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CK Life Sciences Int'l. (Holdings) Inc.

長江生命科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0775)

THE CHAIRMAN'S STATEMENT FOR 2020

For the year ended 31 December 2020, CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences" or the "Company") reported profit attributable to shareholders of HK\$125 million, a decrease of about 31% as compared to that of 2019 mainly due to the impact caused by COVID-19. While the pandemic affected all facets of our business, some of our diverse portfolio of assets withstood the impact better than others. Nevertheless, all subsidiaries took timely action to streamline operations, adapt to new operating conditions and improve efficiency. As a result, our fundamentals remain strong.

The Board of Directors has recommended a final dividend of HK\$0.01 per share for the year ended 31 December 2020 (2019: HK\$0.01 per share). The proposed dividend will be paid on Monday, 31 May 2021 following approval at the 2021 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 May 2021.

NUTRACEUTICAL BUSINESS

CK Life Sciences' nutraceutical business comprises (i) Vitaquest International Holdings LLC ("Vitaquest") in the United States; (ii) Santé Naturelle A.G. Ltée ("SNAG") in Canada; as well as (iii) Lipa Pharmaceuticals Limited ("Lipa") in Australia.

In 2020, COVID-19 infections in the countries where our nutraceutical business is concentrated were high, and lockdown measures of various levels of severity were in place throughout the year. Since our operations are involved in the physical manufacturing and delivery of products, working from home was not practical. Although our line of business was considered "essential" and allowed to continue operating, the infections and associated lockdown measures not only reduced and disrupted the availability of labour and timeliness of attendance, but also upended the secure supply and pricing of raw materials globally. Profit generated from this segment decreased 56% as compared with 2019.

Vitaquest is an industry-leading development and commercialisation partner for the nutraceutical and functional food markets. COVID-19 infections in the state of New Jersey, United States, where Vitaquest has its main facilities, were higher than in many other states. A proportion of Vitaquest’s staff contracted COVID-19, but effective human resources strategies prevented an outbreak on the premises and helped avoid a shutdown. With the state imposing a “Stay at Home” order between mid-March and early June, many members of staff were unable to report for duty, significantly curtailing output at one point. A focus on margin and cost control enabled us to achieve reasonable financial performance under the circumstances. We also took the opportunity to restructure the organisation and implement improvements which could facilitate post-pandemic growth, including the commissioning of a new production facility, installation of new machines and implementation of software to streamline and promote customer relationship management.

SNAG is one of the largest and longest established natural health companies in Quebec, Canada. Unfortunately, the province recorded a higher number of confirmed COVID-19 cases than the rest of Canada and implemented lockdown measures, including curfews, which reduced access to retail stores. Although our retail pharmacy customers remained open, reduced foot traffic through the stores impacted sales. Nevertheless, our ability to maintain the supply of immunity-related products strengthened our position with customers. We expedited online sales development and devised plans for market penetration into other parts of Canada and other regions of North America. We also continued the launch of new products, an important source of future growth.

Lipa is one of the largest contract manufacturers of complementary healthcare medicines, vitamins and nutritional supplements in Australia. Limited availability of international freight, higher shipping charges and congestion at ports in New South Wales exacerbated disruptions to the supply of raw materials and drove up their cost. Shrinkage in sales of retailers, and therefore high trade stock, translated into slower manufacturing orders for Lipa during the year, at one point necessitating a four-day week operation to control costs in the face of lower volume. Despite COVID-19 pressure, Lipa is successful in securing new supply relationships with brands leveraging the demand for high quality Australian made products across Asia and the Middle East. In addition, investments were made for new equipment which will deliver efficiencies, and management implemented cost saving and capacity optimisation measures. Lipa won the “2020 High Quality Manufacturer of the Year” award presented by the Complementary Medicines Australia.

AGRICULTURE-RELATED BUSINESS

The agriculture-related business consists of three main streams – (i) Australian Agribusiness (Holdings) Pty Ltd (“Australian Agribusiness”); (ii) Cheetham Salt Group (“Cheetham”); and (iii) a vineyard portfolio.

Although the same disruptions affecting the nutraceutical business also challenged the Company's agriculture-related business, the impact was mitigated by more favourable climatic conditions after three years of drought, and performance improvement of the vineyard portfolio. Profit generated from this segment increased 21% versus 2019.

