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Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHT

	For the year ended 31 December		Change
	2020	2019	
	HK$'000	*HK$'000*	
Revenue	**1,216,716**	1,218,913	-0.2%
Gross profit	**781,066**	798,256	-2.2%
Profit attributable to the owners of the Company	**129,316**	125,553	+3.0%
	HK cents	*HK cents*	
Earnings per share			
Basic	**21.99**	21.22	+3.6%
Diluted	**21.99**	21.21	+3.7%

The Board recommends the payment of final dividend of HK3.1 cents (2019: HK3.8 cents) per ordinary share for the year ended 31 December 2020.

* *For identification purpose only*

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Lee's Pharmaceutical Holdings Limited (the "**Company**") is pleased to present the results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2020 and the comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020** ***HK$'000***	2019 *HK$'000*
Revenue	2	**1,216,716**	1,218,913
Cost of sales		**(435,650)**	(420,657)
Gross profit		**781,066**	798,256
Other income	3	**150,587**	75,694
Other gain and losses, net	4	**(57,588)**	(91,680)
Selling and distribution expenses		**(279,947)**	(251,759)
Administrative expenses		**(237,721)**	(239,088)
Provision for expected credit losses on financial assets		**(1,180)**	(73)
Research and development expenses		**(203,294)**	(149,945)
Profit from operations		**151,923**	141,405
Finance costs		**(6,472)**	(6,624)
Share of results of associates		**(11,414)**	(11,895)
Profit before taxation		**134,037**	122,886
Taxation	5	**(55,503)**	(59,541)
Profit for the year		**78,534**	63,345
Attributable to:			
Owners of the Company		**129,316**	125,553
Non-controlling interests		**(50,782)**	(62,208)
		78,534	63,345
		HK cents	*HK cents*
Earnings per share	7		
Basic		**21.99**	21.22
Diluted		**21.99**	21.21

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	HK$'000	*HK$'000*
Profit for the year	**78,534**	63,345
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries	**89,829**	(18,714)
– Reclassification of exchange reserve upon disposal of subsidiaries	**(3,460)**	–
– Reclassification of other reserves upon disposal of subsidiaries	**(92,545)**	–
– Share of other comprehensive income of associates	**314**	18
Item that will not be reclassified subsequently to profit or loss:		
– Fair value changes of financial assets at fair value through other comprehensive income	**(256,320)**	(45,297)
Other comprehensive expense for the year, net of tax	**(262,182)**	(63,993)
Total comprehensive expense for the year	**(183,648)**	(648)
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(125,820)**	65,988
Non-controlling interests	**(57,828)**	(66,636)
	(183,648)	(648)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**2020**	2019
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**724,552**	796,309
Intangible assets		**844,954**	694,617
Goodwill		**3,900**	3,900
Interests in associates		**6,056**	15,802
Financial assets at fair value through profit or loss		**38,050**	59,217
Financial assets at fair value through other comprehensive income		**377,584**	614,921
Deferred tax assets		**18,729**	14,198
		2,013,825	2,198,964
Current assets			
Inventories		**414,377**	255,585
Trade receivables	8	**159,574**	153,039
Other receivables, deposits and prepayments		**149,081**	174,440
Advance to associates		**77,504**	42,738
Pledged bank deposits		**24,025**	40,345
Time deposits		**39,336**	410,136
Cash and bank balances		**375,199**	364,994
		1,239,096	1,441,277
Current liabilities			
Trade payables	9	**73,733**	80,145
Other payables and accruals		**691,195**	605,187
Bank and other borrowings		**141,377**	144,834
Lease liabilities		**7,828**	9,745
Tax payables		**29,916**	68,582
		944,049	908,493
Net current assets		**295,047**	532,784
Total assets less current liabilities		**2,308,872**	2,731,748

	2020	2019
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**29,406**	29,396
Reserves	**2,120,389**	2,266,504
Equity attributable to the owners of the Company	**2,149,795**	2,295,900
Non-controlling interests	**(34,417)**	181,538
Total equity	**2,115,378**	2,477,438
Non-current liabilities		
Deferred tax liabilities	**81,992**	71,631
Lease liabilities	**7,502**	13,364
Derivative financial liabilities	**–**	80,085
Retirement benefits	**104,000**	89,230
	193,494	254,310
	2,308,872	2,731,748

