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## **Lee's Pharmaceutical Holdings Limited**

**李氏大藥廠控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 950)

### **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014**

#### **BUSINESS REVIEW**

The Group continued to outperform the market with brisk pace in sales growth in the second quarter of 2014, making the first half of the year a period of steady growth and progresses in a myriad of aspects.

Revenue for the second quarter of this year reached HK\$ 236,502,000, representing increase of 27% compared with the second quarter of 2013 and a sequential increase of 15% over first quarter of 2014. Turnover for first half year of 2014 increased by 32% over same period last year and reached a new height of HK\$442,716,000. Expansion of sales of the Group's six major products remained as the engine of growth with *Zanidip*<sup>®</sup> leading in pole position with a leap of 85% during the six months period compared with same period last year. Sales of other products also grew significantly during first half year with sales of *Livaracine*<sup>®</sup>, *Carnitene*<sup>®</sup>, *Ferplex*<sup>®</sup> and *Yallaferon*<sup>®</sup> increased by 37%, 36%, 35% and 25% respectively over the same period last year. *Slounase*<sup>®</sup> has also rekindled its growth momentum with a sales increase of 8% over the same period last year.

Despite the substantial growth in revenue, the next profit growth in the second quarter was dragged down by a few non-recurrent expenses. Gross profit margin for three months ended 30 June 2014 dropped 1.2 percentage points compared with same period last year. The dip in gross profit margin in the second quarter was mainly attributable to temporary higher production cost associated with transition to manufacturing in Hefei's new GMP compliant facility. Selling expenses to turnover ratio for the second quarter increased by 4.6 percentage points to 34.3% over the same period last year. The spike in the selling expenses of the quarter was caused by non-recurring marketing expenses for preparation of launch of newly approved products. There was also share of loss of HK\$1,863,000 from Powder Pharmaceuticals Incorporated which has become an associate of the Group only since the third quarter of 2013.

\* For identification purposes only

The increase in those one-time expenses and share of loss of an associate put pressure on net profit margin for second quarter, ensuing a 1.4 percentage points drop to 19% over first quarter this year. Net profit for the second quarter 2014 was HK\$44,973,000, representing an increase of 9% over second quarter last year. However, excluding the one-time items, the net profit for the second quarter grew in line with the increase in revenue. Net profit attributable to shareholders for the six months ended 30 June 2014 increased by 18% over same period last year and reached HK\$87,073,000.

Works on the Group's Nansha manufacturing site continued during the quarter with an aim to move some of the Group's operations into the new location in the third quarter. One of the priorities is the Group's licensed pharmaceutical import and distribution company Zhaoke Lianfa which has become the Group's wholly-owned subsidiary since April 2014. A new GSP compliant warehouse of Zhaoke Lianfa is under construction in the Nansha site. The new location is strategically important as it is in proximity to our tax free warehouse and port. It is the Group's intention to fully leverage on its wholly-owned import company to be more cost effective in the import and distribution of its licensed products. As the Group's licensed products grew an impressive 41% during the first half year of 2014 compared with same period last year and accounted for 60% the Group's total revenue, the savings from the improved efficiency and effectiveness will be significant in the near future.

Production in Hefei's new GMP compliant facility has been going well and the cost-efficient effect of the fully automatic production line will be apparent in the third quarter, improving the overall gross margin of the Group.

Research and development remained as the focal point of the Group, evidenced by the 26% increase in R&D spending during the quarter compared to the same period last year and a burst of activities in the area. During the period under review, the Group had reached the targeted enrollment of 360 patients in its registration enabling clinical study of Prulifloxacin for the treatment of acute exacerbation of chronic bronchitis in the Chinese population. The Group is expected to submit the Import Drug License application during the third quarter and looking forward to its approval in the future.

In June 2014, Chinese FDA accepted a Phase II IND for RGN-259 (thymosin beta 4-based, preservative-free eye drops) to be tested in patients with moderate to severe dry eye syndrome in China. RGN-259 is one of several product candidates licensed to the Group by RegeneRx of USA for China, Hong Kong, Macau and Taiwan. The successful submission of RGN-259 highlights the Group's research & development interest and capability in developing its product pipeline in the area of ophthalmology. Clinical trial in China is expected to be initiated in first quarter 2015.

