



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 Report
2015

* For identification purpose 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 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. Znidip[®], Yallaferon[®] and Livaracine[®] recorded revenue growths of 25.7%, 45.8% and 20.8%, respectively, compare with the same period last year. The sales of Ferplex[®] 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[®] 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[®] 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.

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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® 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.

FINANCIAL REVIEW

Gross Profit Margin

For the six months ended 30 June 2015, the Group recorded a gross profit of RMB337,829,000 and a gross profit margin of 70.7%, which showed moderate improvement from gross profit of RMB311,467,000 and gross profit margin of 70.4% for the corresponding period in 2014 by 8.5% and 0.3 percentage points, respectively.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the six months ended 30 June 2015 was 29.4%, represented a significant improvement of 4.2 percentage points compared with 33.6% for the same period last year. It was mainly attributable to the overall improvement in efficiency of sales and marketing activities during the period.

Research and Development Expenses

Research and development expenses for the first half year was HK\$22,233,000, which was maintained at similar level as compared with HK\$22,416,000 spent over the same period last year.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2015 was HK\$75,320,000, which was significantly increased as compared with HK\$40,915,000 in the same period last year. The increase was mainly attributable to the exchange loss and expenses incurred for the restructuring of CVie Therapeutics Limited, a non-wholly owned indirect subsidiary of the Company, for the starting up of research and development work in Taiwan.

Other Payables

Other payable balance as at 30 June 2015 amounted to HK\$152,523,000 (as at 31 December 2014: HK\$182,865,000). Other payables mainly included advance receipt of sales deposits and amounts payable in respect of sales commission. The decrease in balance was mainly attributable to the decrease in amounts payable in respect of sales commission.

Liquidity and Financial Resources

The Group's principal sources of working capital in the current period included cash flow from operating activities, bank borrowings and the proceeds from the placement of new shares of the Company (details of which has been disclosed in note 17 to the financial statement).

As at 30 June 2015, the Group's current ratio (current assets divided by current liabilities) was 3.85 (31 December 2014: 2.37). As at 30 June 2015, the Group had net cash position of HK\$614,460,000 (31 December 2014: net cash of HK\$340,643,000) which represented cash and bank balances of HK\$324,606,000 (31 December 2014: HK\$268,560,000), time deposits of HK\$352,561,000 (31 December 2014: HK\$124,352,000), net of short term bank borrowings of HK\$62,707,000 (31 December 2014: HK\$52,269,000).

The calculation of Group's gearing ratio based on the net borrowings (after deducting cash and bank balances) to equity attributable to the shareholders of the Company was nil as at 30 June 2015 (31 December 2014: Nil).

Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in the future.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen, New Taiwan dollars and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group may use forward contracts to hedge against foreign currency fluctuations.

Charges on Group Assets

As at 30 June 2015, 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 (31 December 2014: Nil).

Employee Information

As at 30 June 2015, the Group had 751 employees (31 December 2014: 718 employees) working in Hong Kong and in the PRC. Total employee remuneration, including directors remunerations, retirement benefit provision and mandatory provident fund contributions, for the period under review amounted to approximately HK\$92.6 million (For the six months ended 30 June 2014: HK\$66.3 million). The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"). At the annual general meeting of the Company held on 10 May 2012, a new share option scheme of the Company (the "New Share Option Scheme") was adopted upon expiry of the 2002 Share Option Scheme.

Details of the Company's share option schemes are summarised as follow:

| Date of grant | Outstanding at 01.01.2015 | Granted | During the period Exercised | Lapsed | Outstanding at 30.06.2015 | Exercise period | Exercise price per share |
|---|------------------------------|------------------|-----------------------------------|----------|------------------------------|-----------------------|-----------------------------|
| <i>Category I: Directors</i> | | | | | | | |
| 25.09.2009 | 448,000 | - | (448,000) | - | - | 25.03.2010-24.09.2019 | HK\$1.076 |
| 20.12.2010 | 697,500 | - | (697,500) | - | - | 20.06.2011-19.12.2020 | HK\$3.750 |
| 20.12.2011 | 469,000 | - | (469,000) | - | - | 20.06.2012-19.12.2021 | HK\$2.666 |
| 20.12.2012 | 1,042,000 | - | (1,042,000) | - | - | 20.06.2013-19.12.2022 | HK\$4.930 |
| 30.12.2013 | 1,614,000 | - | (738,000) | - | 876,000 | 30.06.2014-29.12.2023 | HK\$7.300 |
| 31.03.2015 | - | 1,338,000 | - | - | 1,338,000 | 30.09.2015-30.03.2025 | HK\$11.200 |
| <i>Category II: Employees</i> | | | | | | | |
| 02.01.2008 | 320,000 | - | - | - | 320,000 | 02.07.2008-01.01.2018 | HK\$0.492 |
| 12.01.2010 | 660,000 | - | (380,000) | - | 280,000 | 12.07.2010-11.01.2020 | HK\$2.200 |
| 08.10.2012 | 5,614,000 | - | (70,000) | - | 5,544,000 | 08.10.2013-07.10.2022 | HK\$4.996 |
| 05.04.2013 | 300,000 | - | - | - | 300,000 | 05.10.2013-04.04.2023 | HK\$5.620 |
| 30.12.2013 | 2,040,000 | - | (16,000) | - | 2,024,000 | 30.12.2014-29.12.2023 | HK\$7.300 |
| 07.10.2014 | 750,000 | - | - | - | 750,000 | 03.10.2015-06.10.2024 | HK\$10.340 |
| <i>Category III: Consultants</i> | | | | | | | |
| 11.07.2005 | 500,000 | - | (500,000) | - | - | 11.01.2006-10.07.2015 | HK\$0.159 |
| 02.06.2006 | 1,000,000 | - | - | - | 1,000,000 | 02.12.2006-01.06.2016 | HK\$0.175 |
| 02.01.2008 | 2,000,000 | - | - | - | 2,000,000 | 02.07.2008-01.01.2018 | HK\$0.492 |
| 20.12.2010 | 500,000 | - | (200,000) | - | 300,000 | 20.06.2011-19.12.2020 | HK\$3.750 |
| 07.10.2014 | 600,000 | - | - | - | 600,000 | 30.06.2015-06.10.2024 | HK\$10.340 |
| Total | 18,554,500 | 1,338,000 | (4,560,500) | - | 15,332,000 | | |
| Exercisable at the end of the period | | | | | 8,923,000 | | |
| Weighted average exercise price | HK\$4.558 | HK\$11.200 | HK\$3.729 | - | HK\$5.385 | | |

The weighted average share price on which the options were exercised is HK\$12.317.

Particulars of share options:

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|---|--------------------------------------|
| 11.07.2005 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006 – 10.07.2015 | 0.159 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006 – 10.07.2015 | |
| 02.06.2006 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006 – 01.06.2016 | 0.175 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007 – 01.06.2016 | |
| 02.01.2008 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008 – 01.01.2018 | 0.492 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009 – 01.01.2018 | |
| 25.09.2009 | (i) 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 25.03.2010 to 24.09.2019 | 1.076 |
| | (ii) Unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. from 25.12.2010 to 24.09.2019 | |
| 12.01.2010 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010 – 11.01.2020 | 2.200 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011 – 11.01.2020 | |

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|---|--|
| 20.12.2010 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011 – 19.12.2020 | 3.750 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012 – 19.12.2020 | |
| 20.12.2011 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012 – 19.12.2021 | 2.666 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013 – 19.12.2021 | |
| 08.10.2012 | (i) 259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013 – 07.10.2022 | 4.996 |
| | (ii) 259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014 – 07.10.2022 | |
| | (iii) 1,160,000 options exercisable during the period from 08.10.2013 – 07.10.2022 | |
| | (iv) 2,230,000 options exercisable during the period from 08.10.2014 – 07.10.2022 | |
| | (v) 2,650,000 options exercisable during the period from 08.10.2015 – 07.10.2022 | |
| 20.12.2012 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013 – 19.12.2022 | 4.930 |
| | (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014 – 19.12.2022 | |