Australian Agribusiness comprises businesses in the manufacturing, wholesale and retail of agriculture-related products. Although COVID-19 disrupted global supply chains across the industry, overall volume of plant protection products rose on the back of improved climatic conditions bringing relief from the prolonged and severe droughts of the previous three years. In addition, it focused on expanding, streamlining and consolidating capability across its four manufacturing plants strategically located in key growing areas and on improvements to meet the high standards of multinational customers. The Home Garden business grew sales as consumers invested in home improvements during lockdown restrictions, but COVID-19 severely disrupted the Professional Turf and Pest Management businesses. Nevertheless, we maintained leadership positions in many of the markets in which we operate.

Performance of the Company's vineyard portfolio strengthened during the period under review. The fact that all the properties are rented on long-term leases to leading wine companies or growers protected the steady income stream against the disruptions of COVID-19. During the year, the Company acquired two more vineyards in South Australia, bringing the total size of our vineyard and agricultural portfolio in Australia and New Zealand to almost 8,000 hectares. We also upgraded irrigation works in select properties. Contribution from vineyards acquired in 2019 and early 2020 and annual rent increases enabled the portfolio to report satisfactory financial results. Market sentiments for the wine industry remained positive as wine consumption increased during lockdown, providing support to stronger valuations.

The Cheetham Salt Group, Australasia's leading producer of value-added salt products, reported stable earnings. During the year, Cheetham successfully modified its business operations to focus on the protection of the safety and wellbeing of employees as well as the satisfaction of customer needs. In addition to maintaining uninterrupted salt supply to customers, Cheetham also embarked on a programme to reduce and contain long-term operating costs to ensure availability of capital for maintenance of its unique infrastructure.

PHARMACEUTICAL RESEARCH AND DEVELOPMENT

CK Life Sciences' pharmaceutical operations, spanning Hong Kong, Canada and the United States, conduct research into and development of cancer vaccines and pain management products.

In accordance with our accounting policy, continuous investment in these R&D projects is recognised as an expense in the period in which it is incurred.

Cancer Vaccines R&D

The Company is engaged in the research and development of cancer vaccines which stimulate the immune system to fight cancer. The US subsidiary, Polynoma LLC (“Polynoma”), is developing seviprotimut-L, a proprietary polyvalent therapeutic cancer vaccine for the treatment of melanoma. Although COVID-19 had a limited impact on our cancer vaccine research and development activities in 2020, the worldwide scramble for manufacturing capacity for COVID-19 vaccines has made it difficult to accelerate production of clinical trial material.

In 2020, the Company reached two significant milestones in its melanoma vaccine research:

(i) Data Presentation at ASCO Conference

In May 2020, we presented data from the MAVIS (Melanoma Antigen Vaccine Immunotherapy Study) clinical trial of seviprotimut-L at the American Society of Clinical Oncology (ASCO)’s ASCO20 Virtual Scientific Program. Subgroup analysis suggested enhanced recurrence-free survival (RFS) for seviprotimut-L among patients with resected Stage IIB/IIC melanoma, especially those under the age of 60. Seviprotimut-L was well-tolerated with treatment-emergent adverse events (AEs) similar to patients given placebo.

(ii) Fast Track Designation Granted

In the second quarter, the US Food and Drug Administration (“US FDA”) granted seviprotimut-L Fast Track designation for the adjuvant treatment of post-resection Stage IIB/IIC melanoma patients to improve recurrence-free survival. Fast Track is designed to facilitate the development and expedite the review of drugs that treat serious or life-threatening conditions, as well as fill an unmet medical need. Benefits of Fast Track designation include more frequent communication with the US FDA, a rolling submission of the marketing application and eligibility for Priority Review and Accelerated Approval, if the relevant criteria are met.

Subsequent to these events, Polynoma has started engaging with the US FDA to discuss and agree on the design of the pivotal efficacy assessment trial and the regulatory path forward.

Apart from seviprotimut-L for melanoma, the Company is working on cancer vaccines targeting multiple types of cancers and aims to advance promising vaccines into clinical testing in the coming years.

Pain Management R&D

WEX Pharmaceuticals Inc. (“WEX Pharma”), the Company’s Canadian subsidiary, is developing Halneuron™, an analgesic based on the puffer fish toxin, tetrodotoxin. Halneuron™ acts by blocking Nav1.7 voltage-gated sodium channels and is potentially a first-in-class drug for the treatment of pain. The product is being researched as a pain management solution that can be used to address many different types of pain. As uncontrolled chronic pain is a major unmet medical need globally, the market potential for new pain management solutions is significant.