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to the owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other reserves *HK$'000*	Investments revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2020	29,396	714,146	9,200	23,675	157,404	(8,386)	(97,707)	1,468,172	2,295,900	181,538	2,477,438
Employee share option benefits	–	–	–	17,442	–	–	–	–	17,442	–	17,442
Exercise of share options	10	667	–	(231)	–	–	–	–	446	–	446
Share options lapsed	–	–	–	(39)	–	–	–	39	–	–	–
Share of reserve of an associate	–	–	–	–	55	–	–	–	55	–	55
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	31,226	31,226
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	(2,250)	(2,250)
Disposal of interests in subsidiaries *(Note 10)*	–	–	–	–	–	–	–	–	–	(187,103)	(187,103)
Profit (loss) for the year	–	–	–	–	–	–	–	129,316	129,316	(50,782)	78,534
Other comprehensive income (expense) for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	86,324	–	86,324	3,505	89,829
– Reclassification of exchange reserve upon disposal of subsidiaries *(Note 10)*	–	–	–	–	–	–	(3,460)	–	(3,460)	–	(3,460)
– Reclassification of other reserves upon disposal of subsidiaries *(Note 10)*	–	–	–	–	(92,545)	–	–	–	(92,545)	–	(92,545)
– Share of other comprehensive income of associates	–	–	–	–	314	–	–	–	314	–	314
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(245,769)	–	–	(245,769)	(10,551)	(256,320)
Total comprehensive (expense) income for the year	–	–	–	–	(92,231)	(245,769)	82,864	129,316	(125,820)	(57,828)	(183,648)
2019 final dividend paid	–	–	–	–	–	–	–	(22,349)	(22,349)	–	(22,349)
2020 interim dividend paid	–	–	–	–	–	–	–	(15,879)	(15,879)	–	(15,879)
At 31 December 2020	29,406	714,813	9,200	40,847	65,228	(254,155)	(14,843)	1,559,299	2,149,795	(34,417)	2,115,378

	Attributable to the owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other reserves *HK$'000*	Investments revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2019	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	–	–	–	5,461	–	–	–	–	5,461	–	5,461
Exercise of share options	14	1,828	–	(447)	–	–	–	–	1,395	–	1,395
Share of reserve of an associate	–	–	–	–	56	–	–	–	56	–	56
Share options lapsed in an associate	–	–	–	–	(2)	–	–	2	–	–	–
Gain on deemed disposal of interests in subsidiaries	–	–	–	–	92,545	–	–	–	92,545	218,412	310,957
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,236	2,236
Repurchase and cancellation of ordinary shares	(219)	(19,453)	–	–	–	–	–	–	(19,672)	–	(19,672)
Profit (loss) for the year	–	–	–	–	–	–	–	125,553	125,553	(62,208)	63,345
Other comprehensive income (expense) for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(17,471)	–	(17,471)	(1,243)	(18,714)
– Share of other comprehensive income of associates	–	–	–	–	18	–	–	–	18	–	18
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(42,112)	–	–	(42,112)	(3,185)	(45,297)
Total comprehensive income (expense) for the year	–	–	–	–	18	(42,112)	(17,471)	125,553	65,988	(66,636)	(648)
2018 final dividend paid	–	–	–	–	–	–	–	(49,754)	(49,754)	–	(49,754)
2019 interim dividend paid	–	–	–	–	–	–	–	(10,662)	(10,662)	–	(10,662)
At 31 December 2019	29,396	714,146	9,200	23,675	157,404	(8,386)	(97,707)	1,468,172	2,295,900	181,538	2,477,438

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to Hong Kong Accounting Standards ("HKASs") and HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the following amendments to HKASs and HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the "Amendments to References to the Conceptual Framework in HKFRS Standards" and these amendments to HKASs and HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or disclosures set out in these consolidated financial statements.