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|--|--------------------------------------|
| 05.04.2013 | (i) 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 05.10.2013 – 04.04.2023 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 05.07.2014 – 04.04.2023 | 5.620 |
| 30.12.2013 | (i) 1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 30.06.2014 – 29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 30.03.2015 – 29.12.2023 (ii) 669,000 options will be exercisable during the period from 30.12.2014 – 29.12.2023 (iii) 669,000 options will be exercisable during the period from 30.12.2015 – 29.12.2023 (iv) 702,000 options will be exercisable during the period from 30.12.2016 – 29.12.2023. | 7.300 |
| 07.10.2014 | (i) 600,000 options: 50% will be exercisable during the period from 30.06.2015 – 06.10.2024; and 50% will be exercisable during the period from 30.06.2016 – 06.10.2024 (ii) 250,000 options will be exercisable during the period from 03.10.2015 – 06.10.2024 (iii) 250,000 options will be exercisable during the period from 03.10.2016 – 06.10.2024 (iv) 250,000 options will be exercisable during the period from 03.10.2017 – 06.10.2024 | 10.340 |
| 31.3.2015 | (i) 669,000 options will be exercisable during the period from 30.09.2015 – 30.03.2025 (ii) 669,000 options will be exercisable during the period from 30.09.2016 – 30.03.2025 | 11.200 |

SHARE OPTION SCHEME OF A SUBSIDIARY

A share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited, was approved by the shareholders of the Company on 12 November 2012 (“CVie’s Scheme”).

Movements of the share option during the period ended 30 June 2015 were as follows:

| Grantees | Date of Grant | Number of share options | | | | Outstanding at 30.06.2015 |
|--------------|-------------------------|-------------------------|----------|-----------|----------|---------------------------|
| | | Outstanding at 1.1.2015 | Granted | Exercised | Lapsed | |
| Employees | Tranche 1 30.11.2012 | 133,000 | - | - | - | 133,000 |
| | Tranche 2 30.11.2012 | 267,000 | - | - | - | 267,000 |
| | Tranche 3 30.11.2012 | 40,000 | - | - | - | 40,000 |
| Total | | 440,000 | - | - | - | 440,000 |

Particulars of share options:

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|-------------------------|--|----------------------------------|
| Tranche 1 30.11.2012 | 133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant. | 1.628 |
| Tranche 2 30.11.2012 | 267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant. | 1.628 |
| Tranche 3 30.11.2012 | 40,000 options will be exercisable during the period from 1 December 2014 to 30 November 2022. | 1.628 |

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as the interests disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" below, at no time during the period ended 30 June 2015 was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2015, the Directors and the chief executives of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

(a) Long position in shares of the Company ("Shares")

| Name of Director | Nature of interest | Number of ordinary shares held | Total | Approximate percentage of shareholding (%) |
|-------------------------|--|--------------------------------|-------------|--|
| Lee Siu Fong | Beneficial Owner | 804,375 | | |
| | Interest held jointly with Leelalertsuphakun Wanee | 1,600,000 | | |
| | Interest of a controlled corporation (Note 1) | 120,290,625 | 122,695,000 | 20.93% |
| Leelalertsuphakun Wanee | Beneficial Owner | 254,500 | | |
| | Interest held jointly with Lee Siu Fong | 1,600,000 | | |
| | Interest of a controlled corporation (Note 1) | 120,290,625 | 122,145,125 | 20.84% |
| Li Xiaoyi | Beneficial owner | 38,213,501 | | |
| | Family interest (Note 2) | 16,000,000 | 54,213,501 | 9.25% |
| Chan Yau Ching, Bob | Beneficial owner | 1,040,000 | 1,040,000 | 0.18% |
| Lam Yat Cheong | Beneficial owner | 300,000 | 300,000 | 0.05% |
| Tsim Wah Keung, Karl | Beneficial owner | 300,000 | 300,000 | 0.05% |

Notes:

- (1) 120,290,625 Shares are held through Huby Technology Limited (“Huby Technology”). Huby Technology is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
- (2) These Shares are held by High Knowledge Investments Limited (“High Knowledge”) which is wholly owned by Dr. Li Xiaoyi’s spouse, Ms. Lue Shuk Ping, Vicky (“Ms. Lue”). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li Xiaoyi.

