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李氏大藥廠

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 2017

	Three months ended			Six months ended		
	30 June			30 June		
	2017	2016	Change	2017	2016	Change
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Revenue	248,550	224,191	+10.9%	474,750	449,729	+5.6%
Gross profit	169,487	169,340	+0.1%	318,957	327,751	-2.7%
Profit attributable to the owners of the Company	78,690	68,311	+15.2%	125,070	121,418	+3.0%
	HK cents	HK cents		HK cents	HK cents	
Earnings per share						
Basic	13.33	11.60	+14.9%	21.19	20.65	+2.6%
Diluted	13.28	11.56	+14.9%	21.12	20.53	+2.9%

* 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 2017, together with the comparative figures for the corresponding period in 2016. 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 the owners 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 of Directors for approval.

BUSINESS REVIEW

The Group has seen encouraging momentum in both revenue and net profit growth during the second quarter. For the first time since first quarter of 2015, quarterly sales grew in the double digit realm with major products achieving volume growth. It was accomplished against the persistent market headwind brought about by uncertainty in healthcare reform in China. The decrease in gross profit margin and increase in research and development (“**R&D**”) spending also put pressure on the net profit. However, helped by the sustainable cost saving achieved through the optimised cost structure in sales and marketing and by the one-time gain generated from the deemed disposal of CVie Therapeutics Limited (“**CVie Taiwan**”), the Group managed to bring the net profit growth back to the positive territory. The strong second quarter has resulted in a positive first half of 2017, not only in financial performance but also in R&D and partnership front.

Taking into account the negative impact of the 4% depreciation of Renminbi, the Group has recorded revenue of HK\$248,550,000 during the second quarter of this year, increased by 10.9% over same quarter last year. The accelerated growth was produced by increase in sales volume and value (in Renminbi) in major products the Group has in the market. The revenue growth of the Group’s major products such as Carnitene[®], Ferplex[®], Zanidip[®], Livaracine[®] and Slounase[®] in the second quarter (in Hong Kong Dollar) were 4.9%, 68.4%, 13.0%, 9.3% and 3.0%, respectively.

Sales of licensed-in products accounted for 53.3% (For the six months ended 30 June 2016: 51.5%) of the Group’s revenue while sales of proprietary products contributed 46.7% (For the six months ended 30 June 2016: 48.5%) of the Group’s revenue.

During the second quarter of this year, the Group's gross profit margin of 68.2% was 2.1 percentage points improved as compared to 66.1% achieved during the first quarter of this year. Nevertheless, product selling price pressure as well as the increased production costs of proprietary products continue to cast a shadow on gross profit margin growth. The Group's gross profit margin for the six months ended 30 June 2017 was 67.2% and was 5.7 percentage points lower versus 72.9% for the same period last year.

As a result of good progress in the development of Rostafuroxin and Istaroxime, CVie Taiwan has managed to attract a good set of Taiwan-based investors. On 24 May 2017, CVie Taiwan successfully raised additional funding of US\$7.5 million (approximately HK\$58.5 million equivalent) by mean of the issuance of Series A Preferred Shares thereof to finance the ongoing clinical trials. The interests in CVie Taiwan held by the Group was diluted from 56.26% to 49.58% upon the completion in June 2017 and CVie Taiwan ceased to be an indirect non-wholly owned subsidiary and become an associated company of the Group. With respect to the abovementioned fund raising, the Group recorded a one-time gain of HK\$58,066,000 which was arising from the deemed disposal of the Group's partial interests in CVie Taiwan. In order to tie in with the change of control of CVie Taiwan, HK\$42,708,000 of R&D costs capitalised in the prior years in relation to Rostafuroxin and Istaroxime were written off during the period under review.

