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## Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHT						
	Three months ended		Change	Six months ended		Change
	30 June			30 June		
	2015	2014		2015	2014	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
<b>Revenue</b>	<b>247,580</b>	236,502	+4.7%	<b>477,903</b>	442,716	+7.9%
<b>Gross profit</b>	<b>174,216</b>	163,854	+6.3%	<b>337,829</b>	311,467	+8.5%
<b>Profit attributable to the equity shareholders of the Company</b>	<b>62,580</b>	44,973	+39.2%	<b>103,026</b>	87,073	+18.3%
	<i>HK cents</i>	<i>HK cents</i>		<i>HK cents</i>	<i>HK cents</i>	
<b>Earnings per share</b>						
<b>Basic</b>	<b>10.83</b>	8.28	+30.8%	<b>18.23</b>	16.07	+13.4%
<b>Diluted</b>	<b>10.65</b>	7.98	+33.5%	<b>17.95</b>	15.50	+15.8%

\* For identification purposes only

## **INTERIM FINANCIAL STATEMENTS**

The directors (the “**Directors**”) of Lee’s Pharmaceutical Holdings Limited (the “**Company**”) present herewith the unaudited consolidated interim financial results (the “**Interim Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2015, together with the comparative figures for the corresponding period in 2014. The Interim Results are unaudited, but have been reviewed by the Company’s auditor, HLM CPA Limited (the “**Auditor**”) in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The Auditor’s report on their review of the Interim Results of the Group will be included in the interim report to be sent to shareholders of the Company. The audit committee of the Company has also reviewed with the management and the Auditor the Interim Results before recommending it to the Board for approval.

## **BUSINESS REVIEW**

The Group stayed on the course of growth during the first half of 2015, albeit the pace is slower, amid an arduous business environment due to general economic slowdown in China and uncertainties in the pharmaceutical industry. The improvement in business performance was multifaceted and new grounds have been breaking, preparing the Group for future accelerated growth.

Revenue for the second quarter of this year was HK\$247,580,000, which represented an increase of 4.7% over same quarter last year and a sequential increase of 7.5% over the first quarter of 2015. Revenue for the first half of 2015 was HK\$477,903,000, which represented an increase of 7.9% over same period last year. Zanidip<sup>®</sup>, Yallaferon<sup>®</sup> and Livaracine<sup>®</sup> recorded revenue growths of 25.7%, 45.8% and 20.8%, respectively, compare with the same period last year. The sales of Ferplex<sup>®</sup> has been recovered from the underperformance in the first quarter of this year and returned to normal growth rate of 51.2% in the second quarter, while Slounase<sup>®</sup> has maintained a moderate sales growth of 7.9%. Despite the decent sales growth in the above major products, the consolidated sales growth was depressed by the drop of sales of Carnitene<sup>®</sup> in the first half of the year.

Gross profit margins for the second quarter of the year continued to hold steadily at 70.4%, which is a noted improvement compared with 69.3% achieved at the same period last year. Improvement in efficiency of sales and marketing activities during the quarter resulted in a marked reduction of selling expenses to turnover ratio by 6.9 percentage points over the corresponding quarter of last year to a level of 27.4%. As both administrative and research and development (“**R&D**”) expenses were kept in line, the improvement in gross profit margin and savings in selling and marketing had translated to a 23.2% increase in profit from operations in the quarter compared to the same period last year. Including a one-time net positive impact of approximately HK\$13.1 million from the deemed disposal of interest in an associate and the written off of certain

intangible assets on R&D therein, net profit attributable to the equity shareholders of the Company for the second quarter was HK\$62,580,000, representing an increase of 39.2% over second quarter last year, a remarkable turnaround from first quarter's negative growth in net profit. Net profit attributable to the equity shareholders of the Company for the first half of this year increased by 18.3% over the same period last year and reached HK\$103,026,000.

During the period under review, the sales of licensed-in products and proprietary products contributed 55% and 45%, respectively, to the revenue.

The Group continued to make progress in ramping up its new Guangzhou Nansha manufacturing site during the period under review. The mechanical construction work of the solid dose production facility, the first production line in Nansha manufacturing site, has been commenced and is expected to be completed in early October. The facility will be equipped with imported machines from Germany, Italy and Japan and uses the latest state-of-the-art processes to produce solid dosage forms (such as tablets and capsules). Equipment installation is scheduled to be completed by end of this year. The total cost to construct and outfit is estimated at RMB60 million.

Meanwhile, the Group has started the design of its ophthalmology facility and erection work is expected to begin before the end of year. The facility will be equipped with a state-of-the-art blow-fill-seal line and a multi-dose line. The facility will help to accelerate the Group's R&D effort in ophthalmic drug development and position the Group to become a serious player in the ophthalmology field.

During the period under review, the investment in R&D expenses was HK\$22,233,000 which was remained at similar level compare with the same period last year. R&D efforts during the period had been focusing in clinical development and several projects are either underway or under final preparation.

Since the first enrollment in March 2015, the Group's phase IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris has progressed on schedule, reaching half way of enrollment target as up-to-date. The drug has been shown so far in the study with good safety and tolerability profile.

Phase I study of Tafoxiparin, a proprietary drug for labor inducement, was initiated during the second quarter of the year in Taiwan. The safety and pharmacokinetic study in healthy women is nearing completion with all three cohorts enrolled in both subcutaneous and intravenous injection. The safety profile so far is consistent with the observation in Caucasian women.

