LEE'S PHARM.
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 REPORT 2014

* For identification purpose only

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*® 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*®, *Carnitene*®, *Ferplex*® and *Yallaferon*® increased by 37%, 36%, 35% and 25% respectively over the same period last year. *Slounase*® 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.

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*® and oral carnitine into the market in China. As a life-saving drug for pulmonary hypertension, *Remodulin*® has generated enthusiasm from specialists across the country. It is quite fulfilling to see *Remodulin*® 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*® 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.

FINANCIAL REVIEW

Gross Profit Margin

Gross profit margin for the six months ended 30 June 2014 was 70.4%, represented drop of 0.8 percentage point compared with gross profit margin of 71.2% for the same period last year. It was mainly attributable to increase in manufacturing cost for in-house products.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the six months ended 30 June 2014 was 33.6%, represented an increase of 3.1 percentage points compared with 30.5% for same period last year. It was mainly attributable to the increase in selling and marketing expenses for preparation of launch of newly approved products.

Research and Development Expenses

Research and development expenses for the first half year increased by 56% to HK$22,416,000 over same period last year mainly due to more investment in new development projects.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2014 increased by 9.4% over same period last year to HK$40,915,000. It was mainly attributable to increase in staff cost during the period.

Other receivables, Deposits and Prepayments

The balance of other receivables, deposits and prepayments as at 30 June 2014 amounted to HK$64,790,000, represented a significant increase compared with the balance of HK$43,788,000 as at 31 December 2013. It was mainly attributable to increase in deposits paid for acquisition of fixed asset for Hefei factory and new plant in Nansha and also increase in deposit paid for purchase of raw material by Hefei factory.

Other Payables

Other payables balance as at 30 June 2014 amounted to HK$135,030,000 while the balance as at 31 December 2013 amounted to 145,365,000. Other payables included advance receipt of sales deposits, amounts payable in respect of sales commission, acquisition cost of fixed asset and R&D cost. The decrease in balance was mainly attributable to the decrease in advance receipt of sales deposits.

Liquidity and Financial Resources

As at 30 June 2014, the Group had cash and bank balances and pledged bank deposit of HK$384,067,000 (31 December 2013: HK$381,062,000). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.55 times (31 December 2013: 2.36 times). As at 30 June 2014, the Group had bank and other borrowings of HK$60,683,000 and equity attributable to shareholders of the Company of HK$839,322,000. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to equity attributable to shareholders of the Company, was nil as at 30 June 2014 and 31 December 2013. 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 future.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen 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 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 obligations under finance leases are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK$509,593 (31 December 2013: HK$544,338).

Employee Information

As at 30 June 2014, the Group had 624 employees (31 December 2013: 594 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$66.3 million (HK$52 million for the six months ended 30 June 2013). 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 was adopted upon expiry of the 2002 Share Option Scheme.

Movements of the share option during the period ended 30 June 2014 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2014**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 30.06.2014**
Directors						
Lee Siu Fong	20.12.2010	232,500	–	–	–	232,500
	20.12.2012	521,000	–	–	–	521,000
	30.12.2013	538,000	–	–	–	538,000
Leelalertsuphakun Wanee	08.10.2012	319,000	–	(319,000)	–	–
	30.12.2013	538,000	–	–	–	538,000
Li Xiaoyi	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	465,000	–	–	–	465,000
	20.12.2011	469,000	–	–	–	469,000
	20.12.2012	521,000	–	–	–	521,000
	30.12.2013	538,000	–	–	–	538,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
	20.12.2010	300,000	–	–	–	300,000
Sub-total of Directors		5,889,500	–	(319,000)	–	5,570,500
Employees	25.06.2004	2,160,000	–	(2,160,000)	–	–
	11.07.2005	1,685,000	–	(1,685,000)	–	–
	02.01.2008	320,000	–	–	–	320,000
	12.01.2010	1,995,000	–	(1,175,000)	–	820,000
	08.10.2012	6,040,000	–	(54,000)	–	5,986,000
	05.04.2013	300,000	–	–	–	300,000
	30.12.2013	2,040,000	–	–	–	2,040,000
Consultants	02.06.2006	500,000	–	–	–	500,000
	02.01.2008	2,000,000	–	–	–	2,000,000
	26.11.2008	500,000	–	–	–	500,000
	20.12.2010	250,000	–	–	–	250,000
Sub-total of employees and consultants		17,790,000	–	(5,074,000)	–	12,716,000
Grand total		**23,679,500**	**–**	**(5,393,000)**	**–**	**18,286,500**

Notes:

1. **Particulars of share options:**

Date of Grant	**Exercise period**		**Exercise price per share** *HK$*
25.06.2004	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014	0.218
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	
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	

Date of Grant	Exercise period		Exercise price per share *HK$*
26.11.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018	0.383
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	
25.09.2009	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.03.2010-24.09.2019	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. 25.12.2010-24.09.2019	
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	
06.09.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020	2.990
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011-05.09.2020	
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	

Date of Grant	Exercise period		Exercise price per share *HK$*
07.10.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021	2.526
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	
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 will be 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 will be 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 will be exercisable during the period from 08.10.2013 to 07.10.2022;	
	(iv)	2,230,000 options will be exercisable during the period from 08.10.2014 to 07.10.2022;	
	(v)	2,650,000 options will be exercisable during the period from 08.10.2015 to 07.10.2022.	