The Group's sales and marketing efficiency enhancement program has proved to be sustainable and the selling expenses to revenue ratio has lowered further to 19.9%, reduced by 4.7 percentage points as compared to the same period last year. The savings therefrom continued to fund the Group's R&D activities on new drugs. During the first half of the year, the R&D expenses was increased by 13.4% to HK\$36,993,000, which represented 7.8% of revenue during the period under review. In addition to the abovementioned one-time R&D costs written off, an aggregate of HK\$7,915,000 of licensing and R&D costs capitalised in the prior years were written off during the period under review. The savings from selling and distribution activities continued to support also the increased administrative expenses. Net profit attributable to the owners of the Company for the period upheld a mild growth of 3.0% and reached HK\$125,070,000 despite gross profit margin erosion.

The Group's solid dose production facility in its Nansha manufacturing site is already in operation and the approval for Good Manufacturing Practice (GMP) certification is expected in the near future. The construction work of the Group's ophthalmic drugs production facility in its Nansha manufacturing site is in good progress and is on target for completion in 2017.

During the period under review, we have concluded another partnership deal with a U.S. company. In June 2017, the Group has entered into an exclusive license and collaboration agreement with Windtree Therapeutics, Inc. (“**Windtree**”) for the development and commercialisation of KL4 surfactant products in select Asian markets using Windtree’s proprietary KL4 surfactant and aerosolisation technologies. The agreement includes AEROSURF® as well as the non-aerosol products SURFAXIN® (approved in the U.S.) and SURFAXIN LS (an improved lyophilised formulation of SURFAXIN®). Also, Windtree has granted the Group an exclusive license to manufacture KL4 surfactant in China for use in non-aerosol surfactant products in the licensed territory. Respiratory Distress Syndrome is a life-threatening problem for premature baby and surfactant is the only effective remedy. The estimated market size in China is reportedly more than RMB600 million. However, current marketed products are all animal-derived and SURFAXIN® is the only approved non-animal derived product. As a result, it is expected to have a competitive edge over the existing product once it is launched in China.

The Group’s commitment to R&D persisted in the quarter and measurable progress has been made during the period.

Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris (moderate to severe acne) has been completed and positive results therefrom which meet pre-specified endpoints has been attained. The study demonstrated that patients treated with 0.1% Adapalene + 1% Clindamycin showed the best results in the percent reduction in both lesion and inflamed lesion count. Phase III study is envisaged to initiate later this year.

Natulan® registration study for the treatment of advanced Hodgkin’s lymphoma in the PRC is in progress. This is a study targeting a total of 184 patients in total and around 15% of the patients has been enrolled so far.

Phase IIb study of Anfibatide is in good progress. The study involved a total of 12 centers across China and is expected to enroll a total of 240 patients and standard dual anti-platelet strategy is employed with or without Anfibatide, and to date, around 75% of the patients has been enrolled.

Phase III clinical trial for advanced liver cancer using its oncolytic immunotherapy called Pexa-Vec (formerly JX-594), the PHOCUS study, has been approved (Approval No. 2017L04441) by the China Food and Drug Administration (CFDA). With the new standards under the regulatory reform, the advisory committee meeting for this approval was held by CFDA Center for Drug Evaluation (CDE) and, for the first time ever, invited public and media representatives to attend and granted the chance to speak. Towards the end of the meeting, the experts come to a decision by ballot and the approval was announced by the chairman of the meeting at the scene.

The development of the two cardiovascular assets, namely Rostafuroxin and Istaroxime, under CVie Taiwan has made significant progress during the period under review.

Phase IIb clinical study (Protocol No. CVTCV-001) in Taiwan for Rostafuroxin capsule 50, 500ug with antihypertensive effect is in full swing. The study involved a total of 17 centers and 18 centers respectively across Italy and Taiwan. To date, the Italian arm of the study was substantially completed, and to date, over 85% of the patients required have been enrolled for Taiwan study (MOHW's Approval Notice No. 1046044455).

Istaroxime is a first-in-class luso-inotropic agent for the treatment of acute decompensated heart failure and is currently in its Phase IIb clinical study in Italy (24 patients) and China (96 patients). Istaroxime possesses a dual mode of action, combining inotropic (myocyte contraction) and lusotropic (myocyte relaxation) effects. To date, the Italian arm of the study has been substantially completed, and all 36 patients of first cohort have been enrolled in China. The study in China is expected to be completed by end of 2017.