As an initial indication, WEX Pharma is targeting Halneuron™ to be a treatment for chemotherapy-induced neuropathic pain (“CINP”). There is currently no specific US FDA-approved medication for CINP. Doctors often prescribe analgesics, including opioids, which have significant adverse effects and may not be efficacious. The US FDA has greenlighted the start of a Phase III clinical trial of Halneuron™ for CINP under a Special Protocol Assessment (“SPA”) agreement. The SPA agreement facilitates discussions with the US FDA on product registration by reducing uncertainty regarding the acceptability of the proposed clinical study design and analytical methods. Health Canada has also approved the commencement of the Phase III clinical trial. The Company aims to commence this clinical trial at the appropriate time, recognising the need for prioritisation of spending among the various R&D projects and challenges in recruiting patients during the COVID-19 pandemic.

SUSTAINABILITY AND RESPONSE TO COVID-19

A board-level Sustainability Committee was set up in 2020 to assist the board of directors in overseeing the Company's sustainability strategy. CK Life Sciences will issue its first standalone Sustainability Report in April 2021 to provide more comprehensive disclosure on its sustainability practices.

In response to the COVID-19 pandemic, CK Life Sciences implemented a series of operational reinforcement measures to protect our employees. Hygiene and cleaning procedures were intensified in line with sanitary authorities’ guidelines. We established work-from-home arrangement for employees who were able to perform their duties remotely and arranged physical segregation of teams. Board and board committee meetings were conducted through digital communication facilities, and shareholders were encouraged to participate in the Company’s 2020 annual general meeting via webcast. We also provided financial support to our staff in need and launched mental health care programs to ensure their wellbeing.

PROSPECTS

The unprecedented COVID-19 global pandemic adversely affected the Company's full-year results in 2020, as the Company's operations, the nutraceutical business in particular, are located in areas with high rates of infection. Nonetheless, effective measures to prevent wholesale shutdown of facilities, initiatives to improve efficiencies and efforts to open new markets will strengthen the Company's business fundamentals. The overall outlook remains promising.

CK Life Sciences is cautiously optimistic that the macro business environment and operating conditions will gradually improve when mass vaccination programmes take root in various countries. While we expect the Company's agriculture-related businesses to continue generating stable income, performance of the Company's nutraceutical business should improve with the easing of restrictions on people and cargo flow.

Progress made by Polynoma on the pharmaceutical R&D front is encouraging. The granted US FDA Fast Track designation for seviprotimut-L not only expedites the research process but also further validates seviprotimut-L as a new and potentially important cancer vaccine for localised melanoma. We are committed to bringing the R&D initiatives to fruition and are regularly reviewing deployment of appropriate funds to support them. Earnings from the Company's diversified portfolio of businesses provide a solid platform for the advancement of pharmaceutical research activities.

I would like to thank our shareholders and the Board of Directors for their continued support and contribution. I would also take this opportunity to express my appreciation to our staff members and frontline employees for their commitment to maintaining operations amidst the difficulties brought about by the pandemic. Having experienced and overcome last year's difficulties, I am confident that CK Life Sciences will emerge stronger than before. Amidst these extraordinary times, we have built upon our strengths and solidified our business foundation. As the market situation returns to normal, CK Life Sciences is well-positioned to resume growth.

Victor T K Li
Chairman

Hong Kong, 16 March 2021

FINANCIAL REVIEW

Financial Resources, Liquidity and Treasury Policies

In 2020, the financial and liquidity position of the Group continued to be sound and healthy. It was financed mainly from internal sources such as cash generated from business activities as well as other sources such as borrowings from banks and major shareholders.

The Group's bank and other borrowings were mainly for the acquisition of the Group's overseas businesses as well as providing general working capital. As at 31 December 2020, the bank and other borrowings amounted to HK\$5,602.9 million. All these borrowings were made on a floating interest rate basis and were granted based on some committed terms by, with the guarantees of, the Company. As at 31 December 2020, certain assets of the Group's overseas subsidiaries with carrying value of HK\$1,081.9 million were pledged as part of the security for bank borrowings totalling HK\$342.9 million. The total interest expenses on bank and other borrowings of the Group for the year were HK\$107.8 million.