The tolerability study of Istaroxime has completed all three cohorts enrollment. The safety profile of the drug is consistent with results obtained in Caucasian. It provides a green light for phase IIb study that will have the first patient enrolled soon.

For Natulan® registration study, the Group has worked together with the principle investigator in developing the study protocol that has been confirmed by the China Food and Drug Administration (“CFDA”). The preparation for the study is underway and first enrollment is expected in the fourth quarter of 2015.

Four other clinical studies, namely anti-platelet drug Anfibatide phase IIb study, hypertension drug Azilsartan registration enabling study, a glaucoma drug registration study and an ear infection drug phase I study, have all obtained the approval from the ethic committee from the principle investigators site. Respective studies are expected to start enrollment soon.

In August 2015, CVie Therapeutics Limited (“CVie”), the Group’s subsidiary has successfully obtained the approval for a global Phase IIb clinical study (Protocol No. CVT-CV-001) in Taiwan for one of its portfolio products Rostafuroxin capsule 50, 500ug with antihypertensive effect. This is an important milestone for Rostafuroxin and also a monumental achievement since the commencement of R&D work in Taiwan early this year. CVie will initiate the Phase IIb clinical study in Taiwan as soon as possible.

Partnership remains as the core of the Group’s growth strategy. During the period under review and up-to-date, we have concluded 2 more licensing agreements with US companies for the development, registration and marketing of pharmaceuticals in China.

In July 2015, the Group entered into a binding Letter of Intent with Tragara Pharmaceuticals, Inc. (“Tragara”), a US biotech company based in San Diego, California, in which Tragara grants to China Oncology Focus Limited, a subsidiary of the Group, the exclusive license to manufacture, develop and commercialise TG02 for the treatment of both hematologic and solid tumor in China, Hong Kong, Macau and Taiwan. TG02 is a unique, oral multi-kinase inhibitor which combines the benefits of inhibiting important cyclin dependent kinases (CDK’s) equipotently with JAK2, FLT3, and ERK5 inhibition. TG02 development will initially focus on the treatment of hematologic malignancies, including multiple myeloma (MM) and chronic lymphocytic leukemia (CLL), based on the consistent anti-tumor activity that has been observed across a broad spectrum of hematologic cancer models, including those resistant to currently available therapies.

In August 2015, the Group entered into a Development, Supply and Commercialisation Agreement to market a pharmaceutical product dispenser which may be pre-filled with a pharmaceutical agent and used to infuse the pharmaceutical agent for use in Ropivacaine Product Field and/or Propofol Product Field in China, Hong Kong, Macau, Taiwan and Thailand. This unique formulation provides a local alternative to systemic anesthetic for management of post-surgery pain.

Breaking new ground was the main theme in the second quarter for corporate development. During the period under review, the Group has established the e-commerce department to manage not only its WeChat marketing platform, but also cross border sales and marketing of health related products. The WeChat marketing platform has proved to be extremely valuable in disseminating scientific and educational information pertained to the Group's products, greatly enhancing the Group's knowledge-based marketing strategy and promotion coverage of its products in a cost-effective way.

E-commerce has grown exponentially during the past few years in China and has been hailed as the new economy. It provides a cost-effective outlet to reach a multitude of customers and eliminates layers of barrier for rapid market access. The cross border sales and marketing of the Group's health related products through e-commerce could provide new stream of revenue for the Group.

In May 2015, the Company has entered into a Shareholders Agreement with a private company in Hong Kong which intends to establish and operate a project for the building up and operating a central pharmacy for compounding radio-pharmaceuticals for domestic supply, and has committed to invest 33% interest therein at a consideration of HK\$10 million. The transaction has been completed in August 2015. This is also an illustration of the Group's effort to venture into new business opportunity without distracting itself from its core business, expanding further its revenue source.

In order to better capture the business opportunity in the pharmaceutical industry, on 21 August 2015, the Company has committed to invest up to US\$8.5 million (approximately HK\$66.3 million) into an investment fund, namely, Lee's Healthcare Industry Fund L.P. (the "Fund"). The Fund has been established in the Cayman Islands as an exempted limited partnership and with the investment from other investors, the size of the Fund could be up to US\$20.2 million (approximately HK\$157.6 million). The principal objective of the Fund is to generate attractive financial returns through investing in privately held companies with listing potentials in the biomedical sectors in the United States of America, Europe and Asia, including but not limited to the areas of pharmaceuticals, biologics, diagnostics and medical devices.

The Group believes that the investment in the Fund will create synergies to the Group's growth strategy by means of partnership establishments while enhancing the Group's risk mitigated ability on the investment side.

The number of private hospitals in China has been increasing since the relaxation of restriction on foreign investment in private hospitals in 2012. Nevertheless, to date, the service coverage by the private hospitals was only about 10 percent of total in-patients and out-patients. China's State Council has sought to expand the market share of private health care services to 20 percent. In this regard, the Group is actively considering the expansion of its businesses into hospital operation, and relevant feasibility studies thereof are currently in progress.

The Company and its associated company were very successful in the financing events which were completed during the period under review. The financing provides the needed capital to catalyse the future growth of the business.

In April 2015, the Company has completed the placing of 30,000,000 new shares and raised a net proceeds of approximately HK\$384 million.

