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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)

INTERIM RESULTS FOR 2020

2020 FIRST HALF RESULTS

For the six months ended 30 June 2020, CK Life Sciences Int'l. (Holdings) Inc. ("CK Life Sciences" or the "Company") recorded unaudited profit attributable to shareholders of around HK\$87 million, a decrease of 49% from that of the corresponding period last year. The results were heavily affected by the COVID-19 pandemic.

The ongoing COVID-19 pandemic is having a widespread and significant impact on global commercial activities. CK Life Sciences' nutraceutical operations are variously located in the United States, Canada and Australia where the lockdown measures have been drastic and severe, including restrictions on movement beyond the home and closure of offices and retail outlets. Such restrictions have had a profound impact on the operations of the Company's nutraceutical businesses. Production came to a halt when technicians and workers were not able to report for duty, and production output of our nutraceutical products was drastically reduced. As a result, the financial contributions of our nutraceutical business dropped significantly in the first half of 2020.

The Board of Directors has not declared any interim dividend for the period under review (2019: Nil).

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. Profit generated from the nutraceutical business segment decreased 29% over the first half of 2019.

Our three nutraceutical companies are located squarely in areas with high numbers of coronavirus cases that mandated strict lockdown measures. The flow of people and goods was heavily restricted, which hampered normal modes of operation. This dearth of manpower as well as disruptions in raw materials supply and logistics resulted in significant production downtime in the three companies.

Vitaquest's production facilities are located in the state of New Jersey, the northeastern part of the United States. In the early stages of the outbreak, New Jersey was among the top three places with the highest number of confirmed coronavirus cases. At the end of March, New Jersey issued a "Stay at Home" order, which prohibited state residents from leaving their home unless it was to obtain essential goods. As many staff members were unable to report for duty for various reasons, the high staff absenteeism resulted in a drastic reduction in the output of Vitaquest, and the company reported an operating loss in April. The "Stay at Home" order was lifted in early June, and Vitaquest's operations are gradually returning to normal levels.

SNAG is one of the largest and longest established natural health companies in Québec, Canada. The number of confirmed coronavirus cases in Québec was the highest in Canada. In March, the Premier put the province on a partial lockdown. Consequently, not only was production interrupted, consumer demand was curtailed as retail outlets closed. Although demand for immunity-related nutraceutical products increased amidst the risk of pandemic, SNAG recorded a downturn in domestic retail performance as people were home-bound. Lockdown measures also restricted the staff's ability to get to work. In mid-June, Québec businesses re-opened and services resumed. Production has re-commenced and it is envisaged that sales will pick up as lockdown measures are eased.

Lipa, one of the largest contract manufacturers of complementary healthcare medicines, vitamins, and nutritional supplements in Australia, is located in New South Wales, the state which recorded the highest number of confirmed COVID-19 cases in Australia during the period under review. Industries in the state have been under the coronavirus lockdown since the end of March. Citizens were not allowed to leave home except for a list of reasons prescribed by the state government. Labour and material shortages reduced production and diminished Lipa's ability to fulfill orders. Sharp increases in material and freight costs driven by COVID-19 also impacted margins. Currently, Lipa's production is ramping up closer to normal levels with enhanced safety practices and in accordance with other government directives related to COVID-19.

AGRICULTURE-RELATED BUSINESS

In the first half of 2020, despite the COVID-19 disruptions, agriculture-related business recorded an increase of 4% in profit as compared to the same period last year.

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

Australian Agribusiness comprises businesses in the manufacturing, wholesale and retail of agriculture-related products. COVID-19 lockdown measures severely restricted activities in the professional turf and pest management markets, affecting sales performance in these two sectors. One positive impetus to the company is that the catastrophic bushfires which ravaged Australia towards the end of 2019 abated in February. Rain provided relief to the severe drought conditions gripping the agricultural industry and improved sales in the plant protection and nutrition sectors.