At the end of 2020, the total assets of the Group were about HK\$11,977.7 million, of which bank balances and time deposits were about HK\$959.0 million and treasury investments were about HK\$12.7 million. The bank interest income generated for the year was HK\$1.1 million.

The total net assets of the Group as at 31 December 2020 were HK\$4,718.5 million, representing HK\$0.49 per share. The net debt to net total capital ratio of the Group as at 31 December 2020 was approximately 49.60%, which is calculated as the Group's net borrowings over the aggregate of the Group's total equity and net borrowings. For this purpose, the Group defines net borrowings as total borrowings (including bank borrowings and other borrowings) less cash, bank balances and time deposits.

The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost efficient funding to the Group. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to interest rates fluctuation. It monitors its overall net debt position closely, reviews its funding costs and maturity profile regularly, and takes necessary actions to facilitate refinancing whenever appropriate.

Material Acquisitions/Disposals and Significant Investments

There was no material acquisition/disposal during the year under review.

The Group has always been investing significantly in research and development activities. Total research and development expenditure incurred in 2020 amounted to about HK\$149.8 million.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of 31 December 2020, the total capital commitments by the Group amounted to HK\$63.2 million which were mainly made up of contracted/authorised commitments in respect of the acquisition of plant and equipment, and maintenance of vineyards.

Information on Employees

The total number of full-time employees of the Group was 1,809 as at 31 December 2020 (2019: 1,829). The total staff costs, including directors' emoluments, amounted to approximately HK\$1,019.9 million for the year under review, which represents a decrease of 3% as compared to the previous year.

The Group's remuneration policies and fringe benefits remained basically the same as before. The Group would ensure the pay levels of its employees are competitive and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2020 (2019: Nil).

Consolidated Income Statement For the year ended 31 December 2020

	Notes	<u>2020</u> HK\$'000	<u>2019</u> HK\$'000
Revenue	3	4,942,544	4,967,024
Cost of sales		<u>(3,535,638)</u>	<u>(3,360,287)</u>
		1,406,906	1,606,737
Other income, gains and losses	4	161,619	95,857
Staff costs	5	(540,546)	(550,137)
Depreciation		(100,119)	(92,855)
Amortisation of intangible assets		(7,128)	(7,050)
Other expenses	6	(674,360)	(677,246)
Finance costs	7	(128,726)	(158,884)
Share of results of a joint venture		<u>1,480</u>	<u>1,013</u>
Profit before taxation		119,126	217,435
Taxation	8	<u>6,102</u>	<u>(27,474)</u>
Profit for the year		<u>125,228</u>	<u>189,961</u>
Attributable to:			
Shareholders of the Company		125,234	181,735
Non-controlling interests of subsidiaries		<u>(6)</u>	<u>8,226</u>
		<u>125,228</u>	<u>189,961</u>
Earnings per share	9		
- Basic		<u>1.30 cents</u>	<u>1.89 cents</u>
- Diluted		<u>1.30 cents</u>	<u>1.89 cents</u>

Consolidated Statement of Comprehensive Income For the year ended 31 December 2020

	2020	2019
	HK\$'000	HK\$'000
Profit for the year	125,228	189,961
Other comprehensive income/(expenses)		
Items that will not be reclassified to profit or loss:		
Actuarial loss of defined benefit retirement plan	(835)	(616)
Gain on revaluation of property, plant and equipment	41,885	-
Loss on fair value changes of equity investments designated at fair value through other comprehensive income	-	(10,644)
	41,050	(11,260)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of foreign operations	478,323	(124,430)
Other comprehensive income/(expenses) for the year	519,373	(135,690)
Total comprehensive income for the year	644,601	54,271
Attributable to:		
Shareholders of the Company	644,607	50,907
Non-controlling interests of subsidiaries	(6)	3,364
	644,601	54,271

