

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2019

FINANCIAL HIGHLIGHT	Three months ended			Six months ended		
	30 June		Change	30 June		Change
	2019	2018		2019	2018	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Revenue	324,593	285,818	+13.57%	607,534	567,723	+7.01%
Gross profit	213,330	185,679	+14.89%	402,327	378,233	+6.37%
(Loss) profit attributable to the owners of the Company	(8,660)	55,593	-115.58%	38,294	125,771	-69.55%
	HK cents	HK cents		HK cents	HK cents	
(Loss) earnings per share						
Basic	(1.46)	9.39	-115.55%	6.47	21.26	-69.57%
Diluted	(1.46)	9.32	-115.67%	6.46	21.09	-69.37%

* For identification purpose only

INTERIM FINANCIAL STATEMENTS

The directors (the “**Directors**”) of Lee’s Pharmaceutical Holdings Limited (the “**Company**”) present herewith the unaudited consolidated interim financial results (the “**Interim Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018. The Interim Results are unaudited, but have been reviewed by the Company’s auditor, HLM CPA Limited (the “**Auditor**”) in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The audit committee of the Company has also reviewed with the management and the Auditor the Interim Results before recommending it to the board of Directors for approval.

BUSINESS REVIEW

Despite ongoing market challenges and the weakness of Renminbi during the quarter under review, the Group recorded an encouraging sales growth and entered back into the double-digit realm in the second quarter of the year and restored overall revenue growth in the first half of 2019. Inflationary pressure in the operating environment in China and active pharmaceutical ingredients (“**API**”) cost pressure persisted during the period under review. Nevertheless, such adverse impacts were largely mitigated by cost containment and productivity enhancement measures which enabled the Group to maintain stable gross margin level. With new products coming onto the markets, the Group has deployed more resources for the newly launched products during the quarter under review yet with an appropriate selling expenses to revenue ratio for the first half of 2019 being maintained. Amid the escalating administrative costs due to the increased scale of the business in Nansha site, the general operation and financial performance of the Group is in healthy and stable condition which enabled the Group to invest heavily to expedite the development of new drugs in the pipeline. Moreover, additional funds have been sought from internationally renowned investors for the Group’s ophthalmology research and development (“**R&D**”) arm, namely China Ophthalmology Focus Limited (“**COPFL**”) which has now become a 50.1% owned subsidiary of the Group, during the quarter under review which in turn strengthened the balance sheet of the Group and ensured adequate liquidity for the development of new products in the pipeline of COPFL.

However, even with the best science, failure is always an unwelcome but necessary force that shapes the biotech industry. During the period under review and up to date, the progress of the projects of Group’s oncology R&D arm, namely China Oncology Focus Limited (“**COFL**”), a 65% owned subsidiary of the Group, was mixed. The clinical studies for PD-L1(ZKAB001) have made good progress in the past few months, particularly the study thereof for recurrent and metastatic cervical cancer will soon enter the registration enabling expansional study which could lead to conditional approval if a favourable outcome can be elicited. Nevertheless, following the unsatisfactory results of the global Phase III clinical trial evaluating the oncolytic immunotherapy Pexa-Vec

(formerly JX-594) for advanced liver cancer (the “**PHOCUS Study**”) announced in August 2019 which was jointly implemented by COFL and its business partners in Korea and France, a full impairment of the related R&D costs previously capitalised was made in the second quarter of the year by COFL which in turn eroded a significantly portion of the net profit attributable to the owners of the Company during the first half of 2019.

Revenue for the second quarter of this year was HK\$324,593,000, represented an increase of 13.6% over same quarter last year and a sequential increase of 14.7% over the first quarter of 2019. During the quarter under review, the revenue growths of the Group’s major products were mixed. Carnitene[®], Ferplex[®], Zanidip[®] and Yallaferon[®] have recorded revenue growths of 13.4%, 35.7%, 31.1% and 20.5%, respectively, which were mainly driven by the accelerated sales volume in the market, while Livaracine[®] and Slounase[®] were underperformed. Revenue for the first half of 2019 was HK\$607,534,000, represented an increase of 7.0% over same period last year.

Sales of licensed-in products accounted for 55.4% (For the six months ended 30 June 2018: 53.0%) of the Group’s revenue while sales of proprietary products contributed 44.6% (For the six months ended 30 June 2018: 47.0%) of the Group’s revenue.

During the first half of 2019, the Group’s gross profit increased by HK\$24,094,000 or 6.4%. The Group’s gross profit for the second quarter of this year increased by HK\$27,651,000 or 14.9%. The Group’s gross profit margin for the second quarter of this year was 65.7%, slightly improved by 0.7 percentage point as compared to 65.0% achieved during the same quarter last year, but sequentially dropped by 1.1 percentage points as compared to the first quarter this year.

Sales efficiency continued to show improvement during the quarter under review which enabled the Group to maintain a steady and healthy selling expense to revenue ratio of 17.8% for the first half of 2019, which represented an enhancement of 0.2 percentage point as compared to the same period last year.