The development of Zingo[®] under Powder Pharmaceuticals Incorporated (“PPI”), an associated company of the Group, has also achieved positive progress during the period under review. In March 2017, Zingo[®], has been granted by CFDA priority review for its clinical trial application. The clinical program will be commenced soon and is targeted to be approved by CFDA in this year.

Overall, the Group has more than 13 clinical studies in either operational or preparatory stage. Several of those clinical studies are registration enabling study and successful conclusion of those studies is the Group's priority. And the Group will continue to commit in these new drugs development to facilitate sustainable growth in the future.

PROSPECT

The Group maintains its view that the operating environment in the pharmaceutical sector will be challenging. The Group expects regulators will continue to streamline and improve the rules and regulations in pharmaceutical industry which may end up altering each of the elements therein, such as manufacture, distribution, marketing, compliance, and continue to pose major challenges, including selling price pressure of products and rising cost pressure in developments and productions, which may create additional burdens on its business operations. Nevertheless, the overall trend towards enhanced governance of the industry and the growing size of the market shall underpin the fundamentals of the market for safe and quality drugs in the long term, from which the Group is confident that sustainable long term growth of its business can be achievable.

In addition, the reform in drug regulations has begun to benefit the Group's development efforts and product's time-to-clinic has been significantly shortened. In August 2017, the Group has obtained two more IND approvals for oncology and ophthalmic product respectively. The acceleration in product development will translate into faster time-to-market for the Group's strong portfolio which in turn will catalyse a new growth trajectory in near future.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2017

		For the three months ended 30 June		For the six months ended 30 June	
	Notes	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	(3)	248,550	224,191	474,750	449,729
Cost of sales		(79,063)	(54,851)	(155,793)	(121,978)
Gross profit		169,487	169,340	318,957	327,751
Other income	(4)	(7)	26,633	10,463	35,941
Gain on deemed disposal of a subsidiary	(5)	58,066	–	58,066	–
Impairment of intangible assets		(50,112)	(7,723)	(50,623)	(11,429)
Selling and distribution expenses		(51,694)	(59,014)	(94,416)	(110,443)
Administrative expenses		(40,003)	(33,592)	(81,271)	(68,629)
Research and development expenses		(16,090)	(17,864)	(36,993)	(32,629)
Profit from operations		69,647	77,780	124,183	140,562
Finance costs		(1,265)	(775)	(2,527)	(1,691)
Share of results of associates		(2,777)	(2,210)	(5,441)	(4,780)
Profit before taxation	(6)	65,605	74,795	116,215	134,091
Taxation	(7)	(10,568)	(11,172)	(19,223)	(21,260)
Profit for the period		55,037	63,623	96,992	112,831
Attributable to:					
Owners of the Company		78,690	68,311	125,070	121,418
Non-controlling interests		(23,653)	(4,688)	(28,078)	(8,587)
		55,037	63,623	96,992	112,831
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share					
Basic	(9)	13.33	11.60	21.19	20.65
Diluted	(9)	13.28	11.56	21.12	20.53

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2017

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)
Profit for the period	55,037	63,623	96,992	112,831
Other comprehensive income (expense):				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	24,766	(35,933)	38,020	(12,280)
Fair value changes of available-for-sale financial assets	(14,555)	682	(19,888)	(9,646)
Reclassification of other reserves upon deemed disposal of a subsidiary	(19,576)	–	(19,576)	–
Reclassification of exchange differences upon deemed disposal of a subsidiary	(94)	–	(94)	–
Share of associate's exchange reserve	(64)	–	(64)	–
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Other comprehensive expense for the period, net of tax	(9,523)	(35,251)	(1,602)	(21,926)
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Total comprehensive income for the period	45,514	28,372	95,390	90,905
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Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	69,093	33,003	122,590	99,202
Non-controlling interests	(23,579)	(4,631)	(27,200)	(8,297)
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	45,514	28,372	95,390	90,905
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

