Cash and bank balances		112	78
		6,271	6,389
Current liabilities			
Amounts due to subsidiaries		(6,822)	(14,606)
Trade payables, deposits received, accruals and other payables		(3,248)	(3,082)
Tax payable		(3,471)	—
		(13,541)	(17,688)
Net current liabilities		(7,270)	(11,299)
Non-current liabilities			
Convertible notes		(3,981)	—
Shareholder's loans		(3,514)	—
		(7,495)	—
Net assets		54,879	128,627
EQUITY			
Capital and reserves			
Share capital	21	18,372	18,372
Reserves	22	36,507	110,255
Total equity		54,879	128,627

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

James Mellon
Chairman

Jamie Gibson
Executive Director

NOTES TO THE FINANCIAL STATEMENTS

38. EVENT AFTER THE REPORTING PERIOD

The world is grappling with an enormous scale and human impact as the COVID-19 crisis quickly escalates across the globe with the World Health Organization (WHO) declaring it a pandemic. Stock markets across the world are experiencing significant swings and volatility, and the Group expects that shares will continue to be subject to extraordinary price volatility. There is thus a risk that the price of the Company's shares might follow general market volatility, regardless of results and performance of the Group and decline significantly in value.

Given the complex and constantly evolving situation around COVID-19, it is not possible to predict the possible future impacts it may have on the Group's operations at this time. However, it is possible that it could negatively impact the Group's efforts to achieve a timely and successful commercialisation of Fortacin™ in China and elsewhere and the commercial partners' manufacturing, distribution and sales of Fortacin™ in Europe and the UK. Moreover, should outbreak continue in the US, completion of the phase II pivotal study in the US could be delayed due to the inability to recruit the final patients to the study in the event that test centres are required to close their offices.

Save as disclosed above, there were no other material events requiring disclosure after the year end date.

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