During the first half of 2019, the R&D expenses was increased by 23.4% to HK\$78,812,000, which represented 13.0% of the Group’s revenue during the period under review. Overall, the Group invested HK\$159,736,000 in R&D in the first six months of the 2019, including expensed and capitalised parts, which was equivalent to 26.3% of the Group’s revenue. Amid the impact of the increased administrative expenses during the period under review for the business expansion in Nansha site, the Group has made the best efforts to strike the balance between profitability of its core operating businesses and new products development. However, despite serious efforts invested by COFL and its business partners in the past few years, the PHOCUS Study eventually ended in vain after its interim results has suggested that the PHOCUS Study was unlikely to meet the primary objective by the time of the final analysis. As a result, full impairment of the R&D costs amounted to HK\$108,564,000 in relations to the PHOCUS Study previously capitalised has been made, and net profit attributable to the owners of the Company has been negatively impacted thereby for the first half of 2019.

The Group's solid dosage production facilities and ophthalmic drug production facilities in Nansha site are already fully operational with valid manufacturing licenses for various kinds of products. During the period under review, batch samples such as Apremilast tablets, Zotiraciclib (TG02) capsules, Gimatecan liquid capsules, and Mictonorm® capsules have been manufactured for GMP application and clinical trials. In addition, the transfer of Aliskiren manufacturing technology has been completed and batch samples have been manufactured for GMP application. In Hefei site, the upgrading of facilities for APIs such as Nadroparin calcium (那曲肝素鈣) is in progress during the period under review.

There are bound to be good times and bad times in new drug developments. Apart from the failure of the PHOCUS study to reach the endpoint, the Group continued its efforts to accelerate various ongoing clinical development programs to reach the destinations.

During the period under review and up to date, the Group's applications for Import Drug License ("IDL"), namely Trazodone®, Prulifloxacin and INOMax®, were under review by the Centre for Drug Evaluation (the "CDE").

The Group's applications for Abbreviated New Drug Application ("ANDA"), namely Sodium Phenylbutyrate Tablet, Sodium Phenylbutyrate Powder, Treprostinil and Fondaparinux, were also in good progress. Among these ANDA submissions, the bioequivalence studies for Sodium Phenylbutyrate Powder has commenced in May 2019, and technical reviews of Sodium Phenylbutyrate Tablet has been substantially completed and a notice for supplementary information has been received. For Treprostinil, the Group is actively communicating with the CDE for its acceptance for priority review. For Fondaparinux, the bioequivalence studies have been completed and is pending for ANDA approval.

Three separate Phase I clinical trials for ZKAB001 to study the safety and efficacy thereof in (1) recurrent and metastatic cervical cancer; (2) urothelial cancer; and (3) maintenance stage of sarcoma after its first line treatment, conducted by COFL have made good progress during the period under review.

The trial for cervical cancer is being conducted by two centers, Cancer Hospital Chinese Academy of Medical Sciences and Wuhan Union Hospital with Doctor Lingying Wu as the principal investigator. The trial consists of two phases, a traditional open labeled 3+3 dose escalation phase followed by an expansion phase. In the dose escalation phase, 3 doses, 5mg/kg, 10mg/kg, 15mg/kg, will be tested with 14 days administration cycle in patients with recurrent and metastatic cervical cancer. Once the maximum tolerated dose ("MTD") has been determined, 60 patients will be enrolled under MTD treatment as an expansion phase. The trials for urothelial cancer and sarcoma are also using a 3+3 design with 5mg/kg, 10mg/kg and 15mg/kg dosing regimens. Once the MTD has been established, addition patients are expected to be recruited in an expanded Phase I protocol. To date, 14 cervical cancer patients, 10 urothelial carcinoma patients and 18 sarcoma patients have been enrolled for the respective clinical trials and the initial observations to the diagnosis results of certain patients have shown positive outcomes.

In the clinical study of ZKAB001 for cervical cancer, to date, 11 patients were examined and 4 of whom had partial response (PR) (implied Objective Response Rate (“**ORR**”) of 36.4%). With reference to a similar study of Pembrolizumab under Keynote-158 conducted by Merck and Co., Inc. (“**Merck**”) in the United States in 2018, 98 patients were enrolled with an ORR of 12.2%, and in turn Pembrolizumab has successfully obtained approval for patients with recurrent and metastatic cervical cancer from the U.S. Food and Drug Administration using the results thereof. Therefore, COFL will conduct a registration enabling expansional study that will enroll an additional of 50 patients and will involve 15 clinical trial centers in China. The patient enrollment is expected to be completed by the end of 2019 and the application to the National Medical Products Administration (“**NMPA**”) shall be made in 2020 if the results are positive which could lead to conditional approval of ZKAB001 for this kind of indication.

In the study for urothelial cancer, 8 patients were examined and 2 of whom had PR (implied ORR of 25%). COFL and the principal investigator of this study have decided to initiate a registration enabling study for the first line treatment of urothelial cancer with ZKAB001 combines with chemotherapy.

In the sarcoma maintenance trial after patients receiving first line treatment, to date, only 1 out of 14 patients showed a tumor recurrence (7.1%). With the consent of the principal investigator of this study, COFL will conduct a registration enabling study to compare the event-free survival (“**EFS**”) over one year of using ZKAB001 or placebo control in this kind of sarcoma patients who are mostly under 18 years old.