		At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment	(10)	492,787	437,092
Intangible assets		365,120	421,853
Lease premium for land		137,712	134,583
Goodwill		3,900	3,900
Interests in associates	(11)	95,916	46,820
Held-to-maturity financial assets		5,742	5,659
Available-for-sale financial assets		123,400	127,778
		1,224,577	1,177,685
Current Assets			
Lease premium for land		2,941	2,844
Inventories		149,768	134,910
Trade receivables	(12)	79,068	87,069
Other receivables, deposits and prepayments		126,993	106,223
Convertible loan receivables		1,064	–
Amount due from a related party		2,326	–
Advance to associates		24,785	20,524
Tax recoverable		5,858	528
Pledged bank deposits		37,219	26,639
Time deposits		132,855	209,693
Cash and bank balances		327,873	295,282
		890,750	883,712
Current Liabilities			
Trade payables	(13)	22,255	42,301
Other payables		215,393	172,340
Obligations under license contract		534	490
Bank borrowings	(14)	111,166	133,578
Obligations under finance leases		476	467
Tax payables		8,245	9,199
		358,069	358,375
Net Current Assets		532,681	525,337
Total Assets less Current Liabilities		1,757,258	1,703,022

		At 30 June 2017 <i>HK\$'000</i> (unaudited)	At 31 December 2016 <i>HK\$'000</i> (audited)
Capital and Reserves			
Share capital	(15)	29,516	29,503
Reserves		<u>1,651,634</u>	<u>1,572,223</u>
Equity Attributable to the Owners of the Company		1,681,150	1,601,726
Non-controlling interests	(16)	<u>(5,214)</u>	<u>32,990</u>
Total Equity		<u>1,675,936</u>	<u>1,634,716</u>
Non-current Liabilities			
Deferred tax liabilities		33,446	25,290
Retirement benefits		47,115	42,015
Obligations under finance leases		<u>761</u>	<u>1,001</u>
		<u>81,322</u>	<u>68,306</u>
		<u>1,757,258</u>	<u>1,703,022</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

	Attributable to the Owners of the Company								Attributable to non-controlling interests		Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Share-based compensation reserve HK\$'000	Other reserves HK\$'000	Investments revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	HK\$'000	
At 1 January 2017 (audited)	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716
Employee share option benefits	-	-	-	2,089	-	-	-	-	2,089	-	2,089
Exercise of share options	13	1,628	-	(301)	-	-	-	-	1,340	-	1,340
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Share of reserve of associate	-	-	-	-	29	-	-	-	29	-	29
Deemed disposal of a subsidiary (Note 5)	-	-	-	-	-	-	-	-	-	(12,577)	(12,577)
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	1,564	1,564
Profit (loss) for the period	-	-	-	-	-	-	-	125,070	125,070	(28,078)	96,992
Other comprehensive (expense) income for the period	-	-	-	-	(19,640)	(19,888)	37,048	-	(2,480)	878	(1,602)
Total comprehensive income (expense) for the period	-	-	-	-	(19,640)	(19,888)	37,048	125,070	122,590	(27,200)	95,390
2016 final dividend paid	-	-	-	-	-	-	-	(46,635)	(46,635)	-	(46,635)
At 30 June 2017 (unaudited)	<u>29,516</u>	<u>722,782</u>	<u>9,200</u>	<u>13,470</u>	<u>39,901</u>	<u>(32,604)</u>	<u>(59,794)</u>	<u>958,679</u>	<u>1,681,150</u>	<u>(5,214)</u>	<u>1,675,936</u>
At 1 January 2016 (audited)	29,340	717,925	9,200	8,718	59,344	(899)	(47,540)	691,350	1,467,438	49,390	1,516,828
Employee share option benefits	-	-	-	1,892	-	-	-	-	1,892	-	1,892
Exercise of share options	150	1,709	-	(708)	-	-	-	-	1,151	-	1,151
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Share of reserve of associate	-	-	-	-	31	-	-	-	31	-	31
Profit (loss) for the period	-	-	-	-	-	-	-	121,418	121,418	(8,587)	112,831
Other comprehensive (expense) income for the period	-	-	-	-	-	(9,646)	(12,570)	-	(22,216)	290	(21,926)
Total comprehensive income (expense) for the period	-	-	-	-	-	(9,646)	(12,570)	121,418	99,202	(8,297)	90,905
2015 final dividend paid	-	-	-	-	-	-	-	(43,645)	(43,645)	-	(43,645)
At 30 June 2016 (unaudited)	<u>29,490</u>	<u>719,634</u>	<u>9,200</u>	<u>9,913</u>	<u>59,375</u>	<u>(10,545)</u>	<u>(60,110)</u>	<u>769,123</u>	<u>1,526,080</u>	<u>41,102</u>	<u>1,567,182</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	30 June 2017 HK\$'000 (unaudited)	30 June 2016 HK\$'000 (unaudited)
Net cash generated from operating activities	122,621	159,108
Net cash used in investing activities	(91,050)	(143,736)
Net cash used in financing activities	(40,729)	(13,153)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(9,158)	2,219
Cash and cash equivalents at 1 January	347,967	337,129
Effect of foreign exchange rate changes	5,375	(14,006)
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Cash and cash equivalents at 30 June	344,184	325,342
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Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	327,873	294,302
Time deposits	132,855	113,966
	<hr/>	<hr/>
	460,728	408,268
Less: Time deposits with original maturity more than three months	(116,544)	(82,926)
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	344,184	325,342
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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**”) as well as 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 unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2016 except as described below.