During the period under review, Powder Pharmaceuticals Incorporated (“PPI”), an associated company of the Group, terminated the development of glucose meter and glucose patch and, at the same time, initiated the development of continuous blood glucose monitoring system for diabetes patients in China and other Asian countries with Eyesense AG, the strategic partner of the Company. Consequently, PPI has made a one-time provision for the termination of the development of glucose meter and glucose patch and contributed a share of loss of approximately HK\$18.8 million to the Group.

Meanwhile, PPI has successfully attracted strong interest from certain investors and had successfully raised additional funding of approximately US\$12 million (approximately HK\$93 million) in aggregate by mean of the issuance of new shares of PPI to support its development of Zingo<sup>®</sup> and continuous blood glucose monitoring system. With respect to the abovementioned fund raising, the Group recorded a one-time gain of HK\$31,908,000 which was arising from the deemed disposal of the Group's partial interests in PPI. After the completion on 24 June 2015, the interests in PPI held by the Group has been decreased to 33.92% and PPI remains an associated company of the Group.

The aforesaid one-time gain was partially offset by the share of loss of an associate arising from the one-time provision for the termination of the development of glucose meter and glucose patch resulting in a net positive impact of approximately HK\$13.1 million on the net result during the period under review.

## **PROSPECT**

The pharmaceutical market in China is still full of challenges because of slowdown in China's economy in general and of the uncertainty in tender policy in specific.

However, in light of recent revamping of China's drug and medical device registration regulations that could significantly shorten the time-to-market for proprietary product, the Group is confident that China's pharmaceutical industry will enter into new phase of rapid development driven by innovation.

On 18 August 2015, China's State Council issues a long awaiting blueprint for overhaul China's Drug and Medical Device registration laws and regulations. The goal of the reform is to accelerate patients' access to innovation drug and device and to encourage innovation in the sector by significantly shorten the time-to-market. In recent years, the review process for pharmaceuticals and medical devices has become unbearably slow, severely hindering the development of the pharmaceutical industry and demoralising the innovation spirit of the country. The industry has been vocal on need of change and its voice is finally heard. The proposed changes are drastic and significant. It streamlines the registration process and accelerates the review time. It rewards innovation with fast track review and quicker access to market. It favors company that invests in R&D and is genuine with innovation. It encourages cross border cooperation to bring in newer and better products into China in a timely fashion. As the Group has been building a robust pipeline through in-house R&D and out-reaching collaboration, it is well positioned to reap the benefit of such changes and regain the momentum of growth in near future.

The new ways and new areas that the Group has been exploring could become the new driver for the Group's future growth. The Group's in-house e-commerce department is currently starting the cross border sales and marketing of health related products through internet platform. It will not only create a new stream of revenue, but also provide the necessary experience for possible future entering into the e-commerce pharmaceutical retail business.

The establishment of a healthcare investment fund allows the Group to benefit from both the success of the partners and their products. It provides the flexibility and increases the Group's competitiveness in negotiating and obtaining licensing opportunity in US, Europe or Japan.

The Group will continue to be competitive in the tender process and maintain the growth momentum of the existing products. The expected launch of a new product in the fourth quarter will provide the needed catalyst and boost. With steadfast focus on its growth strategy, the board of directors is confident that the Group will remain on track for its growth and will continue to deliver satisfactory return to its shareholders in the upcoming period.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the three months and six months ended 30 June 2015*

		For the three months ended 30 June		For the six months ended 30 June	
<i>Notes</i>		<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b>	2014 <i>HK\$'000</i> <b>(unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b>	2014 <i>HK\$'000</i> <b>(unaudited)</b>
Revenue	(5)	<b>247,580</b>	236,502	<b>477,903</b>	442,716
Cost of sales		<b>(73,364)</b>	(72,648)	<b>(140,074)</b>	(131,249)
Gross profit		<b>174,216</b>	163,854	<b>337,829</b>	311,467
Other revenue		<b>1,361</b>	1,148	<b>3,630</b>	6,743
Gain on deemed disposal of interest in an associate	(12)	<b>31,908</b>	–	<b>31,908</b>	–
Selling and distribution expenses		<b>(67,921)</b>	(81,112)	<b>(140,345)</b>	(148,606)
Fair value change of derivative financial instruments		<b>8,119</b>	–	<b>7,065</b>	–
Administrative expenses		<b>(40,149)</b>	(17,966)	<b>(75,320)</b>	(40,915)
Research and development expenses		<b>(9,820)</b>	(12,497)	<b>(22,233)</b>	(22,416)
Profit from operations	(7)	<b>97,714</b>	53,427	<b>142,534</b>	106,273
Finance costs		<b>(747)</b>	(596)	<b>(1,501)</b>	(1,382)
Share of results of an associate		<b>(21,112)</b>	(1,863)	<b>(23,356)</b>	(3,489)
Profit before taxation		<b>75,855</b>	50,968	<b>117,677</b>	101,402
Taxation	(8)	<b>(16,373)</b>	(7,552)	<b>(22,033)</b>	(17,241)
Profit for the period		<b><u>59,482</u></b>	<u>43,416</u>	<b><u>95,644</u></b>	<u>84,161</u>
Attributable to:					
Shareholders of the Company		<b>62,580</b>	44,973	<b>103,026</b>	87,073
Non-controlling interests		<b>(3,098)</b>	(1,557)	<b>(7,382)</b>	(2,912)
		<b><u>59,482</u></b>	<u>43,416</u>	<b><u>95,644</u></b>	<u>84,161</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share					
Basic	(10)	<b><u>10.83</u></b>	8.28	<b><u>18.23</u></b>	<u>16.07</u>
Diluted	(10)	<b><u>10.65</u></b>	7.98	<b><u>17.95</u></b>	<u>15.50</u>