Date of Grant	Exercise period		Exercise price per share *HK$*
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	
05.04.2013	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. during the period from 05.10.2013 to 04.04.2023	5.620
	(ii)	unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. during the period from 05.07.2014 to 04.04.2023	
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. during the period from 30.06.2014 to 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. during the period from 30.03.2015 to 29.12.2023	7.300
	(ii)	669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023;	
	(iii)	669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023;	
	(iv)	702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023.	

2. The weighted average closing price immediately before the dates on which the options were exercised was HK$7.901

Save as disclosed above, as at 30 June 2014 none of the directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

SHARE OPTION SCHEME OF A SUBSIDIARY

On 12 November 2012, a share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited ("CVie") was approved by the shareholders of the Company.

Movements of the share option during the period ended 30 June 2014 were as follows:

		Number of share options				
Grantees	Date of Grant	Outstanding at 1.1.2014	Granted	Exercised	Lapsed	Outstanding at 30.06.2014
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
				–	–	
Grand 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' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2014, the following directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO') were as follows:

1. Long positions

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		593,875		
	Interest held jointly with Leelalertsuphakun Wanee		1,600,000		
	Interest of corporation	*(i)*	120,290,625	122,484,500	22.53
Leelalertsuphakun Wanee	Beneficial owner		335,000		
	Interest held jointly with Lee Siu Fong		1,600,000		
	Interest of corporation	*(i)*	120,290,625	122,225,625	22.48
Li Xiaoyi	Beneficial owner		35,171,667		
	Interest of spouse	*(ii)*	16,000,000	51,171,667	9.41
Chan Yau Ching, Bob	Beneficial owner		1,040,000	1,040,000	0.19
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.06
Lam Yat Cheong	Beneficial owner		300,000	300,000	0.06

Notes:

(i) 120,290,625 Shares are held through Huby Technology Limited ("Huby Technology") which is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li'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.

(b) Share options

Name	**Capacity and nature**	**Number of options held**	**Number of underlying Shares**
Lee Siu Fong	Beneficial owner	1,291,500	1,291,500
Leelalertsuphakun Wanee	Beneficial owner	538,000	538,000
Li Xiaoyi	Beneficial owner	2,441,000	2,441,000
Mauro Bove	Beneficial owner	1,300,000	1,300,000
		5,570,500	5,570,500

(c) Shares of Powder Pharmaceutical Incorporated held by Dr. Li Xiaoyi can be converted into 330,113 shares of the Company upon exercising the conversion right by Dr. Li Xiaoyi.

(d) Aggregate long positions in the Shares and the underlying Shares

Name	**Number of Shares**	**Number of underlying Shares**	**Aggregate in number**
Lee Siu Fong	122,484,500	1,291,500	123,776,000
Leelalertsuphakun Wanee	122,225,625	538,000	122,763,625
Li Xiaoyi	51,171,667	2,771,113	53,942,780
Chan Yau Ching, Bob	1,040,000	–	1,040,000
Tsim Wah Keung, Karl	300,000	–	300,000
Lam Yat Cheong	300,000	–	300,000
Mauro Bove	–	1,300,000	1,300,000

As at 30 June 2014, Dr. Li Xiaoyi also had beneficial interest in 12,550 shares in Powder Pharmaceuticals Incorporated which has become an associated corporation of the Company since 2 July 2013.

2. Short positions

No short positions of directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the period ended 30 June 2014 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2014, the following persons/companies, other than a director or chief executive of the Company, who had interests or short positions in the Shares or 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:

1. Long positions

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		120,290,625	22.13
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.	Beneficial owner	*(i)&(ii)*	137,720,000	25.33
GL Trade Investment Limited	Beneficial owner		54,485,000	10.02
FIL Limited	Beneficial owner		36,936,777	6.79
High Knowledge Investments Limited	Beneficial owner	*(iii)*	16,000,000	2.94
Lue Shuk Ping, Vicky	Interest in corporation	*(iii)*	16,000,000	2.94
	Interest of spouse	*(iv)*	35,171,667	6.47

(b) *Underlying shares*

Name	Capacity and nature	*Note*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	*(iv)*	Share Options and conversion right	2,771,113

(c) *Aggregate long positions in the Shares and the underlying Shares*

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.	137,720,000	–	137,720,000
GL Trade Investment Limited	54,485,000	–	54,485,000
FIL Limited	36,936,777	–	36,936,777
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,171,667	2,771,113	53,942,780

Notes:

(i) Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. is the surviving company after the merger with Definate Farmaceutica S.A.