(b) Long position in underlying Shares – share options of the Company

Under the share option scheme of the Company, the following Directors have personal interest in options to subscribe for the Shares. Details of the share options granted to them are as follows:

| Name of Director | Date of grant | Exercisable period (Note) | Balance as at | Granted | Exercised | Balance as at | Exercise |
|-------------------------|-------------------|------------------------------|----------------|-------------------|-------------------|---------------|-------------------------|
| | | | 1 January 2015 | during the period | during the period | 30 June 2015 | price per share HK\$ |
| Lee Siu Fong | 20 December 2010 | (1) | 232,500 | – | (232,500) | – | 3.750 |
| | 20 December 2012 | (2) | 521,000 | – | (521,000) | – | 4.930 |
| | 30 December 2013 | (3) | 538,000 | – | – | 538,000 | 7.300 |
| | 31 March 2015 | (6) | – | 446,000 | – | 446,000 | 11.200 |
| | | | 1,291,500 | 446,000 | (753,500) | 984,000 | |
| Leelalertsuphakun Wanee | 30 December 2013 | (3) | 538,000 | – | (200,000) | 338,000 | 7.300 |
| | 31 March 2015 | (6) | – | 446,000 | – | 446,000 | 11.200 |
| | | | 538,000 | 446,000 | (319,000) | 784,000 | |
| Li Xiaoyi | 25 September 2009 | (4) | 448,000 | – | (448,000) | – | 1.076 |
| | 20 December 2010 | (1) | 465,000 | – | (465,000) | – | 3.750 |
| | 20 December 2011 | (5) | 469,000 | – | (469,000) | – | 2.666 |
| | 20 December 2012 | (2) | 521,000 | – | (521,000) | – | 4.930 |
| | 30 December 2013 | (3) | 538,000 | – | (538,000) | – | 7.300 |
| | 31 March 2015 | (6) | – | 446,000 | – | 446,000 | 11.200 |
| | | | 2,441,000 | 446,000 | (2,441,000) | 446,000 | |

Notes:

- (1) Divided into 2 tranches exercisable from 20 June 2011 and 20 March 2012 respectively to 19 December 2020.
 - (2) Divided into 2 tranches exercisable from 20 June 2013 and 20 March 2014 respectively to 19 December 2022.
 - (3) Divided into 2 tranches exercisable from 30 June 2014 and 30 March 2015 respectively to 29 December 2023.
 - (4) Divided into 2 tranches exercisable from 25 March 2010 and 25 December 2010 respectively to 24 September 2019.
 - (5) Divided into 2 tranches exercisable from 20 June 2012 and 20 March 2013 respectively to 19 December 2021.
 - (6) Divided into 2 tranches exercisable from 30 September 2015 and 30 June 2016 respectively to 30 March 2025.
- (c) No interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares and the underlying shares of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2015, the following parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

(a) Long position in Shares

| Name | Capacity | Number of ordinary shares held | Approximate percentage of shareholding (%) |
|--|---|--------------------------------|--|
| Huby Technology Limited | Beneficial Owner | 120,290,625 | 20.52% |
| Sigma Tau Finanziaria S.p.A. | Beneficial Owner | 142,053,333 | 24.23% |
| Cavazza Paolo | Interest of a controlled corporation | 142,053,333 | 24.23% |
| Paponi Claudia | Family interest | 142,053,333 | 24.23% |
| GL Trade Investment Limited | Beneficial Owner | 54,485,000 | 9.30% |
| Assicurazioni Generali S.p.A. | Interest of a controlled corporation | 54,485,000 | 9.30% |
| GL Capital Management GP L.P. | Interest of a controlled corporation | 54,485,000 | 9.30% |
| GL Capital Management GP Limited | Interest of a controlled corporation | 54,485,000 | 9.30% |
| GL China Opportunities Fund L.P. | Interest of a controlled corporation | 54,485,000 | 9.30% |
| GL Partners Capital Management Limited | Interest of a controlled corporation | 54,485,000 | 9.30% |
| Li Zhenfu | Interest of a controlled corporation | 54,485,000 | 9.30% |
| Lion River I N.V. | Interest of a controlled corporation | 54,485,000 | 9.30% |
| High Knowledge Investments Limited | Beneficial Owner (Note 1) | 16,000,000 | 2.73% |
| Lue Shuk Ping, Vicky | Interest of a controlled corporation (Note 1) | 16,000,000 | 2.73% |
| | Family interest (Note 2) | 38,213,501 | 6.52% |