**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

*For the three months and six months ended 30 June 2015*

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
Profit for the period	<b>59,482</b>	43,416	<b>95,644</b>	84,161
Other comprehensive income (expense):				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	<b>(992)</b>	(1,187)	<b>2,776</b>	(11,566)
Fair value change of available-for-sale financial assets	<b>18,796</b>	–	<b>23,417</b>	–
	<hr/>	<hr/>	<hr/>	<hr/>
Other comprehensive income (expense) for the period, net of tax	<b>17,804</b>	(1,187)	<b>26,193</b>	(11,566)
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Total comprehensive income for the period	<b>77,286</b>	42,229	<b>121,837</b>	72,595
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Total comprehensive income (expense) for the period attributable to:				
Shareholders of the Company	<b>81,676</b>	43,787	<b>128,708</b>	75,495
Non-controlling interests	<b>(4,390)</b>	(1,558)	<b>(6,871)</b>	(2,900)
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	<b>77,286</b>	42,229	<b>121,837</b>	72,595
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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

		At <b>30 June 2015</b> <i>HK\$'000</i> <b>(unaudited)</b>	At 31 December 2014 <i>HK\$'000</i> (audited)
<b>Non-current Assets</b>			
Property, plant and equipment	(11)	330,072	302,835
Intangible assets		272,898	236,218
Lease premium for land		14,370	14,486
Goodwill		3,900	3,900
Interests in an associate	(12)	54,849	33,863
Held-to-maturity financial assets		5,407	5,323
Available-for-sale financial assets		81,692	42,767
		<b>763,188</b>	639,392
<b>Current Assets</b>			
Lease premium for land		325	324
Inventories		164,553	138,889
Trade receivables	(13)	93,836	99,782
Other receivables, deposits and prepayments		133,923	77,735
Advance to a related party		22,629	20,069
Tax recoverable		277	277
Time deposits		352,561	124,352
Cash and bank balances		324,606	268,560
		<b>1,092,710</b>	729,988
<b>Current Liabilities</b>			
Trade payables	(14)	32,546	42,249
Other payables and accruals		152,523	182,865
Obligation under license contract		3,116	3,371
Derivative financial instruments	(15)	3,027	10,092
Bank borrowings	(16)	62,707	52,269
Obligation under finance lease		1,318	–
Tax payables		28,846	17,333
		<b>284,083</b>	308,179
<b>Net Current Assets</b>		<b>808,627</b>	421,809
<b>Total Assets less Current Liabilities</b>		<b>1,571,815</b>	1,061,201

		At <b>30 June 2015</b> <i>HK\$'000</i> <b>(unaudited)</b>	At 31 December 2014 <i>HK\$'000</i> (audited)
<b>Capital and Reserves</b>			
Share capital	(17)	<b>29,309</b>	27,236
Reserves		<b>1,410,298</b>	907,105
		<hr/>	<hr/>
<b>Equity Attributable to the Shareholders of the Company</b>		<b>1,439,607</b>	934,341
Non-controlling interests	(18)	<b>58,250</b>	64,526
		<hr/>	<hr/>
<b>Total Equity</b>		<b>1,497,857</b>	998,867
		<hr/>	<hr/>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		<b>16,451</b>	15,522
Retirement benefit		<b>57,507</b>	46,812
		<hr/>	<hr/>
		<b>73,958</b>	62,334
		<hr/>	<hr/>
		<b>1,571,815</b>	1,061,201
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the six months ended 30 June 2015