In the current interim period, the Group has applied, for the first time, the following new amendments to HKASs 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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle relating to Amendments to HKFRS 12 Disclosure of Interests in Other Entities

The application of the above amendments to HKASs and HKFRSs in the current interim 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 amendments to HKASs and HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKAS 40	Transfer of Investment Property ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014-2016 Cycle except amendments to HKFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

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

The Group has already commenced an assessment of the impact of these new and amendments to HKASs and HKFRSs but is not yet in a position to state whether these new and amendments to HKASs and HKFRSs would have a material impact on its results of operations and financial position.

3. 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-in products	–	Trading of licensed-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

	Proprietary products		Licensed-in products		Consolidated	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Segment revenue	221,625	217,979	253,125	231,750	474,750	449,729
Segment operating results	97,098	99,922	43,788	68,801	140,886	168,723
Impairment of intangible assets	-	(7,387)	(50,623)	(4,042)	(50,623)	(11,429)
Gain on deemed disposal of a subsidiary	-	-	58,066	-	58,066	-
Segment results	97,098	92,535	51,231	64,759	148,329	157,294
Unallocated income					1,931	933
Unallocated expenses					(26,077)	(17,665)
Profit from operations					124,183	140,562
Finance costs					(2,527)	(1,691)
Profit before share of results of associates					121,656	138,871
Share of results of associates					(5,441)	(4,780)
Profit before taxation					116,215	134,091
Taxation					(19,223)	(21,260)
Profit for the period					96,992	112,831

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 2016: 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/year:

	Proprietary products		Licensed-in products		Consolidated	
	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Segment assets	291,846	258,895	1,108,463	1,104,866	1,400,309	1,363,761
Unallocated assets					715,018	697,636
Total assets					2,115,327	2,061,397
Segment liabilities	104,689	85,420	245,896	264,757	350,585	350,177
Unallocated liabilities					88,806	76,504
Total liabilities					439,391	426,681

Geographical information

During the six months ended 30 June 2017 and 2016, 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 following is an analysis of the Group's assets and liabilities by geographical market for the period/year:

	The PRC		Hong Kong and others		Total	
	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Segment assets	1,328,757	1,167,680	786,570	893,717	2,115,327	2,061,397
Segment liabilities	176,723	157,941	262,668	268,740	439,391	426,681