Cheetham and the vineyard portfolio have been relatively unaffected by the COVID-19 disruption.

Cheetham was able to maintain operations and recorded a steady performance, continuing to supply value-added salt products to protect its market position in Australasia.

The 520-hectre Wilga Road Vineyard, acquired in 2019, provided additional revenue in the Company's vineyard portfolio. A stable and recurrent cashflow was generated from the vineyard investments during the period under review.

PHARMACEUTICAL RESEARCH AND DEVELOPMENT

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

Cancer Vaccines R&D

The Company engages in the research of cancer vaccines which stimulate the immune system to fight cancer. Our US subsidiary, Polynoma LLC ("Polynoma"), is developing a proprietary polyvalent therapeutic cancer vaccine (seviprotimut-L) for melanoma. Comprising a combination of multiple melanoma-associated antigens, seviprotimut-L works by triggering the body's immune system to develop antibodies and antigen-specific T lymphocytes against melanoma cells, thereby delaying or preventing recurrence after surgical resection.

In the first half of 2020, the Company reached two milestones in its melanoma vaccine research:

(i) Updated Data Analysis Reinforced Initial Findings

An updated data analysis was carried out earlier this year, and the results were presented at a large-scale medical conference, the American Society of Clinical Oncology (ASCO)'s ASCO20 Virtual Scientific Program in May 2020. The updated analysis reinforced the initial findings from the data analysis performed last year, with subgroup analysis suggesting enhanced recurrence-free survival (RFS) for seviprotimut-L among those with Stage IIB/IIC melanoma, and 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, Polynoma was granted Fast Track designation by the US Food and Drug Administration (US FDA) for seviprotimut-L 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. We are very encouraged by the development.

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

Pain Management R&D

WEX Pharmaceuticals Inc. (“WEX Pharma”), our Canadian subsidiary, is developing HalneuronTM, an analgesic based on the puffer fish toxin, tetrodotoxin. The US FDA has greenlighted the start of a Phase III clinical trial of HalneuronTM for chemotherapy-induced neuropathic pain (“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. At the same time, commencement of the Phase III clinical trial has been approved by Health Canada.

HalneuronTM acts by blocking Nav1.7 voltage-gated sodium channels and is potentially a first-in-class drug approved 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 an initial indication, WEX Pharma is targeting HalneuronTM to be a treatment for 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.

As uncontrolled chronic pain is a major unmet medical need globally, the market potential for new pain management solutions is significant.

The expenditure for the above R&D projects is incurred on a continuous basis. In accordance with our accounting policy, such expenditure is recognised as an expense in the period in which it is incurred.

SUPPORTING THE FIGHT AGAINST THE COVID-19 PANDEMIC

As COVID-19 developed into a pandemic, CK Life Sciences has been working with its network of pharmaceutical companies and research institutes to explore solutions to combat the pandemic. Agreements were signed for the distribution of an RT-PCR diagnostic kit and a serology-based rapid detection kit developed in Singapore. Efforts will continue with our international network of contacts to investigate other opportunities to alleviate the impact of COVID-19.

PROSPECTS

The Company's 2020 interim results were adversely affected by the unprecedented global pandemic. Recovery of our operations will depend on the containment of the outbreak. Nonetheless, the Company's business fundamentals remain intact amidst the pandemic, and the diversified nature of our investment portfolio supports the advancement of pharmaceutical research activities.

As various parts of the world ease their lockdown restrictions, and commercial operations gradually resume, the Company's businesses are picking up. We expect the rebound to be on track if the path to normality is smooth.

Due to the fact that our nutraceutical operations are located in specific areas with high rates of infection, our business activities, including manufacturing, experienced a temporary disruption. Despite the challenges, there is no long-term damage to the nutraceutical business and its overall outlook remains promising. As the world continues to face the threat of infectious diseases, consumers are expected to become more health-conscious, driving up demand for health supplements.