	Attributable to the shareholders of the Company								Attributable to non-controlling interests	Total	
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits			Sub-total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (audited)	27,236	301,196	9,200	7,782	59,344	3,319	7,793	518,471	934,341	64,526	998,867
Employee share option benefits	-	-	-	1,942	-	-	-	-	1,942	-	1,942
Exercise of share options	228	19,172	-	(2,417)	-	-	-	-	16,983	-	16,983
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Issue of shares pursuant to Placing Agreement	1,500	382,319	-	-	-	-	-	-	383,819	-	383,819
Issue of shares pursuant to Shareholders' Agreement (Note 12)	345	12,035	-	-	-	-	-	-	12,380	-	12,380
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	586	586
Profit (loss) for the period	-	-	-	-	-	-	-	103,026	103,026	(7,382)	95,644
Other comprehensive income for the period	-	-	-	-	-	23,417	2,265	-	25,682	511	26,193
Total comprehensive income (expense) for the period	-	-	-	-	-	23,417	2,265	103,026	128,708	(6,871)	121,837
2014 final dividend paid	-	-	-	-	-	-	-	(38,577)	(38,577)	-	(38,577)
At 30 June 2015 (unaudited)	<u>29,309</u>	<u>714,722</u>	<u>9,200</u>	<u>7,318</u>	<u>59,344</u>	<u>26,736</u>	<u>10,058</u>	<u>582,920</u>	<u>1,439,607</u>	<u>58,250</u>	<u>1,497,857</u>
At 1 January 2014 (audited)	26,912	292,326	9,200	5,392	60,312	-	23,284	368,579	786,005	66,053	852,058
Employee share option benefits	-	-	-	1,899	-	-	-	-	1,899	-	1,899
Exercise of share options	270	5,987	-	(1,098)	-	-	-	-	5,159	-	5,159
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Acquisition of additional interest in a subsidiary	-	-	-	-	(996)	-	-	-	(996)	966	(30)
Profit (loss) for the period	-	-	-	-	-	-	-	87,073	87,073	(2,912)	84,161
Other comprehensive (expense) income for the period	-	-	-	-	-	-	(11,578)	-	(11,578)	12	(11,566)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(11,578)	87,073	75,495	(2,900)	72,595
2013 final dividend paid	-	-	-	-	-	-	-	(28,251)	(28,251)	-	(28,251)
At 30 June 2014 (unaudited)	<u>27,182</u>	<u>298,313</u>	<u>9,200</u>	<u>6,204</u>	<u>59,316</u>	<u>-</u>	<u>11,706</u>	<u>427,401</u>	<u>839,322</u>	<u>64,128</u>	<u>903,450</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	<b>At 30 June 2015 HK\$'000 (unaudited)</b>	At 30 June 2014 HK\$'000 (unaudited)
Net cash generated from operating activities	<b>10,233</b>	90,956
Net cash used in investing activities	<b>(213,994)</b>	(50,423)
Net cash generated from (used in) financing activities	<b>373,951</b>	(32,005)
Net increase in cash and cash equivalents	<b>170,190</b>	8,528
Cash and cash equivalents at 1 January	<b>392,912</b>	379,062
Effect of foreign exchange rate changes	<b>598</b>	(5,523)
Cash and cash equivalents at 30 June	<b><u>563,700</u></b>	<b><u>382,067</u></b>
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	<b>324,606</b>	249,963
Time deposits	<b>352,561</b>	132,104
	<b>677,167</b>	382,607
Less: Time deposits with original maturity more than three months	<b>(113,467)</b>	—
	<b><u>563,700</u></b>	<b><u>382,067</u></b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as appropriate.

The accounting policies and method of computation used in preparing the unaudited condensed consolidated results are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2014 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to HKAS and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKAS 19 (2011)	Defined Benefit Plan: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRS 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRS 2011-2013 Cycle

The application of the above amendments to HKAS and HKFRSs in the current period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

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

HKFRS 9 (2014)	Financial Instruments <sup>4</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>2</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>2</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>2</sup>
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendment to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exemption <sup>2</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>2</sup>

- <sup>1</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application is permitted
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

The Group is in the process of making an assessment of what the impact of these new and revised HKASs and HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the unaudited condensed consolidated financial statements of the Group.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates.

### **4. FINANCIAL RISK MANAGEMENT**

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2014. In 2015, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets.

### **5. REVENUE**

The principal activities of the Group are the development of, manufacturing of and sales and marketing of pharmaceutical products. During the period, revenue represents the net amount received and receivable for goods sold by the Group to outside customers.

### **6. SEGMENT INFORMATION**

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Proprietary products	–	Manufacturing and sales of self-development pharmaceutical products
Licensed products	–	Trading of license-in pharmaceutical products

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period:

Six months ended 30 June 2015

	Proprietary products		Licensed products		Consolidated	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue	<b>214,071</b>	177,306	<b>263,832</b>	265,410	<b>477,903</b>	442,716
Segment results	<b>86,261</b>	61,322	<b>42,138</b>	61,608	<b>128,399</b>	122,930
Gain on deemed disposal of interests in an associate					<b>31,908</b>	–
Interest income					<b>2,541</b>	1,575
Unallocated expenses					<b>(20,314)</b>	(18,232)
Profit from operations					<b>142,534</b>	106,273
Finance costs					<b>(1,501)</b>	(1,382)
Profit before share of results of an associate					<b>141,033</b>	104,891
Share of results of an associate					<b>(23,356)</b>	(3,489)
Profit before taxation					<b>117,677</b>	101,402
Taxation					<b>(22,033)</b>	(17,241)
Profit for the period					<b>95,644</b>	84,161

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current interim period (six months ended 30 June 2014: Nil).



### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments for the period:

	Proprietary products		Licensed products		Consolidated	
	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)
Segment assets	264,430	236,748	836,547	685,511	1,100,977	922,259
Unallocated assets					754,921	447,121
Total assets					<u>1,855,898</u>	<u>1,369,380</u>
Segment liabilities	106,198	118,745	149,039	172,101	255,237	290,846
Unallocated liabilities					102,804	79,667
Total liabilities					<u>358,041</u>	<u>370,513</u>

### Geographical information

During the six months ended 30 June 2015 and 2014, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical segmental information is presented. The Group's segment assets and liabilities for the period/year, analysed by geographical market, are as follows:-

	The PRC		Hong Kong and others		Total	
	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)	30 June 2015 <i>HK\$'000</i> (unaudited)	31 December 2014 <i>HK\$'000</i> (audited)
Segment assets	827,245	793,265	1,028,653	576,115	1,855,898	1,369,380
Segment liabilities	187,352	198,933	170,689	171,580	358,041	370,513

## 7. PROFIT FROM OPERATIONS

Profit for the period has been arrived at after charging (crediting) the following items:–

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)
Depreciation of property, plant and equipment	7,884	4,625	17,674	8,863
Amortisation of lease premium for land	81	81	162	162
Amortisation of intangible assets	2,874	2,113	5,716	4,788
Total depreciation and amortisation	<u>10,839</u>	<u>6,819</u>	<u>23,552</u>	<u>13,813</u>
Provision (reversal) of allowance for doubtful debts	221	(1,012)	(89)	(1,355)
Gain on disposal of available-for-sale financial asset	–	–	–	1,774
Interest expenses on borrowing	<u>687</u>	<u>640</u>	<u>1,361</u>	<u>1,292</u>