The Phase II study of the Group’s in-house product, Cyclosporine A Eye Gel for the treatment of dry eye syndrome (the “**DES**”) in China is designed as a Phase II multi center, randomised, single-blind, positive controlled and dose finding exploratory clinical trial to evaluate efficacy and safety of Cyclosporine A Eye Gel in treating patients with moderate to severe DES and to explore the optimal dose and frequency of Cyclosporine A Eye Gel in those patients. This trial is led by Professor Zhou Shiyu from Zhongshan Ophthalmic Centre, Sun Yat-sen University. The study required a total of 240 patients assigned to four cohorts and patient enrollment has been completed. The primary outcome measures of the change of eye dryness score from the baseline after the 12 weeks treatment in each cohort. The study is expected to be completed by September 2019.

The registration enabling Phase III study of the Group’s in-house product, Adapalene and Clindamycin combination gel for acne is led by Professor Gu Heng from the Hospital for Skin Diseases, Chinese Academy of Medical Sciences and involved the 30 most important dermatology centers in China. The targeted enrollment is 1,650 patients and to date, over 70% of patients have been enrolled. This study is expected to be completed by end of this year.

On 2 April 2019, the Company made an investment of US\$200,000 (approximately HK\$1,560,000 equivalent) in the convertible debt issued by RegeneRx Biopharmaceuticals, Inc. (OTCQB: RGRX) to support its accelerating development of RGN-259 for ophthalmic indications in which the Group had licensed RGN-259 in the territories of China, Taiwan, Macau and Hong Kong many years ago. In May 2019, RegeneRx enrolled the first patient for ARISE-3, the third Phase III clinical trial to evaluate RGN-259, a sterile, preservative-free eye drop in 700 patients with DES. This trial conducted by RegeneRx is expected to be completed during mid-2020 and the Group will commence the registration enabling studies of RGN-259 in China thereafter.

During the period under review, the Group has undergone continuous restructuring on its earlier stage R&D assets and functions such as in oncology and ophthalmology areas, spear-heading towards the path of spinning off these R&D arms into standalone biotech companies.

On 23 May 2019, the Group was successful in the financing event of COPFL and raised capital needed to build teams and to bring its clinical trial programs moving forward. In this financing round, COPFL managed to attract a good set of renowned investors and entered into a share subscription agreement therewith to raise US\$50,000,000 (approximately HK\$390,000,000 equivalent) by mean of the issuance of Series A Preferred Shares thereof. Before the completion of the Series A Shares Subscription Agreement (the “Completion”), the Group owned 92% of the interest in COPFL. Upon the Completion on 13 June 2019, the Group’s equity interest in COPFL was reduced to 50.117% of the total issued share capital thereof (on as an enlarged basis by taking into account the issuance of the Series A Preferred Shares on an as if converted basis), and remains an indirect non-wholly owned subsidiary of the Group.

PROSPECTS

As foreseen at the beginning of the year, policies on drug pricing and reimbursement constraints continue to be in place in this industry. In addition, following the depreciation of Renminbi beyond 7 per U.S. dollar recently for the first time since 2008 and against the backdrop of the ongoing volatility in China-US trade tensions, a weaker Renminbi is to be expected to persist for some time. Together with continual cost pressures owing to the rising labour costs and general inflation in mainland China, 2019 will remain a challenging year for the Group.

Despite the disappointing clinical trial results in the PHOCUS study which dragged down the then restored financial performance in the first half of 2019, the Group continues to improve sales momentum and to preserve its overall financial health and strength. Following the completion of series A financing of COPFL and becoming financially self-sufficient, the Group will refocus and redeploy its resources on those near term opportunities in other therapeutic areas such as cardiovascular, woman health, paediatric and rare diseases, in as efficient and effective a manner as possible.

On 20 August 2019, National Healthcare Security Administration published the 2019 National Reimbursement Drug List (“**NRDL**”), which will become effective from 1 January 2020, aims at improving the efficiency of using limited medical insurance funds. Nevertheless, the inclusion on the list or reimbursable drugs will be more likely to be widely used. Under the NRDL newly release, the Group’s major products such as Carnitene[®], Zanidip[®], Livaracine[®] and Slounase[®] are remained therein, which could yield a stable revenue for the Group over the medium term. Together with the newly launched products such as Sancuso[®], Probiotics VSL#3[®], Episil[®] and Rasilez[®], these are expected to become new growth drivers in the near future.