New and amendments to HKASs and HKFRSs in issue but not yet effective

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

Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[3]
HKFRS 17	Insurance Contracts and the related Amendments[4]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[4]
Amendments to HKAS 16	Property, plant and equipment – Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 16	COVID-19-Related Rent Concessions[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[3]

1 Effective for annual periods beginning on or after 1 June 2020, earlier application is permitted
2 Effective for annual periods beginning on or after 1 January 2021, earlier application is permitted
3 Effective for annual periods beginning on or after 1 January 2022, earlier application is permitted
4 Effective for annual periods beginning on or after 1 January 2023, earlier application is permitted
5 Effective date to be determined

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKASs and HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 16 "COVID-19-Related Rent Concessions"

The amendment is effective for annual periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

– any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

– there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for the change in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group's financial positions and performance as the Group does not intend to apply the practical expedient.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers during the year which is recognised at a point in time.

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on the types of goods delivered.

During the year, the Group commenced the business in generic products after obtaining the approval for manufacturing and marketing the generic products from the relevant authority, and it has been aggregated into the proprietary segments for reporting.

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

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

Segment revenue and results

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

	Proprietary and generic products		Licensed-in products		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**538,765**	535,627	**677,951**	683,286	**1,216,716**	1,218,913
Segment operating results	**241,651**	251,376	**194,475**	195,821	**436,126**	447,197
Research and development expenses	**(57,093)**	(26,885)	**(146,201)**	(123,060)	**(203,294)**	(149,945)
Impairment of intangible assets	**–**	–	**(3,840)**	(117,652)	**(3,840)**	(117,652)
Impairment of goodwill	**–**	–	**(2,342)**	–	**(2,342)**	–
Segment results	**184,558**	224,491	**42,092**	(44,891)	**226,650**	179,600
Gain on disposal of subsidiaries, net *(Note 10)*					**155,625**	–
Loss on deemed disposal of interest in associates					**(180,923)**	–
Unallocated income					**12,717**	19,262
Unallocated expenses					**(62,146)**	(57,457)
Profit from operations					**151,923**	141,405
Finance costs					**(6,472)**	(6,624)
Profit before share of results of associates					**145,451**	134,781
Share of results of associates					**(11,414)**	(11,895)
Profit before taxation					**134,037**	122,886
Taxation					**(55,503)**	(59,541)
Profit for the period					**78,534**	63,345

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2019: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the profit earned by/loss from each segment without allocation of central administration costs including directors' emoluments, certain transactions with associates, gain or loss on disposal/deem disposal of subsidiaries/associates, fair value changes of certain financial instruments at fair value through profit or loss, foreign exchange gain/loss, interest income, finance costs, share of results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities

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

	Proprietary and generic products		Licensed-in products		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**875,134**	614,902	**1,704,544**	2,011,921	**2,579,678**	2,626,823
Unallocated assets					**673,243**	1,013,418
Total assets					**3,252,921**	3,640,241
Segment liabilities	**263,839**	286,811	**516,420**	421,630	**780,259**	708,441
Unallocated liabilities					**357,284**	454,362
Total liabilities					**1,137,543**	1,162,803

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to operating segments other than interests in associates, deferred tax assets, certain right-of-use assets and financial assets at fair value through profit or loss, balances with associates, pledged deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary and generic products; and

– all liabilities are allocated to operating segments other than bank and other borrowings, tax payables, deferred tax liabilities, derivative financial liabilities and retirement benefits.

Other segment information (included in the measure of segment profit or loss, segment assets and liabilities, or regularly provided to the chief operating decision maker)

	Proprietary and generic products		Licensed-in products		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of property, plant and equipment (including right-of-use assets)	**49,247**	39,447	**60,054**	45,204	**109,301**	84,651
Amortisation of intangible assets	**2,898**	–	**15,305**	9,491	**18,203**	9,491
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	**256,164**	172,277	**182,079**	213,099	**438,243**	385,376
Impairment of intangible assets	**–**	–	**3,840**	117,652	**3,840**	117,652

Geographical information

During the years ended 31 December 2020 and 2019, 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 markets:

	The PRC		**Hong Kong and others**		**Total**	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Total assets	**2,060,059**	2,010,685	**1,192,862**	1,629,556	**3,252,921**	3,640,241
Total liabilities	**560,912**	550,134	**576,631**	612,669	**1,137,543**	1,162,803

3. OTHER INCOME

	2020	2019
	HK$'000	*HK$'000*
Interest income on:		
Bank and pledged bank deposits	**6,624**	8,529
Advance to associates	**2,448**	1,544
Loan receivables	**–**	943
Total interest income	**9,072**	11,016
Compensation income	**41,208**	–
Government and development grants	**30,958**	29,564
Rental and utilities income	**3,431**	504
Incentives from vendor	**2,860**	2,116
Research and development income	**56,387**	30,320
Sundry income	**6,671**	2,174
	150,587	75,694

The Group received the development grants from the local government as recognition of the Group's performance and development of high-technology pharmaceutical products.