At the same time, the Company's agriculture-related businesses will continue to be stable. As the climate conditions in Australia continues to improve, Australian Agribusiness will benefit from increased rainfall and a break in the drought.

Progress being made by Polynoma on the pharmaceutical R&D front is very encouraging. The recently granted US FDA Fast Track designation of 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 proactively reviewing deployment of appropriate funding to move progressively towards this goal.

I would like to take this opportunity to thank members of the Board for their ongoing guidance, our valued staff for their significant contributions and our stakeholders for their continued support. In particular, I would like to extend my utmost gratitude to our frontline employees who have been battling through enormous difficulties to ensure that the Company's services are maintained during this extraordinary period.

Victor T K Li
Chairman

Hong Kong, 4 August 2020

FINANCIAL REVIEW

Financial Resources and Liquidity

As at 30 June 2020, the total assets of the Group were about HK\$10,728.0 million, of which bank balances and time deposits were about HK\$596.4 million and treasury investments were about HK\$13.2 million. The bank interest generated for the first six months of 2020 was HK\$0.8 million.

At the end of the period under review, the total liabilities of the Group were HK\$6,617.5 million, comprising bank and other borrowings amounted to HK\$5,336.7 million. These borrowings were mainly used for financing the acquisition of overseas businesses as well as providing general working capital for some of the overseas businesses. The total interest expenses on bank and other borrowings of the Group for the six months ended 30 June 2020 were HK\$68.3 million.

As at 30 June 2020, the net debt to net total capital ratio of the Group was approximately 53.56%, 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 net asset value of the Group was HK\$0.43 per share.

Treasury Policies

The Group continues to adopt a prudent treasury policy and manage most of its treasury functions at the head office regarding its funding needs, foreign exchange and interest rate exposures.

The Group's treasury investments are denominated in Hong Kong dollars, and thus there is no exchange rate risk associated with such investments. Most of the Group's borrowings are principally on a floating rate basis. To minimise its interest rate risk, the Group has been regularly and closely monitoring its overall net debt position, and reviewing its funding costs and loan maturity profile so as to facilitate refinancing whenever appropriate.

Charge on Assets

As at 30 June 2020, certain assets of the Group's subsidiary companies with a carrying value of HK\$920.9 million were pledged as part of the security for bank borrowings totalling HK\$310.7 million granted to the subsidiary companies.

Material Acquisitions/Disposals and Significant Investments

There was no material acquisition/disposal of investments during the period under review.

The Group has always been investing significantly in research and development activities. Such expenditure amounted to about HK\$49.7 million for the period ended 30 June 2020.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of 30 June 2020, the total capital commitments by the Group amounted to HK\$49.3 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 1,773 as at 30 June 2020, and is 55 less than the total headcount of 1,828 as at 30 June 2019. The total staff costs, including director's emoluments, amounted to approximately HK\$500.6 million for the six months ended 30 June 2020, which represents a decrease of 6% as compared to the same period in 2019. The Group's employment and remuneration policies remained the same as detailed in the Company's annual report for the year ended 31 December 2019.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2020.

Condensed Consolidated Income Statement

		For the six months ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
Notes		HK\$'000	HK\$'000
Revenue	3	2,379,530	2,596,514
Cost of sales		(1,620,376)	(1,733,625)
		759,154	862,889
Other income, gains and losses		(730)	(7,035)
Staff costs	4	(264,899)	(276,905)
Depreciation		(47,448)	(43,943)
Amortisation of intangible assets		(3,432)	(3,592)
Other expenses		(240,362)	(249,499)
Finance costs		(76,285)	(74,777)
Share of results of a joint venture		952	162
Profit before taxation		126,950	207,300
Taxation	5	(39,509)	(31,253)
Profit for the period	6	87,441	176,047
Attributable to:			
Shareholders of the Company		87,441	171,253
Non-controlling interests of subsidiaries		-	4,794
		87,441	176,047
Earnings per share	7		
- Basic		0.91 cents	1.78 cents
- Diluted		0.91 cents	1.78 cents