Consolidated Statement of Financial Position

As at 31 December 2020

		2020	2019
	Notes	HK\$'000	HK\$'000
Non-current assets			
Investment properties		2,032,170	1,673,043
Property, plant and equipment		2,349,000	1,916,982
Right-of-use assets		466,774	431,756
Intangible assets		3,741,656	3,596,805
Interests in a joint venture		6,526	5,114
Deferred taxation		89,871	44,643
		8,685,997	7,668,343
Current assets			
Equity investments		12,714	16,636
Tax recoverable		22,839	25,966
Inventories		1,370,102	1,182,651
Receivables and prepayments	11	927,019	1,124,491
Bank balances and deposits		958,998	696,504
		3,291,672	3,046,248
Current liabilities			
Payables and accruals	12	(806,086)	(667,170)
Bank borrowings		-	(2,782,428)
Lease liabilities		(73,701)	(74,725)
Taxation		(35,786)	(51,117)
		(915,573)	(3,575,440)
Net current assets/(liabilities)		2,376,099	(529,192)
Total assets less current liabilities		11,062,096	7,139,151

Consolidated Statement of Financial Position (cont'd)
As at 31 December 2020

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
Non-current liabilities		
Bank borrowings	(4,502,861)	(1,224,000)
Lease liabilities	(513,939)	(449,477)
Other borrowings	(1,100,000)	(1,100,000)
Deferred taxation	(216,623)	(182,521)
Retirement benefit obligations	(10,214)	(8,403)
	<u>(6,343,637)</u>	<u>(2,964,401)</u>
Total net assets	<u><u>4,718,459</u></u>	<u><u>4,174,750</u></u>
Capital and reserves		
Share capital	961,107	961,107
Share premium and reserves	3,760,092	3,216,377
Equity attributable to shareholders of the Company	4,721,199	4,177,484
Non-controlling interests of subsidiaries	(2,740)	(2,734)
Total equity	<u><u>4,718,459</u></u>	<u><u>4,174,750</u></u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to shareholders of the Company									
	Share capital	Share premium	Investment at fair value through other comprehensive income reserve	Translation reserve	Asset revaluation reserve	Other reserves	Retained earnings	Sub-total	Attributable to non-controlling interests of subsidiaries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2019	961,107	3,570,879	(92,703)	(1,399,778)	-	(538,640)	1,719,438	4,220,303	155,935	4,376,238
Profit for the year	-	-	-	-	-	-	181,735	181,735	8,226	189,961
Exchange differences arising from translation of foreign operations	-	-	-	(119,568)	-	-	-	(119,568)	(4,862)	(124,430)
Actuarial loss of defined benefit retirement plan	-	-	-	-	-	-	(616)	(616)	-	(616)
Loss on fair value changes of equity investments designated at fair value through other comprehensive income	-	-	(10,644)	-	-	-	-	(10,644)	-	(10,644)
Total comprehensive (expenses)/income for the year	-	-	(10,644)	(119,568)	-	-	181,119	50,907	3,364	54,271
Acquisition of additional interests in subsidiaries	-	-	-	-	-	2,385	-	2,385	(153,674)	(151,289)
Dividends paid to the shareholders of the Company – 2018 final dividend HK\$0.01 per share	-	(96,111)	-	-	-	-	-	(96,111)	-	(96,111)
Dividends distributed to non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	(8,359)	(8,359)
As at 31 December 2019	961,107	3,474,768	(103,347)	(1,519,346)	-	(536,255)	1,900,557	4,177,484	(2,734)	4,174,750
Profit for the year	-	-	-	-	-	-	125,234	125,234	(6)	125,228
Exchange differences arising from translation of foreign operations	-	-	-	478,323	-	-	-	478,323	-	478,323
Actuarial loss of defined benefit retirement plan	-	-	-	-	-	-	(835)	(835)	-	(835)
Gain on revaluation of property, plant and equipment	-	-	-	-	41,885	-	-	41,885	-	41,885
Total comprehensive income/(expenses) for the year	-	-	-	478,323	41,885	-	124,399	644,607	(6)	644,601
Acquisition of additional interests in subsidiaries	-	-	-	-	-	(4,781)	-	(4,781)	-	(4,781)
Dividends paid to the shareholders of the Company – 2019 final dividend HK\$0.01 per share	-	(96,111)	-	-	-	-	-	(96,111)	-	(96,111)
As at 31 December 2020	961,107	3,378,657	(103,347)	(1,041,023)	41,885	(541,036)	2,024,956	4,721,199	(2,740)	4,718,459

Notes to the Consolidated Financial Statements

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars, which are the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in research and development, manufacturing, commercialisation, marketing and selling of health and agriculture-related products, as well as investment in a portfolio of vineyards, and various financial and investment products.