In April, the Group has formally launched both *Remodulin*<sup>®</sup> and oral carnitine into the market in China. As a life-saving drug for pulmonary hypertension, *Remodulin*<sup>®</sup> has generated enthusiasm from specialists across the country. It is quite fulfilling to see *Remodulin*<sup>®</sup> help patients and address the unmet medical need in the clinical setting. Doctors really appreciate to have new option to treat a deadly disease like pulmonary hypertension. The adoption of the drug in the management of severe pulmonary hypertension by doctors is in line with Group's expectations. We look forward to expanding the understanding of pulmonary hypertension and making *Remodulin*<sup>®</sup> available to more patients in China in the next quarter and beyond. The launch of oral carnitine complements well to the Group's carnitine franchise and provide catalyst for future growth. The Group is actively participating in new tenders for the product and expect to see a gradual uptake of sales in the future.

Partnership remains as the core of the Group's growth strategy and two more cooperation agreements were cemented during the second quarter.

In April, the Group entered into a License, Distribution and Supply Agreement to market Sodium Neridronate finished product in China, Hong Kong, Macau and Taiwan. The product is indicated for two orphan/rare diseases Osteogenesis Imperfecta and Complex Regional Pain Syndrome (also known as Algodistrophy). Neridronate is the only therapeutic agent approved in the world for the orphan diseases Osteogenesis Imperfecta (OI, Brittle bone disease) and Complex Regional Pain Syndrome (CRPS). Neridronate consistently showed superior safety profile in long-term use and is highly tolerated by adults and pediatric population. It is the only bisphosphonate indicated for use in neonates and children.

In May 2014, the Group and ScinoPharm Taiwan, a specialty Active Pharmaceutical Ingredient (API) company entered two collaboration agreements to jointly develop and produce Fondaparinux, an anti-thrombotic agent and Travoprost and Bimatoprost, two prostaglandin derivative drugs for treating glaucoma. Capitalizing on the strengths and expertise of the two companies, the products are expected to offer competitive advantages upon entering into the Chinese high-end generic drug market. The competitive advantage of ScinoPharm in the development and manufacturing of API and the strength of the Group in the development, manufacturing and marketing of pharmaceuticals will complement one another and creating tremendous synergy. This partnership will enable the Group to be more aggressive in its drug development efforts, creating new territory for future growth.

## **PROSPECT**

The macro environment for the industry has turned more favorable in recent months and the fundamentals of the Group are sound. The Group is confident that the growth momentum remains on its trajectory and more improvement can be achieved.

The six major products will continue to benefit from the Group's relentless drive in increasing market penetration. The increasing sophistication in marketing and promotion will span the reach of the Group's products, creating new catalyst of sales growth.

With Zhaoke Lianfa coming to full operation in the Group's new Nansha site as a wholly-owned subsidiary, significant savings in importation and distribution of the Group's licensed products, as a result of direct control of such channel, could translate to improved margins for the products and better market responsiveness.

The Group is also looking for one or two new product approvals from the CFDA in the second half of year. Such approvals will further ascertain the pipeline strategy of the Group and generate stronger momentum for future growth.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the three months and six months ended 30 June 2014*

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2014	2013	2014	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	(3)	<b>236,502</b>	186,322	<b>442,716</b>	334,769
Cost of sales		<b>(72,648)</b>	(54,924)	<b>(131,249)</b>	(96,542)
Gross profit		<b>163,854</b>	131,398	<b>311,467</b>	238,227
Other revenue		<b>1,148</b>	936	<b>6,743</b>	2,727
Selling and distribution expenses		<b>(81,112)</b>	(55,267)	<b>(148,606)</b>	(102,206)
Research and development expenses		<b>(12,497)</b>	(9,937)	<b>(22,416)</b>	(14,401)
Administrative expenses		<b>(17,966)</b>	(18,275)	<b>(40,915)</b>	(37,406)
Profit from operations	(5)	<b>53,427</b>	48,855	<b>106,273</b>	86,941
Finance costs		<b>(596)</b>	(268)	<b>(1,382)</b>	(559)
Share of results of an associate		<b>(1,863)</b>	–	<b>(3,489)</b>	–
Profit before taxation		<b>50,968</b>	48,587	<b>101,402</b>	86,382
Taxation	(6)	<b>(7,552)</b>	(7,234)	<b>(17,241)</b>	(12,910)
Profit for the period		<b>43,416</b>	41,353	<b>84,161</b>	73,472
Attributable to:					
Shareholders of the Company		<b>44,973</b>	41,444	<b>87,073</b>	73,754
Non-controlling interests		<b>(1,557)</b>	(91)	<b>(2,912)</b>	(282)
		<b>43,416</b>	41,353	<b>84,161</b>	73,472
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share Basis	(8)	<b>8.28</b>	7.94	<b>16.07</b>	14.14
Diluted	(8)	<b>7.98</b>	7.48	<b>15.50</b>	13.33