(ii) Cavazza Paolo and Paponi Claudia have interest in the shares held by Sigma-Tau Industrie Farmaceutiche Riunite S.p.A.

(iii) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(iv) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

2. Short positions

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.

Save as disclosed above, as at 30 June 2014, so far as is known to the directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Main Board Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months period ended 30 June 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.

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 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 accompanies 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.

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:
Mr. Mauro Bove

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, 25 August 2014

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 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 22 to 42, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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 Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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 no assume responsibility towards 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 these 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 are not prepared, in all material respects, in accordance with HKAS 34.

HLM CPA Limited
Certified Public Accountants

Chan Lap Chi
Practising Certificates number: P04084
Hong Kong, 25 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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	2013	**2014**	2013
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Turnover	(3)	**236,502**	186,322	**442,716**	334,769
Cost of sales		**(72,648)**	(54,924)	**(131,249)**	(96,542)
Gross profit		**163,854**	131,398	**311,467**	238,227
Other revenue		**1,148**	936	**6,743**	2,727
Selling and distribution expenses		**(81,112)**	(55,267)	**(148,606)**	(102,206)
Research and development expenses		**(12,497)**	(9,937)	**(22,416)**	(14,401)
Administrative expenses		**(17,966)**	(18,275)	**(40,915)**	(37,406)
Profit from operations	(5)	**53,427**	48,855	**106,273**	86,941
Finance costs		**(596)**	(268)	**(1,382)**	(559)
Share of results of an associate		**(1,863)**	–	**(3,489)**	–
Profit before taxation		**50,968**	48,587	**101,402**	86,382
Taxation	(6)	**(7,552)**	(7,234)	**(17,241)**	(12,910)
Profit for the period		**43,416**	41,353	**84,161**	73,472
Attributable to:					
Shareholders of the Company		**44,973**	41,444	**87,073**	73,754
Non-controlling interests		**(1,557)**	(91)	**(2,912)**	(282)
		43,416	41,353	**84,161**	73,472
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings per share					
Basis	(8)	**8.28**	7.94	**16.07**	14.14
Diluted	(8)	**7.98**	7.48	**15.50**	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	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period	**43,416**	41,353	**84,161**	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	**(1,187)**	3,428	**(11,566)**	4,159
Other comprehensive (expense) income for the period, net of tax	**(1,187)**	3,476	**(11,566)**	4,217
Total comprehensive income for the period	**42,229**	44,829	**72,595**	77,689
Total comprehensive income (expense) for the period attributable to:				
Shareholders of the Company	**43,787**	44,918	**75,495**	77,969
Non-controlling interests	**(1,558)**	(89)	**(2,900)**	(280)
	42,229	44,829	**72,595**	77,689

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	At 30 June 2014 HK$'000 (unaudited)	At 31 December 2013 HK$'000 (audited)
Non-current assets			
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
		546,086	523,884
Current assets			
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
		669,784	641,771
Current liabilities			
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
		263,175	272,157
Net current assets		**406,609**	369,614
Total assets less current liabilities		**952,695**	893,498

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2014

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to the shareholders of the Company										
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Revaluation reserve	Exchange reserve	Retained profits	Sub-total	Attributable to non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 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
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)	26,106	262,940	9,200	4,375	28,630	4,094	18,793	300,126	654,264	22,518	676,782

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

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

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.

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

Amendments to HKFRSs	Annual Improvements to HKFRS 2010-2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRS 2011-2013 Cycle[1]
HKFRS 9	Financial Instruments[2]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 19	Defined Benefit Plan: Employee Contributions[1]

1 Effective for annual periods beginning on or after 1 July 2014, with earlier application is permitted

2 No mandatory effective date yet determined but is available for adoption

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

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

Annual Improvements to HKFRS 2010 – 2012 Cycle

The *Annual Improvements to HKFRSs 2010 – 2012 Cycle* includes a number of amendments to various HKFRSs which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition", and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis for conclusion of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel service to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRS 2010 – 2012 Cycle* will have a material effect on the Group's condensed consolidated financial statements.

Annual Improvements to HKFRS 2011 – 2013 Cycle
The *Annual Improvements to HKFRSs 2011 – 2013 Cycle* includes a number of amendments to various HKFRSs which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of and accounted for in accordance with HKAS 39 or HKFRS 9 even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and
(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRS 2011 – 2013 Cycle* will have a material effect on the Group's condensed consolidated financial statements.