By leveraging on the solid foundation in R&D and global vision, together with its sound financial position, the Group is confident that it will bounce back and will improve shareholders’ returns in the upcoming period and beyond.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2019

		For the three months ended 30 June		For the six months ended 30 June	
	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	3	324,593	285,818	607,534	567,723
Cost of sales		(111,263)	(100,139)	(205,207)	(189,490)
Gross profit		213,330	185,679	402,327	378,233
Other income	4	19,474	8,527	30,452	20,717
Other gains and losses, net		(107,143)	(11,470)	(109,964)	8,990
Selling and distribution expenses		(59,706)	(39,570)	(108,063)	(102,167)
Administrative expenses		(54,708)	(36,081)	(104,698)	(79,573)
Net (provision for) reversal of impairment loss on financial assets		(614)	286	(763)	(295)
Research and development expenses		(44,374)	(32,397)	(78,812)	(63,846)
(Loss) profit from operations		(33,741)	74,974	30,479	162,059
Finance costs		(1,487)	(1,295)	(2,691)	(1,950)
Share of results of associates		(2,598)	(3,420)	(5,156)	(7,885)
(Loss) profit before taxation	5	(37,826)	70,259	22,632	152,224
Taxation	6	(12,606)	(15,791)	(29,448)	(34,575)
(Loss) profit for the period		(50,432)	54,468	(6,816)	117,649
Attributable to:					
Owners of the Company		(8,660)	55,593	38,294	125,771
Non-controlling interests		(41,772)	(1,125)	(45,110)	(8,122)
		(50,432)	54,468	(6,816)	117,649
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share:					
Basic	8	(1.46)	9.39	6.47	21.26
Diluted	8	(1.46)	9.32	6.46	21.09

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

	For the three months ended 30 June		For the six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
(Loss) profit for the period	(50,432)	54,468	(6,816)	117,649
Other comprehensive (expense) income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	(29,245)	(48,520)	7,456	(24,375)
Share of associate's exchange reserve	-	(2,461)	-	(1,106)
Item that will not be reclassified subsequently to profit or loss:				
Fair value changes of financial assets at fair value through other comprehensive income	<u>21,539</u>	<u>14,986</u>	<u>(38,671)</u>	<u>3,497</u>
Other comprehensive expense for the period, net of tax	<u>(7,706)</u>	<u>(35,995)</u>	<u>(31,215)</u>	<u>(21,984)</u>
Total comprehensive (expense) income for the period	<u>(58,138)</u>	<u>18,473</u>	<u>(38,031)</u>	<u>95,665</u>
Total comprehensive (expense) income for the period attributable to:				
Owners of the Company	(17,767)	17,229	8,908	101,434
Non-controlling interests	<u>(40,371)</u>	<u>1,244</u>	<u>(46,939)</u>	<u>(5,769)</u>
	<u>(58,138)</u>	<u>18,473</u>	<u>(38,031)</u>	<u>95,665</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	770,140	608,639
Intangible assets	9	611,095	587,049
Lease premium for land		–	132,024
Goodwill		3,900	3,900
Interests in associates	10	22,495	27,623
Financial assets at fair value through profit or loss		41,944	36,362
Financial assets at fair value through other comprehensive income		573,893	606,415
Deferred tax assets		20,567	–
		2,044,034	2,002,012
Current assets			
Lease premium for land		–	2,913
Inventories		191,994	211,673
Trade receivables	11	146,127	149,495
Other receivables, deposits and prepayments		137,781	98,639
Advance to associate		39,228	38,713
Loan receivables		23,600	26,990
Pledged bank deposits		39,000	46,524
Time deposits		355,008	207,298
Cash and bank balances		427,816	222,296
		1,360,554	1,004,541

		At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Current liabilities			
Trade payables	12	26,380	66,079
Other payables and accruals		491,092	447,757
Bank and other borrowings	13	134,054	129,234
Obligations under finance leases		–	858
Lease liabilities		5,340	–
Tax payables		60,671	32,897
		<u>717,537</u>	<u>676,825</u>
Net current assets		<u>643,017</u>	<u>327,716</u>
Total assets less current liabilities		<u><u>2,687,051</u></u>	<u><u>2,329,728</u></u>
Capital and reserves			
Share capital	14	29,615	29,601
Reserves		2,236,687	2,180,942
		<u>2,266,302</u>	<u>2,210,543</u>
Equity attributable to the owners of the Company		<u>201,277</u>	<u>27,526</u>
Non-controlling interests			
Total equity		<u>2,467,579</u>	<u>2,238,069</u>
Non-current liabilities			
Obligations under finance leases		–	782
Lease liabilities		4,502	–
Derivative financial liabilities		86,636	–
Retirement benefits		69,290	62,982
Deferred tax liabilities		59,044	27,895
		<u>219,472</u>	<u>91,659</u>
		<u><u>2,687,051</u></u>	<u><u>2,329,728</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to the owners of the Company								Attributable to non-controlling interests		Total
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits	Sub-total	interests	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
At 1 January 2019 (audited)	29,601	731,771	9,200	18,661	64,787	33,726	(80,236)	1,403,033	2,210,543	27,526	2,238,069
Employee share option benefits	-	-	-	2,638	-	-	-	-	2,638	-	2,638
Exercise of share options	14	1,828	-	(448)	-	-	-	-	1,394	-	1,394
Share of reserve of an associate	-	-	-	-	28	-	-	-	28	-	28
Gain on deemed disposal of interests in subsidiaries (Note 15)	-	-	-	-	92,545	-	-	-	92,545	218,412	310,957
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	2,278	2,278
Profit (loss) for the period	-	-	-	-	-	-	-	38,294	38,294	(45,110)	(6,816)
Other comprehensive income (expense) for the period											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	7,421	-	7,421	35	7,456
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	(36,807)	-	-	(36,807)	(1,864)	(38,671)
Total comprehensive (expense) income for the period	-	-	-	-	-	(36,807)	7,421	38,294	8,908	(46,939)	(38,031)
2018 final dividend paid	-	-	-	-	-	-	-	(49,754)	(49,754)	-	(49,754)
At 30 June 2019 (unaudited)	<u>29,615</u>	<u>733,599</u>	<u>9,200</u>	<u>20,851</u>	<u>157,360</u>	<u>(3,081)</u>	<u>(72,815)</u>	<u>1,391,573</u>	<u>2,266,302</u>	<u>201,277</u>	<u>2,467,579</u>