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

*For the three months and six months ended 30 June 2014*

	For the three months ended 30 June		For the six months ended 30 June	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
Profit for the period	<b>43,416</b>	41,353	<b>84,161</b>	73,472
Other comprehensive income:				
Items that may not be reclassified subsequently to profit or loss:				
Exchange differences on translation of revaluation of overseas buildings	–	48	–	58
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	<b>(1,187)</b>	3,428	<b>(11,566)</b>	4,159
Other comprehensive (expense) income for the period, net of tax	<b>(1,187)</b>	3,476	<b>(11,566)</b>	4,217
Total comprehensive income for the period	<b><u>42,229</u></b>	<u>44,829</u>	<b><u>72,595</u></b>	<u>77,689</u>
Total comprehensive income (expense) for the period attributable to:				
Shareholders of the Company	<b>43,787</b>	44,918	<b>75,495</b>	77,969
Non-controlling interests	<b>(1,558)</b>	(89)	<b>(2,900)</b>	(280)
	<b><u>42,229</u></b>	<u>44,829</u>	<b><u>72,595</u></b>	<u>77,689</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment	(9)	289,038	263,073
Intangible assets		202,172	194,129
Lease premium for land		14,694	15,213
Goodwill		3,900	3,900
Interests in an associate		31,042	34,531
Held-to-maturity financial assets		5,240	5,156
Available-for-sale financial asset		–	7,882
		<b>546,086</b>	523,884
<b>Current assets</b>			
Lease premium for land		325	333
Inventories		98,448	117,881
Trade receivables	(10)	101,731	78,320
Other receivables, deposits and prepayments		64,790	43,788
Advance to related party		20,309	20,387
Derivative financial instrument		114	–
Pledged bank deposits		2,000	2,000
Time deposits		132,104	176,437
Cash and bank balances		249,963	202,625
		<b>669,784</b>	641,771
<b>Current liabilities</b>			
Trade payables	(11)	39,386	36,493
Other payables		135,030	145,365
Obligation under license contracts		7,849	7,923
Bank borrowings	(12)	60,683	69,468
Obligation under finance lease		22	150
Tax payables		20,205	12,758
		<b>263,175</b>	272,157
<b>Net current assets</b>		<b>406,609</b>	369,614
<b>Total assets less current liabilities</b>		<b>952,695</b>	893,498

		At <b>30 June 2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	At 31 December 2013 <i>HK\$'000</i> (audited)
<b>Capital and reserves</b>			
Share capital	(13)	<b>27,182</b>	26,912
Reserves		<b>812,140</b>	759,093
		<hr/>	<hr/>
<b>Equity attributable to the shareholders of the Company</b>		<b>839,322</b>	786,005
Non-controlling interests	(14)	<b>64,128</b>	66,053
		<hr/>	<hr/>
<b>Total equity</b>		<b>903,450</b>	852,058
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>14,199</b>	14,661
Obligation under license contracts		<b>3,174</b>	3,210
Retirement benefits		<b>31,872</b>	23,569
		<hr/>	<hr/>
		<b>49,245</b>	41,440
		<hr/>	<hr/>
		<b>952,695</b>	893,498
		<hr/> <hr/>	<hr/> <hr/>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2014*