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period	<u>87,441</u>	<u>176,047</u>
Other comprehensive expenses		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of foreign operations	<u>(55,553)</u>	<u>(124,988)</u>
Other comprehensive expenses for the period	<u>(55,553)</u>	<u>(124,988)</u>
Total comprehensive income for the period	<u><u>31,888</u></u>	<u><u>51,059</u></u>
Attributable to:		
Shareholders of the Company	31,888	51,130
Non-controlling interests of subsidiaries	<u>-</u>	<u>(71)</u>
	<u><u>31,888</u></u>	<u><u>51,059</u></u>

Condensed Consolidated Statement of Financial Position

		As at 30 June 2020 (unaudited) HK\$'000	As at 31 December 2019 (audited) HK\$'000
	Notes		
Non-current assets			
Investment properties	9	1,686,615	1,673,043
Property, plant and equipment	10	2,008,869	1,916,982
Right-of-use assets	11	410,471	431,756
Intangible assets	12	3,618,274	3,596,805
Interests in a joint venture		6,106	5,114
Deferred taxation		43,198	44,643
		<u>7,773,533</u>	<u>7,668,343</u>
Current assets			
Equity investments		13,153	16,636
Tax recoverable		26,555	25,966
Inventories		1,214,513	1,182,651
Receivables and prepayments	13	1,103,817	1,124,491
Bank balances and deposits		596,448	696,504
		<u>2,954,486</u>	<u>3,046,248</u>
Current liabilities			
Payables and accruals	13	(515,531)	(667,170)
Bank borrowings	14	(2,310,730)	(2,782,428)
Lease liabilities		(79,098)	(74,725)
Other borrowings	15	(1,100,000)	-
Taxation		(65,594)	(51,117)
		<u>(4,070,953)</u>	<u>(3,575,440)</u>
Net current liabilities		<u>(1,116,467)</u>	<u>(529,192)</u>
Total assets less current liabilities		<u>6,657,066</u>	<u>7,139,151</u>

Condensed Consolidated Statement of Financial Position (cont'd)

		As at 30 June 2020 (unaudited) HK\$'000	As at 31 December 2019 (audited) HK\$'000
	Notes		
Non-current liabilities			
Bank borrowings	14	(1,926,000)	(1,224,000)
Lease liabilities		(428,095)	(449,477)
Other borrowings	15	-	(1,100,000)
Deferred taxation		(183,383)	(182,521)
Retirement benefit obligations		(9,061)	(8,403)
		<u>(2,546,539)</u>	<u>(2,964,401)</u>
Total net assets		<u>4,110,527</u>	<u>4,174,750</u>
Capital and reserves			
Share capital	16	961,107	961,107
Share premium and reserves		<u>3,152,154</u>	<u>3,216,377</u>
Equity attributable to shareholders of the Company		4,113,261	4,177,484
Non-controlling interests of a subsidiary		<u>(2,734)</u>	<u>(2,734)</u>
Total equity		<u>4,110,527</u>	<u>4,174,750</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company								Total (unaudited) HK\$'000
	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Investment at fair value through other comprehensive income reserve (unaudited) HK\$'000	Translation reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Sub-total (unaudited) HK\$'000	Attributable to non-controlling interests of subsidiaries (unaudited) HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
2019									
At 1 January 2019	961,107	3,570,879	(92,703)	(1,399,778)	(538,640)	1,763,043	4,263,908	155,935	4,419,843
Transitional adjustments on the initial application of HKFRS 16	-	-	-	-	-	(43,605)	(43,605)	-	(43,605)
Adjusted 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 period	-	-	-	-	-	171,253	171,253	4,794	176,047
Exchange differences arising from translation of foreign operations	-	-	-	(120,123)	-	-	(120,123)	(4,865)	(124,988)
Total comprehensive (expenses)/income for the period	-	-	-	(120,123)	-	171,253	51,130	(71)	51,059
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	-	-	-	-	-	-	-	(8,358)	(8,358)
At 30 June 2019	961,107	3,474,768	(92,703)	(1,519,901)	(538,640)	1,890,691	4,175,322	147,506	4,322,828
2020									
At 1 January 2020	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 period	-	-	-	-	-	87,441	87,441	-	87,441
Exchange differences arising from translation of foreign operations	-	-	-	(55,553)	-	-	(55,553)	-	(55,553)
Total comprehensive (expenses)/income for the period	-	-	-	(55,553)	-	87,441	31,888	-	31,888
Dividends paid to the shareholders of the Company – 2019 final dividend HK\$0.01 per share	-	(96,111)	-	-	-	-	(96,111)	-	(96,111)
At 30 June 2020	961,107	3,378,657	(103,347)	(1,574,899)	(536,255)	1,987,998	4,113,261	(2,734)	4,110,527