Attributable to the owners of the Company

	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments 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 2018 (audited)	29,547	724,868	9,200	15,368	41,407	(30,421)	(31,809)	1,046,186	1,804,346	(7,414)	1,796,932
Employee share option benefits	-	-	-	2,404	-	-	-	-	2,404	-	2,404
Exercise of share options	54	6,903	-	(1,582)	-	-	-	-	5,375	-	5,375
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Share of reserve of an associate	-	-	-	-	28	-	-	-	28	-	28
Share of options lapsed in an associate	-	-	-	-	(3)	-	-	3	-	-	-
Gain on partial disposal of interests in a subsidiary	-	-	-	-	24,185	-	-	-	24,185	(4,024)	20,161
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	1,954	1,954
Profit (loss) for the period	-	-	-	-	-	-	-	125,771	125,771	(8,122)	117,649
Other comprehensive (expense) income for the period											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	(24,398)	-	(24,398)	23	(24,375)
- Share of associate's exchange reserve	-	-	-	-	(1,106)	-	-	-	(1,106)	-	(1,106)
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	1,167	-	-	1,167	2,330	3,497
Total comprehensive (expense) income for the period	-	-	-	-	(1,106)	1,167	(24,398)	125,771	101,434	(5,769)	95,665
2017 final dividend paid	-	-	-	-	-	-	-	(41,439)	(41,439)	-	(41,439)
At 30 June 2018 (unaudited)	29,601	731,771	9,200	16,201	64,511	(29,254)	(56,207)	1,130,521	1,896,344	(15,244)	1,881,100

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	<i>Note</i>	30 June 2019 HK\$'000 (unaudited)	30 June 2018 HK\$'000 (unaudited)
Operating activities			
Cash generated from operations		185,307	236,817
Interest paid		(2,125)	(3,030)
Income tax refund (paid), net		8,882	(29,591)
Net cash generated from operating activities		192,064	204,196
Investing activities			
Purchase of plant and equipment		(23,424)	(21,176)
Payment for construction in progress		(31,218)	(26,817)
Additions to development cost and license fees		(137,285)	(86,337)
Proceed from deemed disposal of subsidiaries, net	15	397,593	–
Decrease (increase) in time deposits with initial terms of over three months		127,270	(167,558)
Other cash flows arising from investing activities		(286)	(16,714)
Net cash generated from (used in) investment activities		332,650	(318,602)
Financing activities			
Dividends paid		(49,754)	(41,439)
Other cash flows arising from financing activities		1,265	60,106
Net cash (used in) generated from financing activities		(48,489)	18,667
Net increase (decrease) in cash and cash equivalents		476,225	(95,739)
Cash and cash equivalents at 1 January		222,296	396,144
Effect of foreign exchange rate changes		2,295	12,431
Cash and cash equivalents at 30 June		700,816	312,836
Analysis of cash and cash equivalents:			
Cash and bank balances		427,816	312,836
Time deposits		355,008	215,019
		782,824	527,855
Less: Time deposits with original maturity more than three months		(82,008)	(215,019)
		700,816	312,836

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2018 except as described below.

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

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendments, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the other new and amendments to HKASs and HKFRSs in the current period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

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

HKFRS 17	Insurance Contracts ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted

³ Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted

⁴ Effective for annual periods beginning on or after a date to be determined

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

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 “Leases” and the related interpretations.

Summary of effects arising from initial application of HKFRS 16

As a lessee

On transition, the Group has made the following adjustments upon application of HKFRS 16:

- The Group recognised lease liabilities of HK\$10,898,000 and right-of-use assets of HK\$147,686,000 at 1 January 2019.
- When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 2.83%.

The reconciliation of lease liabilities as at 1 January 2019 to the operating leases commitments as at 31 December 2018 is as follows:

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	11,958
Lease liabilities discounted at relevant incremental borrowing rates	11,636
Less: Recognition exemption – short-term leases	<u>(2,378)</u>
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	9,258
Add: Reclassified from obligations under finance leases	<u>1,640</u>
Lease liabilities as at 1 January 2019	<u><u>10,898</u></u>
Analysed as	
Current	5,669
Non-current	<u>5,229</u>
	<u><u>10,898</u></u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>Note</i>	Right-of-use assets HK\$'000
Included in “Property, plant and equipment”:		
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		9,659
Reclassified from lease premium for land	(a)	134,937
Adjustment included in property, plant and equipment under HKAS 17 – Motor vehicles held under finance leases		<u>3,090</u>
		<u><u>147,686</u></u>
By class:		
Leasehold land		134,937
Building		9,659
Motor vehicles		<u>3,090</u>
		<u><u>147,686</u></u>

The following table summarises the impacts of transition to HKFRS 16 on retained profits at 1 January 2019.