	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	Revaluation reserve	Exchange reserve	Retained profits			Sub-total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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 income for the period	–	–	–	–	–	–	(11,578)	–	(11,578)	12	(11,566)
Total comprehensive income (expense) for the period	–	–	–	–	–	–	(11,578)	87,073	75,495	(2,900)	72,595
2013 final dividend paid	–	–	–	–	–	–	–	(28,251)	(28,251)	–	(28,251)
At 30 June 2014 (unaudited)	<u>27,182</u>	<u>298,313</u>	<u>9,200</u>	<u>6,204</u>	<u>59,316</u>	<u>–</u>	<u>11,706</u>	<u>427,401</u>	<u>839,322</u>	<u>64,128</u>	<u>903,450</u>
At 1 January 2013 (audited)	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279
Employee share option benefits	–	–	–	1,417	–	–	–	–	1,417	–	1,417
Exercise of share options	51	2,284	–	(347)	–	–	–	–	1,988	–	1,988
Share options lapsed	–	–	–	(2)	–	–	–	–	(2)	–	(2)
Share of share-based compensation reserve of a subsidiary	–	–	–	15	–	–	–	–	15	5	20
Deemed partial disposal of interest in a subsidiary	–	–	–	–	11,592	–	–	–	11,592	11,670	23,262
Profit (loss) for the period	–	–	–	–	–	–	–	73,754	73,754	(282)	73,472
Other comprehensive income for the period	–	–	–	–	–	58	4,157	–	4,215	2	4,217
Total comprehensive income (expense) for the period	–	–	–	–	–	58	4,157	73,754	77,969	(280)	77,689
2012 final dividend paid	–	–	–	–	–	–	–	(20,871)	(20,871)	–	(20,871)
At 30 June 2013 (unaudited)	<u>26,106</u>	<u>262,940</u>	<u>9,200</u>	<u>4,375</u>	<u>28,630</u>	<u>4,094</u>	<u>18,793</u>	<u>300,126</u>	<u>654,264</u>	<u>22,518</u>	<u>676,782</u>

*Note:* Share of share-based compensation reserve of a subsidiary was derived from a subsidiary, CVie Therapeutics Company Limited, which has granted share options to its employees in 2012.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2014*

	<b>At 30 June 2014 HK\$'000 (unaudited)</b>	At 30 June 2013 HK\$'000 (unaudited)
Net cash generated from operating activities	<b>90,956</b>	15,331
Net cash used in investment activities	<b>(50,423)</b>	(82,033)
Net cash used in financing activities	<b>(32,005)</b>	(24,356)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>8,528</b>	(91,058)
Cash and cash equivalents at 1 January	<b>379,062</b>	333,902
Effect of foreign exchange rate changes	<b>(5,523)</b>	1,763
	<hr/>	<hr/>
Cash and cash equivalent at 30 June	<b><u>382,067</u></b>	<b><u>244,607</u></b>
	<hr/>	<hr/>
Analysis of the balance of cash and cash equivalent		
Cash and bank balances	<b>249,963</b>	142,545
Time deposits	<b>132,104</b>	102,062
	<hr/>	<hr/>
	<b><u>382,067</u></b>	<b><u>244,607</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements to 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 condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statement for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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

### 3. TURNOVER

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

#### 4. SEGMENT INFORMATION

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

*Six months ended 30 June 2014*

##### Business segments

	Proprietary products		Licensed products		Consolidated	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment turnover	<b>177,306</b>	145,981	<b>265,410</b>	188,788	<b>442,716</b>	334,769
Segment results	<b>61,322</b>	50,485	<b>61,608</b>	52,632	<b>122,930</b>	103,117
Interest income					<b>1,575</b>	771
Unallocated expenses					<b>(18,232)</b>	(16,947)
Profit from operations					<b>106,273</b>	86,941
Finance costs					<b>(1,382)</b>	(559)
Profit before share of results of an associate					<b>104,891</b>	86,382
Share of results of an associate					<b>(3,489)</b>	-
Profit before taxation					<b>101,402</b>	86,382
Taxation					<b>(17,241)</b>	(12,910)
Profit for the period					<b>84,161</b>	73,472

##### Geographical segments

During the six months ended 30 June 2014 and 2013, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical segmental information is presented.

## 5. 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	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
Depreciation of property, plant and equipment	4,625	2,793	8,863	5,464
Amortisation of lease premium for land	81	95	162	176
Amortisation of intangible assets	2,113	1,729	4,788	2,427
Total depreciation and amortisation	<u>6,819</u>	<u>4,617</u>	<u>13,813</u>	<u>8,067</u>
Written back of provision for bad and doubtful debts	(1,012)	(1,682)	(1,355)	(1,186)
Gain on disposal of available-for-sale financial asset	–	–	1,774	–
Interest expenses	<u>640</u>	<u>233</u>	<u>1,292</u>	<u>498</u>

## 6. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
Current tax				
Hong Kong Profits Tax	4,080	3,497	10,400	7,460
PRC Enterprise Income Tax	3,398	3,930	6,108	5,273
Under (over) provision in prior years	–	(3)	978	(142)
	<u>7,478</u>	<u>7,424</u>	<u>17,486</u>	<u>12,591</u>
Deferred tax				
Origination and reversal of temporary differences	74	(190)	(245)	319
	<u>7,552</u>	<u>7,234</u>	<u>17,241</u>	<u>12,910</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.