HKFRS 9 Financial Instruments
HKFRS 9 issued in 2009 introduced new requirements for the classification and measurements of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future will not have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations
HKFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

The directors do not anticipate that the application of these amendments to HKFRS 11 will have a significant impact on the Group's condensed consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a significant impact on the Group's condensed consolidated financial statements.

Amendments to HKAS 19 Defined Benefit Plan: Employee Contributions
The amendments to HKAS 19 clarify how an entity should account for contribution made by employees or third parties to defined benefits plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's condensed consolidated financial statements.

HKFRS 14 Regulatory Deferral Accounts
HKFRS 14 addresses the issues of financial reporting requirements for rate-regulated assets and liabilities (which are termed "regulatory deferral account balances") that arises when an entity is subject to rate regulation.

The directors anticipate that the application of HKFRS 14 will have no material impact on the Group's condensed consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers
The core principle of HKFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The directors do not anticipate that the application of HKFRS 15 will have a significant impact on the Group's condensed consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants
HKAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The amendments state that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

The directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a significant impact on the Group's 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	**177,306**	145,981	**265,410**	188,788	**442,716**	334,769
Segment results	**61,322**	50,485	**61,608**	52,632	**122,930**	103,117
Interest income					**1,575**	771
Unallocated expenses					**(18,232)**	(16,947)
Profit from operations					**106,273**	86,941
Finance costs					**(1,382)**	(559)
Profit before share of results of an associate					**104,891**	86,382
Share of results of an associate					**(3,489)**	–
Profit before taxation					**101,402**	86,382
Taxation					**(17,241)**	(12,910)
Profit for the period					**84,161**	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	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(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	**6,819**	4,617	**13,813**	8,067
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	**640**	233	**1,292**	498

6. Taxation

	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(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)
	7,478	7,424	**17,486**	12,591
Deferred tax				
Origination and reversal of temporary differences	**74**	(190)	**(245)**	319
	7,552	7,234	**17,241**	12,910

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	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(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	**14,678**	12,009	**14,678**	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	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Earnings:				
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	**44,974**	41,444	**87,073**	73,754
Effect of dilutive potential ordinary shares:				
Adjustment in relation to contingent share agreement	**(474)**	–	**(877)**	–
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	**44,500**	41,444	**86,196**	73,754

	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	**2014**	2013
	Share(s)	Share(s)	**Share(s)**	Share(s)
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per shares	**542,948,483**	521,813,503	**541,730,532**	521,593,525
Effect of dilutive potential ordinary shares:				
Options	**10,041,805**	11,729,692	**9,479,747**	11,585,031
Contingent share agreement	**4,995,724**	20,162,391	**4,995,724**	20,162,391
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**557,986,012**	553,705,586	**556,206,003**	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	At 31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**50,405**	38,656
31 – 120 days	**41,787**	23,802
121 – 180 days	**5,608**	4,362
181 – 365 days	**3,251**	4,404
Over 365 days and under 3 years	**680**	7,096
	101,731	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 *HK$'000* **(unaudited)**	At 31 December 2013 *HK$'000* (audited)
0 – 90 days	**32,756**	16,906
91 – 180 days	**–**	19,583
181 – 365 days	**6,626**	–
Over 365 days	**4**	4
	39,386	36,493

12. Bank borrowings

	At 30 June 2014 *HK$'000* **(unaudited)**	At 31 December 2013 *HK$'000* (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
	60,683	69,468

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	At 31 December 2013	**At 30 June 2014**	At 31 December 2013
			HK$'000	HK$'000
	(unaudited)	(audited)	**(unaudited)**	(audited)
Authorised:				
Ordinary shares of HK$0.05 each	**1,000,000,000**	1,000,000,000	**50,000**	50,000
Issued and fully paid:				
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	**543,638,604**	538,245,604	**27,182**	26,912

14. Non-controlling interests

	Share of net assets of subsidiaries	**Share-based compensation reserve of subsidiary**	**Total**
	HK$'000	*HK$'000*	*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)	64,105	23	64,128
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)	66,039	14	66,053

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
			22,919	62,315

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:–

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

17. Capital commitments

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital commitments in respect of:–		
Intangible assets – license fee and development cost	**12,523**	15,049
Property, plant and equipment	**29,185**	15,308
Construction contract	**25,153**	28,096
	66,861	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 date (unobservable inputs).

At 30 June 2014				**THE GROUP**
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial asset				
Derivative financial instrument	**–**	**114**	**–**	**114**

At 31 December 2013				THE GROUP
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial asset				
Derivative financial instrument	–	–	–	–

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.