	<i>Note</i>	Impacts of adopting HKFRS 16 at 1 January 2019 HK\$'000
Retained profits		
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		9,659
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		(9,258)
Adjustment on prepaid lease payments	(b)	(401)
Impact at 1 January 2019		–

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

Impacts on assets and (liabilities) as at 1 January 2019

	<i>Notes</i>	Carrying amount previously reported at 31 December 2018 HK\$'000 (audited)	Impacts of adopting HKFRS 16 HK\$'000	Carrying amount under HKFRS 16 at 1 January 2019 HK\$'000 (restated)
Property, plant and equipment		608,639	144,596	753,235
Lease premium for land – non-current	(a)	132,024	(132,024)	–
Lease premium for land – current	(a)	2,913	(2,913)	–
Other receivables, deposits and prepayments	(b)	98,639	(401)	98,238
Obligations under finance leases – current		(858)	858	–
Obligations under finance leases – non-current		(782)	782	–
Lease liabilities – current		–	(5,669)	(5,669)
Lease liabilities – non-current		–	(5,229)	(5,229)

The summary of net impacts of HKFRS 16 on the condensed consolidated statement of profit or loss of the Group for the six months ended 30 June 2019 are set out as below. Line items that were not affected by the changes have not been included.

	As per HKFRS 16 HK\$'000 (unaudited)	As per HKAS 17 HK\$'000 (unaudited)	Impact due to change HK\$'000 (unaudited)
Cost of sales	205,207	205,211	(4)
Administrative expenses	104,698	104,801	(103)
Research and development expenses	78,812	78,827	(15)
Finance costs	2,691	2,548	143
Loss for the period	(6,816)	(6,795)	(21)
Profit (loss) for the period attributable to:			
Owners of the Company	38,294	38,315	(21)
Non-controlling interests	(45,110)	(45,110)	–
	(6,816)	(6,795)	(21)
	HK cents	HK cents	HK cents
Earnings per share			
Basic	6.47	6.47	–
Diluted	6.46	6.46	–

Notes:

- (a) Upfront payments for leasehold lands were classified as lease premium for land as at 31 December 2018. Upon application of HKFRS 16, the non-current and current portions of lease premium for land amounting to HK\$132,024,000 and HK\$2,913,000 respectively were reclassified to right-of-use assets.
- (b) Rent-free period
These relate to prepaid lease payment for leases of properties in which the lessors provided rent-free period. The carrying amount of the prepaid lease payment as at 1 January 2019 was adjusted to right-of-use assets at transition.

Further details of the new principal accounting policies are set out in the Company's 2019 interim report which will be published on the Company's website in due course.

3. SEGMENT INFORMATION

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

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

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

Revenue including manufacturing and trading of proprietary and licensed-in products are recognised at point in time.

Segment revenue and results

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

Six months ended 30 June

	Proprietary products		Licensed-in products		Consolidated	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue	271,007	267,004	336,527	300,719	607,534	567,723
Segment operating results	127,930	120,057	103,239	104,302	231,169	224,359
Research and development expenses	(14,616)	(3,021)	(64,196)	(60,825)	(78,812)	(63,846)
Impairment of intangible assets	–	–	(108,564)	–	(108,564)	–
Segment results	113,314	117,036	(69,521)	43,477	43,793	160,513
Unallocated income					5,929	23,168
Unallocated expenses					(19,243)	(21,622)
Profit from operations					30,479	162,059
Finance costs					(2,691)	(1,950)
Profit before share of results of associates					27,788	160,109
Share of results of associates					(5,156)	(7,885)
Profit before taxation					22,632	152,224
Taxation					(29,448)	(34,575)
(Loss) profit for the period					(6,816)	117,649

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current interim period (six months ended 30 June 2018: nil).

Segment assets and liabilities

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

	Proprietary products		Licensed-in products		Consolidated	
	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
Segment assets	522,703	457,940	1,825,287	1,852,998	2,347,990	2,310,938
Unallocated assets					1,056,598	695,615
Total assets					3,404,588	3,006,553
Segment liabilities	199,913	194,306	461,455	321,170	661,368	515,476
Unallocated liabilities					275,641	253,008
Total liabilities					937,009	768,484

Geographical information

During the six months ended 30 June 2019 and 2018, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical information on revenue is presented.