2. Application of Amendments to Hong Kong Financial Reporting Standards

In the current year, the Group has adopted, for the first time, a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and the Amendments to reference to the Conceptual Framework in HKFRS Standards (collectively “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are effective in the current year.

The adoption of the new HKFRSs has no material impact on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

Amendment to HKFRS 16 Covid-19-Related Rent Concessions is effective for annual reporting periods beginning on or after 1 June 2020. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of amendment had no impact on the Group's financial position and performance as the Group did not obtain any rent concessions.

Apart from the above, the Group is in the process of assessing the impact of new HKFRSs, which are not yet effective, on the Group's consolidated financial statements. Up to the date of approval of financial statements, the Group anticipates the application of all new and amendments to HKFRSs will have no material impact on the Group.

3. Revenue

Revenue represents net invoiced value of goods sold, after allowance for returns and trade discounts, as well as rental income and income from investments, and is analysed as follows:

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
Sales of goods:		
Agriculture-related	1,961,086	1,788,836
Health	2,814,728	3,021,285
Revenue from contracts with customers	<u>4,775,814</u>	<u>4,810,121</u>
Rental income (included in agriculture-related segment)	165,824	156,450
Investment income	906	453
	<u>4,942,544</u>	<u>4,967,024</u>

Rental income represents the operating lease income with fixed lease payments.

4. Other Income, Gains and Losses

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
Included in other income, gains and losses are:		
Interest income from bank deposits	1,096	6,008
Other interest income	1,272	2,748
Government grants *	21,924	-
Exchange gain/(loss)	8,150	(34,372)
Net unrealised gain on fair value changes of investment properties	122,820	120,385
Net reversal of impairment/(impairment) of property, plant and equipment	9,391	(21,425)
Impairment of intangible assets	-	(2,992)
Net impairment of trade receivables	(14,384)	(1,348)
Impairment of other receivable	-	(600)
Net (loss)/gain on disposal of property, plant and equipment	(1,802)	1,073
Fair value (loss)/gain on investments mandatorily measured at fair value through profit or loss		
- Investments held for trading	<u>(3,922)</u>	<u>5,051</u>

* Included in the government grants are Covid-19 subsidies of HK\$4,863,000 (2019: Nil) relate to Employment Support Scheme provided by the Hong Kong government, and the remaining amounts represent the Covid-19 subsidies received from the Group's overseas operations.

5. Staff Costs

Staff costs which include salaries, bonuses, retirement benefit scheme contributions and recruitment costs for the year amounted to HK\$1,019.9 million (2019: HK\$1,049.5 million) of which HK\$479.4 million (2019: HK\$499.4 million) relating to direct labor costs were included in cost of sales.

6. Other Expenses

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
Included in other expenses are:		
Auditor's remuneration	12,667	10,515
Clinical trial and laboratory expenses	107,382	79,565
Freight and delivery expenses	264,255	269,635
Information technology expenses	27,965	27,161
Insurance expenses	33,619	29,173
Professional, legal and consultancy expenses	47,769	58,354
Selling, promotion, advertising and related expenses	62,982	62,645
Short-term leases expenses	4,243	1,693
Low value assets leases expenses	548	419

7. Finance Costs

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings	85,734	116,832
Other borrowings	22,116	32,274
Lease liabilities	20,876	9,778
	<u>128,726</u>	<u>158,884</u>

8. Taxation

	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
The tax (credit)/expenses for the year represent:		
Current tax		
Hong Kong	184	-
Other jurisdictions	39,387	32,139
Over provision in prior years		
Hong Kong	-	-
Other jurisdictions	(796)	(4,729)
Deferred tax		
Hong Kong	-	-
Other jurisdictions	(44,877)	64
	<u>(6,102)</u>	<u>27,474</u>

Hong Kong profits tax has been provided for at the rate of 16.5% of the estimated assessable profits. Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. Earnings Per Share

The calculations of the basic and diluted earnings per share attributable to shareholders of the Company are based on the following data:

	<u>2020</u> HK\$'000	<u>2019</u> HK\$'000
Profit for the year attributable to shareholders of the Company		
Profit for calculating basic and diluted earnings per share	<u>125,234</u>	<u>181,735</u>
Number of shares		
Number of ordinary shares in issue used in the calculation of basic and diluted earnings per share	<u>9,611,073,000</u>	<u>9,611,073,000</u>

Diluted earnings per share for the years ended 31 December 2020 and 31 December 2019 are the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding.