## 7. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
Interim dividend declared – HK\$0.027 (2013: HK\$0.023) per ordinary share based on issued share capital at the end of the reporting period	<b>14,678</b>	12,009	<b>14,678</b>	12,009

Interim dividend will be payable on 16 October 2014 to shareholders registered in the Company's Register of Members as at the close of business on 18 September 2014. 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.

2013 final dividend of HK\$0.052 per share, totalling HK\$28,251,000 was paid in June 2014.

## 8. 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	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
<i>Earnings:</i>				
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	<b>44,974</b>	41,444	<b>87,073</b>	73,754
Effect of dilutive potential ordinary shares:				
Adjustment in relation to contingent share agreement	<b>(474)</b>	–	<b>(877)</b>	–
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	<b>44,500</b>	41,444	<b>86,196</b>	73,754

	For the three months ended 30 June		For the six months ended 30 June	
	2014 <i>Share(s)</i> (unaudited)	2013 <i>Share(s)</i> (unaudited)	2014 <i>Share(s)</i> (unaudited)	2013 <i>Share(s)</i> (unaudited)
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic earnings per shares	<b>542,948,483</b>	521,813,503	<b>541,730,532</b>	521,593,525
Effect of dilutive potential ordinary shares:				
Options	<b>10,041,805</b>	11,729,692	<b>9,479,747</b>	11,585,031
Contingent share agreement	<b>4,995,724</b>	20,162,391	<b>4,995,724</b>	20,162,391
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>557,986,012</b>	553,705,586	<b>556,206,003</b>	553,340,947

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

During the period ended 30 June 2014, additions to property, plant and equipment amount to HK\$41.69 million.

#### 10. 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 2014 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 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
0 – 30 days	<b>50,405</b>	38,656
31 – 120 days	<b>41,787</b>	23,802
121 – 180 days	<b>5,608</b>	4,362
181 – 365 days	<b>3,251</b>	4,404
Over 365 days and under 3 years	<b>680</b>	7,096
	<b>101,731</b>	78,320

## 11. TRADE PAYABLES

The fair value of the Group's trade payables as at 30 June 2014 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 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
0 – 90 days	32,756	16,906
91 – 180 days	–	19,583
181 – 365 days	6,626	–
Over 365 days	4	4
	<u>39,386</u>	<u>36,493</u>

## 12. BANK BORROWINGS

	At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
Carrying amount of borrowings which are repayable:		
Within one year	16,413	17,157
More than one year but not exceeding two years	16,392	16,154
More than two years but not exceeding five years	27,878	36,157
	<u>60,683</u>	<u>69,468</u>

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

The effective interest rates of the bank borrowings range from 3.00% to 4.44% per annum.



### 13. SHARE CAPITAL

	Number of share		Share capital	
	At 30 June 2014 (unaudited)	At 31 December 2013 (audited)	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
<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	538,245,604	521,104,437	26,912	26,055
Exercise of share options	5,393,000	1,974,500	270	99
Issue of shares pursuant to Shareholders' Agreement	–	15,166,667	–	758
At end of the period/year	<u>543,638,604</u>	<u>538,245,604</u>	<u>27,182</u>	<u>26,912</u>

### 14. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries HK\$'000	Share-based compensation reserve of subsidiary HK\$'000	Total HK\$'000
At 1 January 2014 (audited)	66,039	14	66,053
Share of loss for the period	(2,912)	–	(2,912)
Share of other comprehensive income for the period	12	–	12
Share of employee share option benefits	–	9	9
Reduction in non-controlling interests arising from acquisition of additional interest in a subsidiary	966	–	966
At 30 June 2014 (unaudited)	<u>64,105</u>	<u>23</u>	<u>64,128</u>
At 1 January 2013 (audited)	11,122	1	11,123
Additional non-controlling interests arising from deemed partial disposal of interest in a subsidiary	56,380	–	56,380
Share of loss for the year	(1,464)	–	(1,464)
Share of other comprehensive income for the year	1	–	1
Share of employee share options benefits	–	13	13
At 31 December 2013 (audited)	<u>66,039</u>	<u>14</u>	<u>66,053</u>

## 15. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

In April 2014, the Group entered into a sale and purchase agreement with the non-controlling interests of a subsidiary in the PRC in respect of the acquisition of 33% equity interest in that subsidiary for a consideration of RMB24,000 (approximate HK\$30,000). The difference between the consideration paid and the carrying amount of the additional interest acquired by the Group of HK\$996,000 was debited to equity as other reserve during the reporting period.