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Net cash from operating activities	125,766	170,049
Net cash outflow from investing activities	(239,057)	(42,445)
Net cash inflow/(outflow) from financing activities	20,532	(214,898)
Decrease in cash and cash equivalents	(92,759)	(87,294)
Cash and cash equivalents at beginning of the period	696,504	773,374
Effect of foreign exchange rate changes	(7,297)	(8,334)
Cash and cash equivalents at end of the period	596,448	677,746

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standards 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Significant Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments which are measured at revaluated amounts or fair values.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2019 (the “2019 Financial Statements”), except for the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (collectively “new and revised HKFRSs”) issued by HKICPA which have become effective in this period as detailed in note 2 of the 2019 Financial Statements. The adoption of such new and revised HKFRSs has no material impact on the accounting policies in the Group’s interim financial statements for the period.

3. Revenue and Segment Information

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:

A. Revenue

	For the six months ended 30 June	
	2020	2019
	HK\$’000	HK\$’000
Sales of goods:		
Agriculture-related	922,936	929,126
Health	1,378,053	1,589,696
Revenue from contracts with customers	2,300,989	2,518,822
 Rental income (included in agriculture-related segment)	77,635	77,239
Investment income	906	453
	2,379,530	2,596,514

Revenue from contracts with customers regarding the sale of goods is generally recognised at a point in time when the control of the goods underlying the particular performance obligation is transferred to the customers.

B. Segment results

An analysis of the segment results is as follows:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Segment results		
Agriculture-related	110,624	106,649
Health	187,548	265,863
	298,172	372,512
Unallocated other income, gains or losses	(6,335)	(13,062)
Research and development expenditure	(49,685)	(40,308)
Corporate expenses	(38,917)	(37,065)
Finance costs	(76,285)	(74,777)
Profit before taxation	126,950	207,300
Taxation	(39,509)	(31,253)
Profit for the period	87,441	176,047

4. Staff Costs

Staff costs which include salaries, bonuses, retirement benefit scheme contributions and recruitment costs for the six months ended 30 June 2020 amounted to HK\$500.6 million (2019: HK\$533.8 million) of which HK\$235.7 million (2019: HK\$256.9 million) relating to direct labor costs were included in cost of sales.

5. Taxation

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current tax		
Hong Kong	-	-
Other jurisdictions	36,683	29,944
Deferred tax		
Other jurisdictions	2,826	1,309
	39,509	31,253

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.

6. Profit for the Period

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period has been arrived at after crediting:		
Included in revenue:		
Rental income from investment properties	77,635	77,239
Included in other income, gains and losses:		
Interest income from bank deposits	844	3,902
Fair value loss on investments mandatorily measured at fair value through profit or loss	<u>(3,483)</u>	<u>(697)</u>

7. 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:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period attributable to shareholders of the Company		
Profit for calculating basic and diluted earnings per share	<u>87,441</u>	<u>171,253</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 periods ended 30 June 2020 and 2019 are the same as the basic earnings per share as there were no dilutive ordinary shares outstanding.