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Interest income on:				
Bank deposits	716	302	1,530	516
Held-to-maturity financial assets	41	42	83	84
Advance to an associate	201	201	401	417
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest income	958	545	2,014	1,017
Sales of research materials	–	–	1,862	–
Development grants	212	2,265	1,369	6,261
Development milestone income	–	–	–	4,501
Compensation on termination of product license	2,815	23,769	2,815	23,769
Exchange loss	(5,961)	–	–	–
Sundry income	1,969	54	2,403	393
	<hr/>	<hr/>	<hr/>	<hr/>
	(7)	26,633	10,463	35,941
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5. DEEMED DISPOSAL OF A SUBSIDIARY

On 24 May 2017, CVie Therapeutics Limited (“CVie Taiwan”), a then indirect non-wholly owned subsidiary of the Company which focused on the development of the two cardiovascular assets, namely Rostafuroxin and Istaroxime, entered into the Series A Shares Purchase Agreement with two independent third parties (the “Investors”), pursuant to which the Investors subscribed for 2,750,387 Series A Preferred Shares of CVie Taiwan at the consideration of US\$7.5 million (approximately HK\$58,500,000 equivalent). The transaction was completed in June 2017, and the Group’s shareholding in CVie Taiwan was diluted from 56.26% to 49.58% and CVie Taiwan ceased to be a subsidiary and become an associated company of the Group.

Calculation of deemed disposal of a subsidiary:

	<i>HK\$'000</i>
Fair value of investment retained (49.58%)	54,572
Net assets disposal of	(28,753)
Non-controlling interests	12,577
Cumulative exchange reserve in respect of the net assets of CVie Taiwan reclassified from equity to profit or loss on loss of control of CVie Taiwan	94
Cumulative other reserves in respect of the net assets of CVie Taiwan reclassified from equity to profit or loss on loss of control of CVie Taiwan	<hr/> 19,576
	<hr/> <hr/> 58,066

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting) the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Depreciation of property, plant and equipment	11,090	7,803	21,470	15,385
Amortisation of lease premium for land	730	76	1,454	154
Amortisation of intangible assets	3,428	2,488	6,703	5,015
Total depreciation and amortisation	<u>15,248</u>	<u>10,367</u>	<u>29,627</u>	<u>20,554</u>
Provision for (reversal of) allowance for doubtful debts	50	219	(2)	(44)
Interest expenses on borrowings	<u>1,155</u>	<u>692</u>	<u>2,278</u>	<u>1,510</u>

7. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Current tax				
Hong Kong Profits Tax	(1,782)	(9,235)	1,000	36,647
PRC Enterprise Income Tax	<u>6,845</u>	<u>3,645</u>	<u>11,014</u>	<u>8,313</u>
	5,063	(5,590)	12,014	44,960
Over-provision in prior years				
Hong Kong Profits Tax	(4)	–	(4)	–
PRC Enterprise Income Tax	<u>(174)</u>	<u>(64)</u>	<u>(156)</u>	<u>(64)</u>
	(178)	(64)	(160)	(64)
Deferred tax				
Origination and reversal of temporary differences	<u>5,683</u>	<u>16,826</u>	<u>7,369</u>	<u>(23,636)</u>
	<u>10,568</u>	<u>11,172</u>	<u>19,223</u>	<u>21,260</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.

8. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Interim dividend declared – HK\$0.034 (2016: HK\$0.033) per ordinary share based on issued share capital at the end of the reporting period	20,071	19,463	20,071	19,463

Interim dividend will be payable on 27 September 2017 to shareholders registered in the Company's Register of Members as at the close of business on 14 September 2017. 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. 2016 final dividend of HK\$0.079 per share, totalling HK\$46,635,000 was paid on 15 June 2017.