(b) Long position in underlying shares – share options of the Company

| Name | Capacity | Number of underlying shares held | Approximate percentage of shareholding (%) |
|----------------------|-----------------------------------|----------------------------------|--|
| Lue Shuk Ping, Vicky | Family interest (<i>Note 2</i>) | 446,000 | 0.08% |

Notes:

- (1) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky.
- (2) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

(c) Short Position on Shares

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 30 June 2015, the Directors are not aware of any other person or corporation having an interest or short position in Shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the period ended 30 June 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.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group 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 payable 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.

As at the date of this report, the Board comprises the following directors:

Executive directors

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Non-executive director

Dr. Marco Maria Brughera

Independent non-executive directors

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

On behalf of the Board

Lee Siu Fong

Chairman

Hong Kong, 27 August 2015

REVIEW REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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TO THE BOARD OF DIRECTORS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 46, which comprise the condensed consolidated statement of financial position as at 30 June 2015, and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion, based on our review, on the condensed consolidated financial statements, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility toward or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements as at 30 June 2015 is not prepared, in all material respect, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

HLM CPA Limited

Certified Public Accountants

Chan Lap Chi

Practising Certificate number: P04084

Hong Kong, 27 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the three months and six months ended 30 June 2015*

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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 | |
|--|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) |
| Profit for the period | 59,482 | 43,416 | 95,644 | 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 | (992) | (1,187) | 2,776 | (11,566) |
| Fair value change of available-for-sale financial assets | 18,796 | – | 23,417 | – |
| Other comprehensive income (expense) for the period, net of tax | 17,804 | (1,187) | 26,193 | (11,566) |
| Total comprehensive income for the period | 77,286 | 42,229 | 121,837 | 72,595 |
| Total comprehensive income (expense) for the period attributable to: | | | | |
| Shareholders of the Company | 81,676 | 43,787 | 128,708 | 75,495 |
| Non-controlling interests | (4,390) | (1,558) | (6,871) | (2,900) |
| | 77,286 | 42,229 | 121,837 | 72,595 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

| | Notes | At 30 June 2015 HK\$'000 (unaudited) | At 31 December 2014 HK\$'000 (audited) |
|--|-------|--|--|
| Non-current Assets | | | |
| 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 |
| | | 763,188 | 639,392 |
| Current Assets | | | |
| 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 |
| | | 1,092,710 | 729,988 |
| Current Liabilities | | | |
| 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 |
| | | 284,083 | 308,179 |
| Net Current Assets | | 808,627 | 421,809 |
| Total Assets less Current Liabilities | | 1,571,815 | 1,061,201 |

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

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 | | | |
| | 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) | 29,309 | 714,722 | 9,200 | 7,318 | 59,344 | 26,736 | 10,058 | 582,920 | 1,439,607 | 58,250 | 1,497,857 |
| 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) | 27,182 | 298,313 | 9,200 | 6,204 | 59,316 | - | 11,706 | 427,401 | 839,322 | 64,128 | 903,450 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2015*