## 8. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)
Current tax				
Hong Kong Profits Tax	8,911	4,080	12,899	10,400
PRC Enterprise Income Tax	4,630	3,398	8,247	6,108
Underprovision in prior years	3	–	3	978
	<u>13,544</u>	<u>7,478</u>	<u>21,149</u>	<u>17,486</u>
Deferred tax				
Origination and reversal of temporary differences	2,829	74	884	(245)
	<u>16,373</u>	<u>7,552</u>	<u>22,033</u>	<u>17,241</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 9. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)
Interim dividend declared – HK\$0.030 (2014: HK\$0.027) per ordinary share based on issued share capital at the end of the reporting period	<b>17,585</b>	14,678	<b>17,585</b>	14,678

Interim dividend will be payable on 15 October 2015 to shareholders registered in the Company's Register of Members as at the close of business on 17 September 2015. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

2014 final dividend of HK\$0.066 per share, totalling HK\$38,577,000 was paid on 11 June 2015.

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the shareholders of the Company is based on the following data:–

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)
<i>Earnings:</i>				
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	<b>62,580</b>	44,974	<b>103,026</b>	87,073
Effect of dilutive potential ordinary shares:				
Adjustment in relation to contingent share arrangement	–	(474)	–	(877)
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	<b>62,580</b>	44,500	<b>103,026</b>	86,196

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>Share(s)</i> <i>'000</i> (unaudited)	2014 <i>Share(s)</i> <i>'000</i> (unaudited)	2015 <i>Share(s)</i> <i>'000</i> (unaudited)	2014 <i>Share(s)</i> <i>'000</i> (unaudited)
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	577,927	542,948	565,217	541,730
Effect of dilutive potential ordinary shares:				
Options	9,408	10,042	8,742	9,480
Contingent share arrangement	–	4,996	–	4,996
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>587,335</u>	<u>557,986</u>	<u>573,959</u>	<u>556,206</u>

#### 11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2015, additions to property, plant and equipment amount to HK\$43.83 million.

#### 12. INTERESTS IN AN ASSOCIATE

Details of the Group's interests in an associate are as follows:

	At 30 June 2015 <i>HK\$'000</i> (unaudited)	At 31 December 2014 <i>HK\$'000</i> (audited)
Cost of investment, unlisted	81,291	36,949
Share of post-acquisition loss and other comprehensive income, net of dividends received	(26,442)	(3,086)
	<hr/>	<hr/>
	<u>54,849</u>	<u>33,863</u>

Interests in an associate referred to 33.92% (2014: 39.65%) equity interests in Powder Pharmaceuticals Incorporated ("PPI").

On 2 January 2015, the Company, pursuant to the Shareholders' Agreement, issued total 6,894,239 shares to certain shareholders of PPI in exchange for their total 11,660 Subscription Shares and Milestone Shares in PPI. Details of this Share Transaction have been disclosed in the Company's announcement dated 3 December 2014.

As a result, the equity interests in PPI held by the Group increased to 56.63% from 39.65%.

In May and June 2015, PPI issued new shares series A preferred shares to other shareholders, resulting in a dilution of the Group's equity interest in PPI from 56.63% to 33.92%. In spite of the dilution, because of the premium of the new shares issued, the Group's share of net assets in PPI increased and resulted in a gain on deemed disposal of interest in PPI of HK\$31,908,000 and was recognised in the consolidated statement of profit or loss during the period under review.

### 13. TRADE RECEIVABLES

The Group allows an average credit period of 30 – 120 days to its trade customers. The fair value of the Group's trade receivables at 30 June 2015 approximates to the corresponding carrying amount.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date, and net of allowance of doubtful debt at the end of the reporting period:–

	At 30 June 2015 <i>HK\$'000</i> (unaudited)	At 31 December 2014 <i>HK\$'000</i> (audited)
0 – 30 days	40,454	35,640
31 – 120 days	43,935	57,433
121 – 180 days	8,170	4,571
181 – 365 days	1,226	2,004
Over 365 days and under 3 years	51	134
	<u>93,836</u>	<u>99,782</u>

### 14. TRADE PAYABLES

The fair value of the Group's trade payables as at 30 June 2015 approximates to the corresponding carrying amount.

The following is an analysis of trade payables by age, presented based on due day, at the end of the reporting period:–

	At 30 June 2015 <i>HK\$'000</i> (unaudited)	At 31 December 2014 <i>HK\$'000</i> (audited)
0 – 90 days	24,386	42,227
91 – 180 days	8,053	–
181 – 365 days	91	10
Over 365 days	16	12
	<u>32,546</u>	<u>42,249</u>

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>At 30 June 2015 HK\$'000 (unaudited)</b>	At 31 December 2014 HK\$'000 (audited)
<b>Liabilities</b>		
Foreign currency forward contracts	<u><b>3,027</b></u>	<u>10,092</u>
	<b>At 30 June 2015 HK\$'000 (unaudited)</b>	At 31 December 2014 HK\$'000 (audited)
<b>Liabilities</b>		
Beginning of the period/year	<b>10,092</b>	–
Change in fair value of derivative financial instruments	<u>(7,065)</u>	<u>10,092</u>
End of the period/year	<u><b>3,027</b></u>	<u>10,092</u>

The derivatives are measured at fair value at each reporting date. Fair value is determined in the manner as described in note 22.