10. Dividends

A final dividend for the year ended 31 December 2020 of HK\$0.01 per share (2019: HK\$0.01 per share) with an aggregate amount of HK\$96,111,000 (2019: HK\$96,111,000) had been proposed by the Directors. It is subject to approval by the shareholders in the forthcoming general meeting.

11. Receivables and Prepayments

	<u>2020</u>	<u>2019</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Trade receivables related to:		
- Sales of goods	771,479	946,603
- Operating leases	3,938	1,422
	<u>775,417</u>	<u>948,025</u>
Less: provision for impairment	<u>(12,061)</u>	<u>(8,366)</u>
	763,356	939,659
Other receivables, deposits and prepayments	163,663	184,832
	<u>927,019</u>	<u>1,124,491</u>

The following is an analysis of trade receivables by age, presented based on invoice dates:

	<u>2020</u>	<u>2019</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
0 - 90 days	718,412	815,428
Over 90 days	44,944	124,231
	<u>763,356</u>	<u>939,659</u>

12. Payables and Accruals

	<u>2020</u>	<u>2019</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Trade payables	314,129	259,362
Other payables and accrued charges	491,957	407,808
	<u>806,086</u>	<u>667,170</u>

The following is an analysis of trade payables by age, presented based on invoice dates:

	<u>2020</u>	<u>2019</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
0 - 90 days	306,503	225,559
Over 90 days	7,626	33,803
	<u>314,129</u>	<u>259,362</u>

13. Segment Information

The Group's reportable segments and other information required under HKFRS 8 are summarised as follows:

(a) Reportable segment information

	Agriculture-related		Health		Unallocated		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	2,126,910	1,945,286	2,814,728	3,021,285	906	453	4,942,544	4,967,024
Segment results	316,359	260,383	146,159	329,421	-	-	462,518	589,804
Unallocated other income, gains or losses							6,800	(17,439)
Research and development expenditure							(149,773)	(122,284)
Corporate expenses							(71,693)	(73,762)
Finance costs							(128,726)	(158,884)
Profit before taxation							119,126	217,435
Taxation							6,102	(27,474)
Profit for the year							125,228	189,961
Other information								
Interest income	315	959	1,284	2,764	769	5,033	2,368	8,756
Amortisation of intangible assets	(6,127)	(6,057)	(1,001)	(993)	-	-	(7,128)	(7,050)
Depreciation	(118,053)	(118,785)	(86,108)	(69,167)	(9,076)	(9,408)	(213,237)	(197,360)
Net impairment of trade receivables	(312)	(628)	(14,072)	(720)	-	-	(14,384)	(1,348)
Impairment of other receivable	-	-	-	-	-	(600)	-	(600)
Net gain/(loss) on disposal of property, plant and equipment	194	1,074	(12)	-	(1,984)	(1)	(1,802)	1,073
Net unrealised gain on fair value changes of investment properties	122,820	120,385	-	-	-	-	122,820	120,385
Net reversal of impairment/(impairment) of property, plant and equipment	9,391	(21,425)	-	-	-	-	9,391	(21,425)
Impairment of intangible assets	-	(2,992)	-	-	-	-	-	(2,992)

(b) Geographical information

Revenue is analysed by the Group's sales by geographical market while the carrying amount of non-current assets is analysed by the geographical area in which the assets are located.

	Revenue (note i)		Non-current assets (note ii)	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Asia Pacific	2,811,575	2,674,637	5,351,797	4,559,463
North America	2,130,063	2,291,934	3,244,329	3,064,237
	4,941,638	4,966,571	8,596,126	7,623,700

Notes :

- i. Revenue excluding investment income generated from financial instruments.
- ii. Non-current assets excluding financial instruments and deferred tax assets.

The major countries where the group companies domiciled include China (including Hong Kong), Australia, New Zealand, USA and Canada.

The Group does not have any material sales (excluding investment income generated from financial instruments) to countries other than those in which the Group companies are domiciled. There are no material non-current assets (excluding financial instruments and deferred tax assets) which are located in countries other than those in which the Group companies are domiciled.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

The Company had applied the principles and complied with all code provisions (except as stated below) and, where applicable, the recommended best practices of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2020.