8. Dividends

The Board of Directors of the Company has not declared an interim dividend for the six months ended 30 June 2020 (2019: Nil).

9. Investment Properties

	HK\$'000
Valuation	
At 1 January 2020	1,673,043
Additions	27,362
Exchange differences	(13,790)
At 30 June 2020	<u>1,686,615</u>

10. Property, Plant and Equipment

	Land and buildings	Vines	Salt fields	Construction in progress	Laboratory instruments, plant and equipment	Furniture, fixtures and other assets	Leasehold improvement	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
At 1 January 2020	607,401	575,859	407,679	118,881	981,245	154,312	169,320	3,014,697
Additions	-	30,618	461	120,274	14,392	4,324	70	170,139
Reclassification	3,047	-	139	(20,131)	12,971	3,683	291	-
Disposals/write-off	-	-	-	-	(916)	(418)	-	(1,334)
Exchange differences	(3,895)	(5,058)	(3,302)	964	(6,541)	(286)	(525)	(18,643)
At 30 June 2020	606,553	601,419	404,977	219,988	1,001,151	161,615	169,156	3,164,859
Depreciation and impairment								
At 1 January 2020	100,993	236,195	-	-	538,692	119,653	102,182	1,097,715
Provided for the period	5,946	11,391	-	-	31,630	5,906	6,691	61,564
Eliminated upon disposals/write-off	-	-	-	-	(551)	(269)	-	(820)
Exchange differences	(10)	(1,267)	-	-	(814)	(95)	(283)	(2,469)
At 30 June 2020	106,929	246,319	-	-	568,957	125,195	108,590	1,155,990
Carrying Values								
At 30 June 2020	<u>499,624</u>	<u>355,100</u>	<u>404,977</u>	<u>219,988</u>	<u>432,194</u>	<u>36,420</u>	<u>60,566</u>	<u>2,008,869</u>
At 31 December 2019	<u>506,408</u>	<u>339,664</u>	<u>407,679</u>	<u>118,881</u>	<u>442,553</u>	<u>34,659</u>	<u>67,138</u>	<u>1,916,982</u>

11. Right-of-use Assets

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Land and buildings	391,049	411,348
Machinery and equipment	8,454	7,449
Furniture, fixtures and other assets	10,968	12,959
	<u>410,471</u>	<u>431,756</u>

12. Intangible Assets

	Development costs	Patents	Goodwill	Brand name and trademarks	Customer relationships	Water rights	Other intangible assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost								
At 1 January 2020	418,653	134	2,786,249	123,595	368,041	260,585	28,237	3,985,494
Additions	-	-	-	-	-	43,312	-	43,312
Exchange differences	(7,514)	-	(10,894)	(2,829)	(988)	3,286	(478)	(19,417)
At 30 June 2020	411,139	134	2,775,355	120,766	367,053	307,183	27,759	4,009,389
Amortisation and impairment								
At 1 January 2020	466	111	-	-	359,362	15,296	13,454	388,689
Provided for the period	-	-	-	-	1,890	-	1,542	3,432
Exchange differences	(17)	-	-	-	(862)	(28)	(99)	(1,006)
At 30 June 2020	449	111	-	-	360,390	15,268	14,897	391,115
Carrying values								
At 30 June 2020	410,690	23	2,775,355	120,766	6,663	291,915	12,862	3,618,274
At 31 December 2019	418,187	23	2,786,249	123,595	8,679	245,289	14,783	3,596,805

13. Receivables and Payables

The Group has a policy of granting an average credit period of 0 to 90 days to its customers.

The ageing analysis of trade receivables and trade payables based on invoice dates is as follows:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Trade receivables		
0 - 90 days	769,268	815,428
Over 90 days	149,348	124,231
	918,616	939,659
Trade payables		
0 - 90 days	180,921	225,559
Over 90 days	5,118	33,803
	186,039	259,362

14. Bank Borrowings

Certain bank borrowings are secured by charges over the assets of certain subsidiary companies.