At 30 June 2015, major terms of the foreign currency forward contracts are as follows:

<b>Notional amount</b>	<b>Maturity date</b>	<b>Exchange rates</b>
Buy Euro 2,000,000	31 August 2015	US\$1.31: Euro 1

Commitments arising from derivative financial instruments as at 30 June 2015 are disclosed in note 20.

## 16. BANK BORROWINGS

	<b>At 30 June 2015 HK\$'000 (unaudited)</b>	At 31 December 2014 HK\$'000 (audited)
Carrying amount of borrowings which are repayable:		
Within one year	<b>20,188</b>	16,207
More than one year but not exceeding two years	<b>19,080</b>	16,245
More than two years but not exceeding five years	<u><b>23,439</b></u>	<u>19,817</u>
	<u><b>62,707</b></u>	<u>52,269</u>

The carrying amounts of bank borrowings are denominated in Hong Kong dollars.

The effective interest rates of the bank borrowings range from 3.00% to 4.49% per annum.

## 17. SHARE CAPITAL

	Number of share		Share capital	
	At 30 June 2015  (unaudited)	At 31 December 2014  (audited)	At 30 June 2015  <i>HK\$'000</i> (unaudited)	At 31 December 2014  <i>HK\$'000</i> (audited)
<i>Authorised:</i>				
Ordinary shares of HK\$0.05 each	<b>1,000,000,000</b>	1,000,000,000	<b>50,000</b>	50,000
<i>Issued and fully paid:</i>				
At beginning of the period/year	<b>544,720,604</b>	538,245,604	<b>27,236</b>	26,912
Exercise of share options	<b>4,560,500</b>	6,475,000	<b>228</b>	324
Issue of shares pursuant to the Placing Agreement	<b>30,000,000</b>	–	<b>1,500</b>	–
Issue of shares pursuant to Shareholders' Agreement	<b>6,894,239</b>	–	<b>345</b>	–
At end of the period/year	<b>586,175,343</b>	544,720,604	<b>29,309</b>	27,236

On 14 April 2015, the Company entered into a placing agreement with Morgan Stanley & Co. International plc (the “Placing Agent”), pursuant to which the Company has appointed the Placing Agent as the placing agent, and the Placing Agent agreed to act as the placing agent for the Company to procure the professional, institutional and other investors to subscribe 30,000,000 newly issued Shares at the price of HK\$13.02 per Share. The placing of 30,000,000 new Shares pursuant to the placing agreement was completed on 22 April 2015 and the net proceeds of approximately HK\$384 million are intended to be used for manufacturing facilities expansion, research and development and general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group. Details of the placing were disclosed in the Company’s announcements dated 14 April 2015 and 22 April 2015.

## 18. NON-CONTROLLING INTERESTS

	<b>Share of net assets of subsidiaries</b>	<b>Share-based compensation reserve of subsidiary</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2015 (audited)	64,494	32	64,526
Capital contribution from non-controlling interests	586	–	586
Share of loss for the period	(7,382)	–	(7,382)
Share of other comprehensive income for the period	511	–	511
Share of employee share option benefits	–	9	9
	<hr/>	<hr/>	<hr/>
At 30 June 2015 (unaudited)	<u>58,209</u>	<u>41</u>	<u>58,250</u>
At 1 January 2014 (audited)	66,039	14	66,053
Acquisition of additional interests in a subsidiary	966	–	966
Deemed partial disposal of interests in a subsidiary	4	–	4
Capital contribution from non-controlling interests	3,518	–	3,518
Share of loss for the year	(6,045)	–	(6,045)
Share of other comprehensive income for the year	12	–	12
Share of employee share options benefits	–	18	18
	<hr/>	<hr/>	<hr/>
At 31 December 2014 (audited)	<u>64,494</u>	<u>32</u>	<u>64,526</u>



## 19. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties. In the opinion of the directors, the following transactions arose in the ordinary course of the Group's business:—

### (a) Purchase from Sigma-Tau Group

Name of related party	Note	Nature of transaction	For the six months ended 30 June	
			2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A (“STIFR”)	(1)	Purchase of pharmaceutical products	38,030	22,116
STIFR	(1)	Purchase of experimental products for use in research and development	2,899	803
			<u>40,929</u>	<u>22,919</u>

*Note:*

1. STIFR ceased to be the related party of the Group from 1 June 2015 because it has ceased as an associate (as defined in the Listing Rules) of a substantial shareholder of the Company due to the restructuring of Sigma-Tau Group. As a result, STIFR is no longer a connected person of the Company and the transaction made between STIFR and any members of the Group thereafter will no longer constitute continuing connected transactions of the Company.

### (b) Interest income from shareholder loans to PPI

During the six months ended 30 June 2015, the Group received approximate HK\$425,000 (30 June 2014: HK\$242,000) interest income from loans to PPI. PPI is an associate to the Group. Upon the completion of the issuance of series A preferred shares of PPI on 24 June 2015 (note 12), the aggregate shareholding interest in PPI held by all connected persons of the Company under the Listing Rules at the issuer level, namely (a) Sigma-Tau Finanziaria S.p.A. which became a substantial shareholder of the Company from 19 February 2015 due to the restructuring of Sigma-Tau Group; (b) Dr. Li Xiaoyi, who is a director and a substantial shareholder of the Company; and (c) Swift Power Investments Limited which is a company wholly-owned by Dr. Li Xiaoyi, has been diluted to 9.05%. As a result, PPI is no longer a commonly held entity as defined in Rule 14A.27 of the Listing Rules, and therefore the financial assistances made by the Group to PPI no longer constitute connected transactions pursuant to Rule 14A.26 of the Listing Rules.