The following is an analysis of the Group's assets and liabilities by geographical market for the period/year:

	The PRC		Hong Kong and others		Total	
	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
Total assets	1,882,824	2,017,209	1,521,764	989,344	3,404,588	3,006,553
Total liabilities	405,633	343,340	531,376	425,144	937,009	768,484

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Interest income on:				
Bank deposits	1,772	1,949	3,220	3,701
Guaranteed investments measured at amortised cost	–	70	–	112
Loan receivables	229	–	486	–
Advance to associates	379	263	755	463
	<u>2,380</u>	<u>2,282</u>	<u>4,461</u>	<u>4,276</u>
Total interest income	2,380	2,282	4,461	4,276
Development grants	1,271	905	7,033	5,510
Incentives from vendor	2,116	–	2,116	–
Research and development service income	13,369	4,864	16,235	10,201
Sundry income	338	476	607	730
	<u>19,474</u>	<u>8,527</u>	<u>30,452</u>	<u>20,717</u>

5. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Depreciation of property, plant and equipment (including right-of-use assets)	20,650	13,336	40,894	26,699
Amortisation of lease premium for land	–	778	–	1,573
Amortisation of intangible assets	2,378	2,003	4,632	5,358
	<u>23,028</u>	<u>16,117</u>	<u>45,526</u>	<u>33,630</u>
Total depreciation and amortisation	23,028	16,117	45,526	33,630
Impairment of intangible assets	108,564	–	108,564	–
Interest expenses on borrowings	1,194	989	2,240	1,569
Interest expenses on lease liabilities	81	–	167	–
Share-based payments	1,376	1,279	2,638	2,425
– Directors	771	639	1,424	1,136
– Employees	605	640	1,214	1,289
	<u>112,516</u>	<u>18,568</u>	<u>112,786</u>	<u>14,914</u>

6. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Current tax				
Hong Kong Profits Tax	9,223	4,118	15,811	5,583
PRC Enterprise Income Tax	5,055	6,585	6,130	19,229
	14,278	10,703	21,941	24,812
Over provision in prior years				
PRC Enterprise Income Tax	(3,094)	(290)	(3,094)	(290)
Deferred tax				
Origination and reversal of temporary differences	1,422	5,378	10,601	10,053
	12,606	15,791	29,448	34,575

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the three and six months ended 30 June 2018. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the three months and six months ended 30 June 2019. Accordingly, the Hong Kong Profits Tax for the three months and six months ended 30 June 2019 is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Tax arising in the PRC is calculated at the tax rates prevailing in the PRC. Taxation arising in other jurisdictions is calculated at the tax rate prevailing in the relevant jurisdictions.

7. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Interim dividend declared – HK\$0.018 (2018: HK\$0.034) per ordinary share based on issued share capital at the end of the reporting period	10,662	20,129	10,662	20,129

Interim dividend will be payable on 30 September 2019 to shareholders registered in the Company's Register of Members as at the close of business on 17 September 2019. 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. 2018 final dividend of HK\$0.084 per share, totalling HK\$49,754,000 was paid on 13 June 2019.

8. (LOSS) EARNINGS PER SHARE

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
<i>(Loss) earnings:</i>				
Net (loss) profit attributable to the owners of the Company for the purpose of basic and diluted (loss) earnings per share	(8,660)	55,593	38,294	125,771
	For the three months ended 30 June		For the six months ended 30 June	
	2019 Share(s)'000 (unaudited)	2018 Share(s)'000 (unaudited)	2019 Share(s)'000 (unaudited)	2018 Share(s)'000 (unaudited)
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	592,309	591,872	592,207	591,649
Effect of dilutive potential ordinary shares:				
Options	N/A	4,511	1,015	4,612
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	592,309	596,383	593,222	596,261

No adjustment was made in calculating diluted loss per share for the three months ended 30 June 2019 as the exercise of share options would result in decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Right-of-use assets

As disclosed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in property, plant and equipment is also identified as right-of-use assets.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements and therefore recognised the additions to right-of-use assets of HK\$4 million.

(b) Owned property, plant and equipment

During the six months ended 30 June 2019, additions to owned property, plant and equipment amount to HK\$55 million (six months ended 30 June 2018: HK\$48 million).

(c) Intangible assets

During the six months ended 30 June 2019, additions to intangible assets amount to HK\$137 million (six months ended 30 June 2018: HK\$86 million), which consist of both license fees and development cost.

Impairment of intangible assets for the six months ended 30 June 2019 amount to HK\$109 million (six months ended 30 June 2018: nil), which was caused by the recommended discontinued study of PHOCUS study.

10. INTERESTS IN ASSOCIATES

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

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Cost of investment, unlisted	93,445	93,445
Share of post-acquisition loss and other comprehensive income, net of dividends received	(71,146)	(65,990)
Share of associate's reserves	196	168
	<u>22,495</u>	<u>27,623</u>

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

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		30 June	31 December	30 June	31 December	
		2019	2018	2019	2018	
Powder Pharmaceuticals Incorporated	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Development, manufacturing and sale of pharmaceutical products
RIT Biotech (Holding) Company Limited	British Virgin Islands/ Hong Kong	24.12%	24.12%	24.12%	24.12%	Operating a central pharmacy for compounding radiopharmaceuticals

11. 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 2019 and 31 December 2018 approximates to the corresponding carrying amount.

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

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
0 – 30 days	69,103	79,663
31 – 120 days	71,487	51,751
121 – 180 days	4,522	7,872
181 – 365 days	963	10,206
Over 365 days and under 3 years	52	3
	<u>146,127</u>	<u>149,495</u>

12. TRADE PAYABLES

The average credit period on purchases of certain goods is 90 days. The fair value of the Group's trade payables as at 30 June 2019 and 31 December 2018 approximates to the corresponding carrying amount.