15. Other Borrowings

Included in other borrowings is a loan of HK\$498.4 million from a subsidiary of a substantial shareholder of the Company, which is unsecured, bearing interest with reference to Hong Kong Interbank Offered Rate (the “HIBOR”) plus a margin of 1.05% per annum, and is due in February 2021. During the period, total interest expenses of HK\$6.6 million (2019: HK\$6.7 million) were incurred for this shareholder loan.

The remaining borrowing of HK\$601.6 million is unsecured, bearing interest with reference to HIBOR plus a margin of 1.05% per annum, and is due in February 2021.

16. Share Capital

	Number of share of HK\$0.1 each '000	Nominal value HK\$'000
Authorised		
At 31 December 2019 and 30 June 2020	<u>15,000,000</u>	<u>1,500,000</u>
Issued and fully paid		
At 31 December 2019 and 30 June 2020	<u>9,611,073</u>	<u>961,107</u>

17. Fair Value Measurement of Financial Instruments

Financial Instruments measured at fair value on a recurring basis

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2020				
Financial assets mandatorily measured at fair value through profit or loss				
Non-derivative financial assets held for trading	<u>13,153</u>	<u>-</u>	<u>-</u>	<u>13,153</u>
As at 31 December 2019				
Financial assets mandatorily measured at fair value through profit or loss				
Non-derivative financial assets held for trading	<u>16,636</u>	<u>-</u>	<u>-</u>	<u>16,636</u>

There were no transfers between Levels 1 and 2, or transfers into or out of Level 3 during the six months ended 30 June 2020 and 2019.

18. Related Party Transactions

In addition to the transactions and balances set out elsewhere in the notes to the condensed consolidated financial statements, the Group entered into the following transactions with related parties during the six months ended 30 June 2020:

- (i) The Group made sales of HK\$12.2 million (2019: HK\$11.8 million) to Hutchison International Limited (“HIL”) group. HIL is an indirect wholly-owned subsidiary of a substantial shareholder of the Company, CK Hutchison Holdings Limited.
- (ii) The Group made sales of HK\$2.1 million (2019: HK\$1.2 million) to a joint venture of Cheetham Salt Limited, a wholly owned subsidiary of the Company during the period.

19. Comparative Amounts

Certain comparative figures have been reclassified from other expenses to other income, gains and losses amounting to HK\$19,224,000 to conform to the presentation in current period.

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

During the six months ended 30 June 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 six months ended 30 June 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 which is chaired by the Chairman of the Board. When the need to select, nominate or re-elect Directors arises, the Nomination Committee will establish a sub-committee comprising a majority of Independent Non-executive Directors that is 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. While the Nomination Committee comprises all Directors of the Company, this is consistent with the established approach of the Company that the full Board as a whole is responsible for reviewing the selection and appointment of Directors.

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 also established the Policy on Handling of Confidential Information, Information Disclosure, and Securities Dealing for compliance by the Company's employees.

AUDIT COMMITTEE

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 interim results for the six months ended 30 June 2020 have been reviewed by the Audit Committee.

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 the Chairman, Mr. Victor T K Li, and two Independent Non-executive Directors, namely, Mrs. Kwok Eva Lee (Chairman of the Remuneration Committee) and Mr. Colin Stevens Russel.

NOMINATION COMMITTEE

The Company established its Nomination Committee on 1 January 2019 which is chaired by the Chairman of the Board. When the need to select, nominate or re-elect Directors arises, the Nomination Committee will establish a sub-committee comprising a majority of Independent Non-executive Directors that is chaired by the Chairman of the Board in compliance with the requirements under the Listing Rules in relation to the composition of nomination committee to consider and if appropriate, recommend the nomination of Director to be appointed or re-elected. While the Nomination Committee comprises all Directors of the Company, this is consistent with the established approach of the Company that the full Board as a whole is responsible for reviewing the selection and appointment of Directors.

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).