(c) **Compensation of key management personnel**

The remuneration of directors and other members of key managements during the period was as follow:–

	<b>For the six months ended 30 June</b>	
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Short-term employee benefits	<b>6,712</b>	6,367
Share-based payments	<b>454</b>	586
Retirement and other post-employment benefits	<b>10,695</b>	8,326
	<hr/>	<hr/>
	<b>17,861</b>	15,279
	<hr/> <hr/>	<hr/> <hr/>

(d) **Issue of subsidiary's shares to Perfect Concept Holdings Limited**

During the period under review, China Oncology Focus Limited, on a pro rata basis, issued 1,050 shares to Perfect Concept Holdings Limited ("Perfect Concept"). Dr. Li Xiaoyi, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the majority of the beneficial owners of Perfect Concept and Perfect Concept is considered as a related party to the Group. Total consideration received for the issue of shares is US\$75,600 (approximately HK\$586,000).

**20. CAPITAL AND OTHER COMMITMENTS**

	<b>30 June</b>	31 December
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Capital commitments in respect of:–		
Investments	<b>13,543</b>	14,793
Intangible assets – license fee and development cost	<b>50,214</b>	40,862
Property, plant and equipment	<b>27,243</b>	10,178
Construction contract	<b>12,938</b>	25,334
	<hr/>	<hr/>
	<b>103,938</b>	91,167
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2015, the Group carried outstanding foreign currency forward contract with commitment (estimated with reference to the current market conditions at the reporting date) to buy total EUR2,000,000 (At 31 December 2014: EUR12,000,000).

**21. PLEDGE OF ASSETS**

The Group's obligation under finance leases is secured by the lessors' title to the motor vehicle, which has a carrying amount of HK\$1,394,000 as at 30 June 2015 (31 December 2014: Nil).

## 22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following gives information about how the fair values of these financial assets and financial liabilities are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### At 30 June 2015

	<b>THE GROUP</b>			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial asset				
Available-for-sale financial assets				
– listed overseas	<u>54,650</u>	<u>–</u>	<u>–</u>	<u>54,650</u>
Financial liabilities				
Derivative financial instruments	–	–	3,027	3,027
Retirement benefits	–	–	57,507	57,507
	<u>–</u>	<u>–</u>	<u>60,534</u>	<u>60,534</u>

### At 31 December 2014

	<b>THE GROUP</b>			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial asset				
Available-for-sale financial assets				
– listed overseas	<u>31,233</u>	<u>–</u>	<u>–</u>	<u>31,233</u>
Financial liabilities				
Derivative financial instruments	–	–	10,092	10,092
Retirement benefits	–	–	46,812	46,812
	<u>–</u>	<u>–</u>	<u>56,904</u>	<u>56,904</u>

There were no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments and no change in valuation techniques during the period.

The movements of Level 3 financial instruments are as follows:

**Six months ended 30 June 2015**

	THE GROUP		
	Derivative financial instruments <i>HK\$'000</i>	Retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January	10,092	46,812	56,904
(Gain) loss recognised in profit or loss	(7,065)	10,695	3,630
	<u>3,027</u>	<u>57,507</u>	<u>60,534</u>
At 30 June	<u>3,027</u>	<u>57,507</u>	<u>60,534</u>

**23. CONTINGENT LIABILITIES**

At the end of the reporting period, there were contingent liabilities, so far as not provided for in the condensed consolidated financial statements, in respect of guarantee for the banking facilities made available to an associate amounting to HK\$6,000,000 (31 December 2014: HK\$6,000,000).

**24. EVENTS AFTER THE END OF THE REPORTING PERIOD**

On 21 August 2015, the Company has committed to invest up to US\$8.5 million (approximately HK\$66.3 million) into an investment fund, namely, Lee's Healthcare Industry Fund L.P. (the "Fund"). The Fund has been established in the Cayman Islands as an exempted limited partnership and with the investment from other investors, the size of the Fund could be up to US\$20.2 million (approximately HK\$157.6 million). Details of which have been disclosed in the Company's announcements dated 21 August 2015.

## **INTERIM DIVIDEND**

The Board of Directors recommended an interim dividend of HK\$0.030 (2014: HK\$0.027) per share to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 17 September 2015.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2015.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Wednesday, 16 September 2015 to Thursday, 17 September 2015 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1726, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 15 September 2015. Interim dividend will be paid on Thursday, 15 October 2015 to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 17 September 2015.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of Main Board Listing Rules throughout the six months ended 30 June 2015, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

## **PUBLICATION OF FINANCIAL INFORMATION**

The interim report for the six months ended 30 June 2015 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (<http://www.hkex.news.hk>) and the Company (<http://www.leespharm.com>) in due course.

By order of the Board  
**Lee's Pharmaceutical Holdings Limited**  
**Lee Siu Fong**  
*Chairman*

Hong Kong, 27 August 2015

*As at the date thereof, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Dr. Marco Maria Brughera is a non-executive Director, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.*