During the year, the Group recognised government grants of approximately HK$6,344,000 in respect of COVID-19-related subsidies, of which approximately HK$2,607,000 related to Employment Support Scheme provided by Hong Kong government.

4. OTHER GAINS AND LOSSES, NET

	2020	2019
	HK$'000	*HK$'000*
Fair value (loss) gain in respect of		
– Financial assets at fair value through profit or loss, net	**(17,963)**	(4,705)
– Derivate financial liabilities	**(3,502)**	6,551
Gain on disposal of plant and equipment, net	**30**	67
Gain on disposal of subsidiaries, net *(Note 10)*	**155,625**	–
Gain on early termination of lease	**2**	–
Gain on realisation of loan receivables	**–**	22,200
Impairment loss recognised in respect of		
– Intangible assets	**(3,840)**	(117,652)
– Goodwill	**(2,342)**	–
Loss on deemed disposal of interests in associates	**(180,923)**	–
Loss on derecognition of financial assets at fair value through profit or loss at expiration	**(4,584)**	–
Write-off of property, plant and equipment	**(305)**	(212)
Foreign exchange gain, net	**214**	2,071
	(57,588)	(91,680)

5. TAXATION

	2020	2019
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**34,176**	30,120
PRC Enterprise Income Tax	**163**	3,569
	34,339	33,689
(Over) under provision in prior years		
Hong Kong Profits Tax	**(19)**	(1,688)
PRC Enterprise Income Tax	**190**	(3,032)
	171	(4,720)
Deferred tax		
Origination and reversal of temporary differences	**20,993**	30,572
	55,503	59,541

For a qualified entity, Hong Kong Profits Tax for the years ended 31 December 2020 and 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 according to the two-tiered profits tax rates regime. Hong Kong Profits Tax is calculated at 16.5% for both years ended 31 December 2020 and 2019 for all other entities.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries range from 15% to 25% (2019: 15% to 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 interim – HK$0.027 (2019: 2019 interim HK$0.018) per share	**15,879**	10,662
2019 final – HK$0.038 (2019: 2018 final HK$0.084) per share	**22,349**	49,754
	38,228	60,416

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2020 of HK3.1 cents per share (2019: final dividend in respect of the year ended 31 December 2019 of HK3.8 cents per share), in an aggregate amount of HK$18,232,000 (2019: HK$22,349,000) has been proposed by the directors and is subject to approval by shareholders at the forthcoming annual general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2020.

7. EARNINGS PER SHARE

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

	2020	2019
	HK$'000	*HK$'000*
Earnings:		
Net profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	**129,316**	125,553

	2020	2019
	Share(s) '000	*Share(s) '000*
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**588,120**	591,573
Effect of dilutive potential ordinary shares:		
Options	**43**	313
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**588,163**	591,886

8. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**161,282**	153,479
Less: Allowances for expected credit losses ("**ECL**")	**(1,708)**	(440)
	159,574	153,039

The credit period on sales of goods is 30–120 days. The Group has recognised an allowance for ECL of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for ECL are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

	2020	2019
	HK$'000	*HK$'000*
0–30 days	**72,314**	74,044
31–120 days	**68,058**	67,541
121–180 days	**2,790**	11,196
181–365 days	**16,412**	222
Over 365 days and under 3 years	**–**	36
	159,574	153,039

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for ECL because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Aging analysis of receivables that are past due but no allowance for ECL provided

	2020	2019
	HK$'000	*HK$'000*
1–180 days	**84,125**	81,598
181–365 days	**858**	48
	84,983	81,646

Movement in allowance for ECL

	2020	2019
	HK$'000	*HK$'000*
Balance at beginning of the year	**440**	381
Exchange rate adjustments	**98**	(8)
Write-off	**(10)**	(6)
Provision for the year	**1,180**	73
Balance at the end of the year	**1,708**	440

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Aging analysis of receivables that are past due and allowance for ECL provided