In accordance with code provision A.5.1 of the CG Code, the Company established its nomination committee ("Nomination Committee") on 1 January 2019. The Nomination Committee currently comprises a majority of Independent Non-executive Directors and is chaired by an Independent Non-executive Director in compliance with the requirements under the Listing Rules. During the period from 1 January 2020 to 30 November 2020, the Nomination Committee was chaired by the Chairman of the Board and comprised all the Directors of the Company, and when the need to select, nominate or re-elect Directors arose, the Nomination Committee established a sub-committee comprising a majority of Independent Non-executive Directors that was chaired by the Chairman of the Board in compliance with the requirements under the Listing Rules in relation to the composition of the nomination committee to consider and if appropriate, recommend the nomination of Director to be appointed or re-elected.

The Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the CG Code, the audit committee of the Company ("Audit Committee") has established the Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters. In addition, the Company has established the Policy on Handling of Confidential Information, Information Disclosure, and Securities Dealing for compliance by the Company's employees.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established the Audit Committee on 26 June 2002 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code.

The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Kwan Kai Cheong (Chairman of the Audit Committee), Mr. Paul Joseph Tighe and Mr. Donald Jeffrey Roberts. The principal duties of the Audit Committee include: the review and supervision of the Group's financial reporting system, risk management and internal control systems; review of the Group's financial information; review of the relationship with the external auditor of the Company; and performance of the corporate governance functions delegated by the Board.

The Group's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

In compliance with the CG Code, the Company established its remuneration committee ("Remuneration Committee") on 1 January 2005 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee comprises an Independent Non-executive Director, Mrs. Kwok Eva Lee (Chairperson of the Remuneration Committee), the Chairman of the Board, Mr. Victor T K Li, and an Independent Non-executive Director, Mr. Colin Stevens Russel.

NOMINATION COMMITTEE

The Company established the nomination committee on 1 January 2019 which currently comprises a majority of Independent Non-executive Directors and is chaired by an Independent Non-executive Director. The Nomination Committee currently comprises an Independent Non-executive Director, Mr. Paul Joseph Tighe (Chairman of the Nomination Committee), the Chairman of the Board, Mr. Victor T K Li, and an Independent Non-executive Director, Mr. Donald Jeffrey Roberts.

SUSTAINABILITY COMMITTEE

The Company established its sustainability committee ("Sustainability Committee") on 1 December 2020 with an Executive Director, an Independent Non-executive Director and the Company Secretary to oversee management and advise the Board on the development and implementation of the sustainability initiatives of the Group, including reviewing the related environment, social and governance ("ESG") policies and practices, and assessing and making recommendations on matters concerning the Group's sustainability development and ESG risks. The Sustainability Committee comprises an Executive Director, Mr. Ip Tak Chuen, Edmond (Chairman of the Sustainability Committee), an Independent Non-executive Director, Mr. Paul Joseph Tighe, and the Company Secretary, Ms. Eirene Yeung.

ANNUAL GENERAL MEETING

The 2021 Annual General Meeting ("2021 AGM") of the shareholders of the Company will be held at 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 13 May 2021 at 9:45 a.m, and which will be a hybrid meeting. The shareholders of the Company have the option of attending, participating and voting in the 2021 AGM either through the physical attendance at the abovementioned venue or online access. Details of the arrangements for, among others, registration and voting at the hybrid meeting will be provided in the Company's Circular in relation to the 2021 AGM which will be published and despatched to the shareholders in accordance with the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 10 May 2021 to Thursday, 13 May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the 2021 Annual General Meeting, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 7 May 2021.

The final dividend is payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 May 2021, being the record date for determination of entitlement to the final dividend. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. Thursday, 20 May 2021.

As at the date of this document, the Executive Directors of the Company are Mr. Li Tzar Kuoi, Victor (Chairman), Mr. Kam Hing Lam, Mr. Ip Tak Chuen, Edmond, Mr. Yu Ying Choi, Alan Abel and Dr. Toh Kean Meng, Melvin; and the Non-executive Directors are Mr. Peter Peace Tulloch, Mrs. Kwok Eva Lee (Independent Non-executive Director), Mr. Colin Stevens Russel (Independent Non-executive Director), Mr. Kwan Kai Cheong (Independent Non-executive Director), Mr. Paul Joseph Tighe (Independent Non-executive Director) and Mr. Donald Jeffrey Roberts (Independent Non-executive Director).