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

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
0 – 90 days	26,168	44,609
91 – 180 days	12	21,213
181 – 365 days	4	115
Over 365 days	196	142
	26,380	66,079

13. BANK AND OTHER BORROWINGS

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Carrying amount of the borrowings are repayable:		
Within one year	57,099	45,529
More than one year but not exceeding two years	22,764	26,337
More than two years but not exceeding five years	54,191	57,368
	134,054	129,234

The carrying amounts of bank and other borrowings are denominated in Hong Kong Dollars and United States Dollars.

The effective interest rates of the bank and other borrowings range from 2.88% to 4.62% (31 December 2018: 2.88% to 4.79%) per annum.

14. SHARE CAPITAL

	Number of shares		Share capital	
	At 30 June 2019 (unaudited)	At 31 December 2018 (audited)	At 30 June 2019 (unaudited) HK\$'000	At 31 December 2018 (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	<u>592,029,343</u>	<u>590,943,343</u>	<u>29,601</u>	<u>29,547</u>
Exercise of share options	<u>280,000</u>	<u>1,086,000</u>	<u>14</u>	<u>54</u>
At end of the period/year	<u>592,309,343</u>	<u>592,029,343</u>	<u>29,615</u>	<u>29,601</u>

15. DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

In March 2019, China Ophthalmology Focus Limited (“COPFL”), a wholly-owned subsidiary of the Company, issued 32,000 and 367,999 ordinary shares to an independent third party and Lee’s Pharmaceutical International Limited, a wholly-owned subsidiary of the Company, for total consideration of approximately US\$20,000,000 (equivalent to approximately HK\$156,000,000), and the Group’s shareholding in COPFL was diluted from 100% to 92%.

In June 2019, COPFL further issued 334,280 series A preferred shares to independent third parties for total a consideration of US\$50,000,000 (equivalent to approximately HK\$390,000,000). The Group’s shareholding in COPFL was further diluted from 92% to 50.117%. Details of which were set out in the Company’s announcement dated 23 May 2019.

As the Group retained control over COPFL after the above transactions, the Group recognised, in aggregate, a gain on deemed disposal of interests in COPFL of approximately HK\$92,545,000 under “other reserves” within equity, and an increase in non-controlling interests of approximately HK\$218,412,000 during the reporting period.

16. RELATED PARTY TRANSACTIONS

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

(a) Transactions with associates

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	755	463
Service income	–	10,201
	<u>755</u>	<u>10,664</u>

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term employee benefits	9,786	9,010
Share-based payments	1,424	1,136
Retirement and other post-employment benefits	6,329	6,527
– Defined contribution plan	21	27
– Retirement benefits	6,308	6,500
	<u>17,539</u>	<u>16,673</u>

(c) Donation to Lee's Pharmaceutical – Kanya Lee Scholarship Limited (“Kanya Lee Scholarship”)

During the six months ended 30 June 2019, total HK\$2,169,000 (six months ended 30 June 2018: HK\$200,000) was donated to Kanya Lee Scholarship. Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

(d) Transaction with Lee's Techno-Net Limited (“Techno-Net”)

In April 2019, the Company, through its wholly-owned subsidiary Lee's Pharmaceutical (HK) Limited, acquired the entire equity interest in Dreamboat Ventures Limited from Techno-Net at total consideration of HK\$2,400,000. Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the common directors of Techno-Net and Techno-Net is considered as a related party to the Group.

17. CAPITAL COMMITMENTS

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Capital commitments contracted for in respect of:		
Investment in financial assets at fair value through other comprehensive income	24,505	27,780
Intangible assets – license fees and development cost	77,839	77,629
Property, plant and equipment	<u>106,943</u>	<u>114,233</u>
	<u><u>209,287</u></u>	<u><u>219,642</u></u>

18. PLEDGE OF ASSETS

At 30 June 2019, the Group has pledged bank deposits of HK\$39,000,000 (31 December 2018: HK\$38,770,000) to secure general banking facilities granted to CVie Therapeutics Limited which ceased to be the Group's associate since 21 December 2018, and the Group did not pledge any deposits (31 December 2018: HK\$7,754,000) for Windtree Therapeutic Inc..

In additions, the Group's lease liabilities of HK\$266,000 (31 December 2018: obligations under finance leases of HK\$1,640,000) are secured by the lessor's title to the motor vehicles, which have an aggregate carrying amount of HK\$1,318,000 (31 December 2018: HK3,090,000).

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 six months ended 30 June 2019.

INTERIM DIVIDEND

The Board of Directors recommended an interim dividend of HK\$0.018 (2018: HK\$0.034) per share to shareholders registered in the Company's Register of Members as at the close of business on Tuesday, 17 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 16 September 2019 to Tuesday, 17 September 2019 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompany by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1726, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 13 September 2019. Interim dividend will be paid on Monday, 30 September 2019 to shareholders registered in the Company's Register of Members as at the close of business on Tuesday, 17 September 2019.

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 2019, 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 for the appointment, re-election and retirement of the directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2019 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (<http://www.hkex.news.hk>) and the Company (<http://www.leespharm.com>) in due course.

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

Hong Kong, 29 August 2019

As at the date of this announcement, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Mr. Simon Miles Ball is a non-executive Director; Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, are independent non-executive Directors.