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

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

¹ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application is permitted

² Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted

³ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted

⁴ 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 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) |
| Segment revenue | 214,071 | 177,306 | 263,832 | 265,410 | 477,903 | 442,716 |
| Segment results | 86,261 | 61,322 | 42,138 | 61,608 | 128,399 | 122,930 |
| Gain on deemed disposal of interests in an associate | | | | | 31,908 | – |
| Interest income | | | | | 2,541 | 1,575 |
| Unallocated expenses | | | | | (20,314) | (18,232) |
| Profit from operations | | | | | 142,534 | 106,273 |
| Finance costs | | | | | (1,501) | (1,382) |
| Profit before share of results of an associate | | | | | 141,033 | 104,891 |
| Share of results of an associate | | | | | (23,356) | (3,489) |
| Profit before taxation | | | | | 117,677 | 101,402 |
| Taxation | | | | | (22,033) | (17,241) |
| Profit for the period | | | | | 95,644 | 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 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (audited) | 30 June 2015 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (audited) | 30 June 2015 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (audited) |
| Segment assets | 264,430 | 236,748 | 836,547 | 685,511 | 1,100,977 | 922,259 |
| Unallocated assets | | | | | 754,921 | 447,121 |
| Total assets | | | | | 1,855,898 | 1,369,380 |
| Segment liabilities | 106,198 | 118,745 | 149,039 | 172,101 | 255,237 | 290,846 |
| Unallocated liabilities | | | | | 102,804 | 79,667 |
| Total liabilities | | | | | 358,041 | 370,513 |

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 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (audited) | 30 June 2015 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (audited) | 30 June 2015 HK\$'000 (unaudited) | 31 December 2014 HK\$'000 (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 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (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 | 10,839 | 6,819 | 23,552 | 13,813 |
| 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 | 687 | 640 | 1,361 | 1,292 |

8. TAXATION

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (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 |
| | 13,544 | 7,478 | 21,149 | 17,486 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | 2,829 | 74 | 884 | (245) |
| | 16,373 | 7,552 | 22,033 | 17,241 |

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 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (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 | 17,585 | 14,678 | 17,585 | 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 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) | 2015 HK\$'000 (unaudited) | 2014 HK\$'000 (unaudited) |
| <i>Earnings:</i> | | | | |
| Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share | 62,580 | 44,974 | 103,026 | 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 | 62,580 | 44,500 | 103,026 | 86,196 |

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|--|--|--|--|
| | 2015 <i>Share(s)</i> '000 (unaudited) | 2014 <i>Share(s)</i> '000 (unaudited) | 2015 <i>Share(s)</i> '000 (unaudited) | 2014 <i>Share(s)</i> '000 (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 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 587,335 | 557,986 | 573,959 | 556,206 |

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 HK\$'000 (unaudited) | At 31 December 2014 HK\$'000 (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) |
| | 54,849 | 33,863 |

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 |
| | 93,836 | 99,782 |

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>HKS'000</i> (unaudited) | At 31 December 2014 <i>HKS'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 |
| | 32,546 | 42,249 |

15. DERIVATIVE FINANCIAL INSTRUMENTS

| | At 30 June 2015 <i>HKS'000</i> (unaudited) | At 31 December 2014 <i>HKS'000</i> (audited) |
|------------------------------------|--|--|
| Liabilities | | |
| Foreign currency forward contracts | 3,027 | 10,092 |

| | At 30 June 2015 <i>HKS'000</i> (unaudited) | At 31 December 2014 <i>HKS'000</i> (audited) |
|--|--|--|
| Liabilities | | |
| Beginning of the period/year | 10,092 | – |
| Change in fair value of derivative financial instruments | (7,065) | 10,092 |
| End of the period/year | 3,027 | 10,092 |

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:

| Notional amount | Maturity date | Exchange rates |
|--------------------|----------------|------------------|
| 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

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

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

| | Share of net assets of subsidiaries <i>HK\$'000</i> | Share-based compensation reserve of subsidiary <i>HK\$'000</i> | Total <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 |
| At 30 June 2015 (unaudited) | 58,209 | 41 | 58,250 |
| 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 |
| At 31 December 2014 (audited) | 64,494 | 32 | 64,526 |

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 |
| | | | 40,929 | 22,919 |

Note:

- 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:-

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

(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

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

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

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

At 31 December 2014

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

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 | Retirement benefits | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <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 |
| | <hr/> | | |
| At 30 June | 3,027 | 57,507 | 60,534 |
| | <hr/> <hr/> | | |

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.