## 16. 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	
			2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Sigma-tau Group	(1)	Purchase of pharmaceutical products	22,116	60,180
Sigma-tau Group	(1)	Purchase of experimental products for use in R&D	803	2,135
			<u>22,919</u>	<u>62,315</u>

*Note:*

1. Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. is a shareholder of the Company which is also a member of Sigma-Tau Group.

### (b) Interest income from shareholder loans to Powder Pharmaceuticals Incorporated ("PPI")

During the six months ended 30 June 2014, the Group received approximate HK\$242,000 (30 June 2013: HK\$235,000) interest income from loans to PPI. PPI is an associate to the Group.

### (c) Provision of guarantee to Powder Pharmaceuticals Incorporated ("PPI")

In May 2014, the Company executed a Deed of Guarantee in favour of the Bank which has given certain bank facilities to PPI. The guarantee amount was HK\$6,000,000, including but not limited to all interest, commissions, fees, other charges payable by PPI to the Bank, any costs and expenses incurred by the Bank in the recovery of payment from PPI. Further details please refer to the announcement of the Company dated 2 May 2014.

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

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

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Short-term employee benefits	<b>6,367</b>	8,128
Share-based payments	<b>586</b>	389
Retirement and other post-employment benefits	<b>8,326</b>	6,884
	<b>15,279</b>	15,401

**17. CAPITAL COMMITMENTS**

	<b>30 June 2014</b>	31 December 2013
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Capital commitments in respect of:–		
Intangible assets – license fee and development cost	<b>12,523</b>	15,049
Property, plant and equipment	<b>29,185</b>	15,308
Construction contract	<b>25,153</b>	28,096
	<b>66,861</b>	58,453

**18. PLEDGED OF ASSETS**

As at 30 June 2014, the Group has pledged bank deposit of HK\$2,000,000 (31 December 2013: HK\$2,000,000) to secure general banking facilities granted to the Group.

In addition, the Group's obligation under finance leases is secured by the lessors' title to the motor vehicle, which has a carrying amount of HK\$509,593 (31 December 2013: HK\$544,338).

**19. 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).

<b>At 30 June 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>THE GROUP</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>Total</b>
				<i>HK\$'000</i>
Financial asset				
Derivative financial instrument	–	114	–	114
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 December 2013</b>				<b>THE GROUP</b>
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial asset				
Derivative financial instrument	–	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The fair value of derivative financial instrument is determined based on the quoted market prices for equivalent instruments at the end of the reporting period.

There were no transfers between Levels 1 and 2 in the current period.

Foreign currency forward contract classified as derivative financial instruments in the consolidated statement of financial position. Fair value as at 30 June 2014 is HK\$114,000 (31 December 2013: Nil) and the hierarchy is Level 2. Valuation techniques and key inputs is discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. There is neither significant unobservable inputs nor relationship of unobservable inputs to fair value.

## **20. EVENTS AFTER THE END OF THE REPORTING PERIOD**

In July 2014, the Group and Powder Pharmaceuticals Incorporated (“PPI”) enter into two supplemental agreements to extend the term of two shareholders loans to PPI for one year and the interest rate remains at 4 % per annum. Further details are set in the Company’s announcement dated 23 July 2014.

## **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 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Wednesday, 17 September 2014 to Thursday, 18 September 2014 (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, 16 September 2014. Interim dividend will be payable on 16 October 2014 to shareholders registered in the Company's Register of Members as at the close of business on 18 September 2014.

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

The interim results for the six months ended 30 June 2014 are unaudited, but have been reviewed by 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. The audit committee of the Company has reviewed with the management and auditor this unaudited interim report for the six months ended 30 June 2014 before recommending it to the Board for approval.

## **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 2014, 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.

On behalf of the Board  
**Lee Siu Fong**  
Chairman

Hong Kong, 25 August 2014

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