9. EARNINGS PER SHARE

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<i>Earnings:</i> Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	78,690	68,311	125,070	121,418

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	<i>Share(s)</i>	<i>Share(s)</i>	<i>Share(s)</i>	<i>Share(s)</i>
	'000	'000	'000	'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	590,278	589,103	590,186	587,993
Effect of dilutive potential ordinary shares:				
Options	<u>2,236</u>	<u>2,069</u>	<u>2,094</u>	<u>3,442</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per Share	<u>592,514</u>	<u>591,172</u>	<u>592,280</u>	<u>591,435</u>

10. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2017, additions to property, plant and equipment amount to HK\$63 million (six months ended 30 June 2016: HK\$70 million).

11. INTERESTS IN ASSOCIATES

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

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Cost of investment, unlisted, net of dividend received	145,780	91,208
Share of post-acquisition loss	(49,997)	(44,556)
Share of reserves of associates	<u>133</u>	<u>168</u>
	<u>95,916</u>	<u>46,820</u>

Details of the Group's associates at the end of the reporting period/year are as follows:

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		30 June	31 December	30 June	31 December	
		2017	2016	2017	2016	
CVie Therapeutics Limited	Taiwan/Taiwan	49.58%	56.26%*	49.58%	56.26%*	Development of pharmaceutical products
Powder Pharmaceuticals Incorporated ("PPI")	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Manufacture and sale of pharmaceutical products
Powder Pharmaceuticals (HK) Co. Limited	Hong Kong/Hong Kong	33.92%	33.92%	33.92%	33.92%	Not yet commence business
RIT Biotech (Holding) Company Limited	British Virgin Islands/ Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals
RIT Biotech Company Limited	Hong Kong/Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals

* CVie Therapeutics Limited ceased to be an indirect non-wholly owned subsidiary of the Group since June 2017. Details please refer to note 5 to the unaudited condensed consolidated financial statements.

12. 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 2017 approximates to the corresponding carrying amount.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the revenue recognition dates, and net of allowance for bad and doubtful debts at the end of the reporting period:

	At 30 June 2017 <i>HK\$'000</i> (unaudited)	At 31 December 2016 <i>HK\$'000</i> (audited)
0 – 30 days	41,607	47,314
31 – 120 days	36,391	38,368
121 – 180 days	477	1,073
181 – 365 days	549	225
Over 365 days and under 3 years	44	89
	<hr/> 79,068 <hr/>	<hr/> 87,069 <hr/>

13. TRADE PAYABLES

The average credit period on purchases of certain goods is 90 days. The fair value of the Group's trade payables as at 30 June 2017 approximates to the corresponding carrying amount.

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

	At 30 June 2017 <i>HK\$'000</i> (unaudited)	At 31 December 2016 <i>HK\$'000</i> (audited)
0 – 90 days	22,200	36,631
91 – 180 days	–	–
181 – 365 days	–	5,618
Over 365 days	55	52
	<hr/> 22,255 <hr/>	<hr/> 42,301 <hr/>

14. BANK BORROWINGS

	At 30 June 2017 <i>HK\$'000</i> (unaudited)	At 31 December 2016 <i>HK\$'000</i> (audited)
Carrying amount of the borrowings are repayable:		
Within one year	71,032	78,053
More than one year but not exceeding two years	22,221	27,331
More than two year but not exceeding five years	17,913	28,194
	<u>111,166</u>	<u>133,578</u>

The carrying amounts of bank borrowings are denominated in Hong Kong dollars, Renminbi and Euro.

The effective interest rates of the bank borrowings range from 1.62% to 4.79% (31 December 2016: 2.00% to 4.79%) per annum.

15. SHARE CAPITAL

	Number of shares		Share Capital	
	At 30 June 2017 (unaudited)	At 31 December 2016 (audited)	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.05 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period/year	590,051,343	586,795,343	29,503	29,340
Exercise of share options	<u>272,000</u>	<u>3,256,000</u>	<u>13</u>	<u>163</u>
At end of the period/year	<u>590,323,343</u>	<u>590,051,343</u>	<u>29,516</u>	<u>29,503</u>

16. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries <i>HK\$'000</i>	Share-based compensation reserve of subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017 (audited)	32,923	67	32,990
Capital contribution from non-controlling interests	1,564	–	1,564
Deemed disposal of a subsidiary (<i>Note 5</i>)	(12,577)	–	(12,577)
Share of loss for the period	(28,078)	–	(28,078)
Share of other comprehensive income for the period	878	–	878
Share of employee share options benefit	–	9	9
	<u>–</u>	<u>9</u>	<u>9</u>
At 30 June 2017 (unaudited)	<u>(5,290)</u>	<u>76</u>	<u>(5,214)</u>
At 1 January 2016 (audited)	49,340	50	49,390
Capital contribution from non-controlling interests	2,931	–	2,931
Share of loss for the year	(19,596)	–	(19,596)
Share of other comprehensive income for the year	248	–	248
Share of employee share options benefit	–	17	17
	<u>–</u>	<u>17</u>	<u>17</u>
At 31 December 2016 (audited)	<u>32,923</u>	<u>67</u>	<u>32,990</u>

The non-controlling interests represent nil (31 December 2016: 43.74%), 43.74% (31 December 2016: 43.74%) and 35% (31 December 2016: 35%) equity interests held by third parties in CVie Therapeutics Limited, CVie Therapeutics Company Limited and China Oncology Focus Limited respectively.

Non-controlling interests in CVie Therapeutics Limited was deemed disposed in the reporting period. Details please refer to note 5 to the unaudited condensed consolidated financial statements.

17. RELATED PARTY TRANSACTIONS

During the reporting 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) Interest income from shareholder loans to PPI

During the six months ended 30 June 2017, the Group received approximate HK\$401,000 (six months ended 30 June 2016: HK\$417,000) interest income from loans to PPI.

(b) Compensation of key management personnel

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term employee benefits	17,673	9,301
Share-based payments	796	521
Retirement and other post-employment benefits	5,127	6,027
	<u>23,596</u>	<u>15,849</u>

(c) Issue of subsidiary's shares to Perfect Concept Holdings Limited ("Perfect Concept")

During the period under review, China Oncology Focus Limited ("COF"), on a pro rata basis, issued 2,800 shares to 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\$201,600 (approximately HK\$1,563,000).

(d) Donation to Lee's Pharmaceutical – Kanya Lee Scholarship Limited ("Kanya Lee Scholarship")

During the six months ended 30 June 2017, total HK\$200,000 (six months ended 30 June 2016: HK\$200,000) was donated to Lee's Pharmaceutical – Kanya Lee Scholarship Limited ("Kanya Lee Scholarship"). Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

18. CAPITAL COMMITMENTS

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Capital commitments contracted for in respect of:		
Investment in available-for-sale financial assets	16,864	15,760
Intangible assets – license fee and development cost	69,124	89,763
Property, plant and equipment	23,229	23,370
Construction contracts	34,756	41,649
	<u>143,973</u>	<u>170,542</u>
Authorised but not contracted for:		
Intangible assets – license fee and development cost	<u>43,060</u>	<u>21,890</u>

19. PLEDGE OF ASSETS

At 30 June 2017, the Group has pledged bank deposits of HK\$37,219,000 to secure general banking facilities granted to an associate of the Group (31 December 2016: pledged bank deposits of HK\$26,639,000 to secure general banking facilities granted to the Group and service provided by supplier).

The Group's obligations under finance leases is secured by the lessor's title to the motor vehicles, which have an aggregate carrying amount of HK\$1,763,000 as at 30 June 2017 (31 December 2016: HK\$1,874,000).

INTERIM DIVIDEND

The Board of Directors recommended an interim dividend of HK\$0.034 (2016: HK\$0.033) per share to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 14 September 2017.

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 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 13 September 2017 to Thursday, 14 September 2017 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompany by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1726, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 12 September 2017. Interim dividend will be paid on Wednesday, 27 September 2017 to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 14 September 2017.

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 2017, 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 2017 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, 24 August 2017

As at the date of this announcement, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive directors of the Company, Dr. Marco Maria Brughera is a non-executive director of the Company, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive directors of the Company.