	2020	2019
	HK$'000	*HK$'000*
Overdue by:		
181–365 days	**858**	48
Over 365 days and under 3 years	**850**	392
	1,708	440

9. TRADE PAYABLES

The following is an aging analysis of trade payables at 31 December 2020 and 2019:

	2020	2019
	HK$'000	*HK$'000*
0–90 days	**73,060**	79,948
91–180 days	**420**	–
181–365 days	**72**	–
Over 365 days	**181**	197
	73,733	80,145

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

10. DISPOSAL OF SUBSIDIARIES

In April 2020, the Group fully disposed its 60% interest in Inner Mongolia Zhaoke Livestock Development Limited ("**Zhaoke Livestock**") to an independent third party at a cash consideration of RMB1,012,000 (equivalent to approximately HK$1,097,000), and recorded a loss on disposal of approximately HK$1,720,000.

In October 2020, the Group entered into a licensing agreement with Zhaoke Ophthalmology Limited ("**ZKO**", formerly known as China Ophthalmology Focus Limited) and Zhaoke Pharmaceutical (Guangzhou) Company Limited, an indirect non-wholly owned subsidiary of ZKO (together, the "**Licensors**"), pursuant to which an exclusive license right in relation to a licensed product has been granted by the Licensors to the Group. The Group settled the upfront payment for the licensing agreement by way of the repurchase of ZKO shares held by the Group by ZKO. Details of which were set out in the Company's announcement dated 2 October 2020. Upon completion of the abovementioned share repurchase, the Group's indirect interest in ZKO was reduced from 50.117% to 48.539% and the Group ceased to control ZKO and its subsidiaries ("**ZKO Group**"). The Group recorded a gain on disposal of ZKO Group of approximately HK$157,345,000.

In aggregate, the Group recognised a net gain on disposal of subsidiaries of approximately HK$155,625,000 in profit or loss which is included in "other gains and losses, net".

Consideration received:

	ZKO Group	**Zhaoke Livestock**
	HK$'000	*HK$'000*
Cash	–	1,097
Intangible assets acquired	77,500	–
	77,500	1,097

Analysis of assets and liabilities over which control was lost:

	ZKO Group	**Zhaoke Livestock**
	HK$'000	*HK$'000*
Property, plant and equipment (including right-of-use assets)	148,365	1,725
Intangible assets	164,066	–
Other receivables, deposits and prepayments	62,085	2,168
Pledged deposits	13,198	–
Time deposits	74,414	–
Cash and bank balances	77,055	873
Other payables and accruals	(42,107)	(39)
Bank borrowings	(11,490)	–
Deferred tax liabilities	(20,005)	–
Derivative financial liabilities	(83,587)	–
Net assets disposed of	381,994	4,727

Gain (loss) on disposal of subsidiaries:

	ZKO Group *HK$'000*	**Zhaoke Livestock** *HK$'000*
Consideration received	77,500	1,097
Investment retained in the former subsidiaries at fair value	180,641	–
Net assets disposed of	(381,994)	(4,727)
Non-controlling interests	185,212	1,891
Reclassification of cumulative balances upon disposal of subsidiaries from equity to profit or loss		
– Exchange reserve	3,441	19
– Other reserves	92,545	–
Gain (loss) on disposal	157,345	(1,720)

Net cash (outflow) inflow arising on disposal:

	ZKO Group *HK$'000*	**Zhaoke Livestock** *HK$'000*
Cash consideration received	–	1,097
Less:		
Pledged deposits	(13,198)	–
Time deposits	(74,414)	–
Cash and bank balances	(77,055)	(873)
	(164,667)	224

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

COVID-19 pandemic is believed to be the most unforgettable part of the history in 2020 and the impact and effects thereof are being felt by the economy globally during the year ended 31 December 2020 (the "**Reporting Year**"). Nevertheless, after hard-fought battles since the beginning of 2020, China basically managed to contain the pandemic and gradually resumed business activities within the region starting from the third quarter of 2020. With the strong fundamentals of the Group, its businesses remained solid and improved progressively amid such unprecedented challenges and uncertainties.

Major regulatory and policy changes in the pharmaceutical industry during the Reporting Year and up to date mainly revolved around the enhancement of the medical insurance system, the new reimbursement drug list, the Group Purchasing Organisation (GPO) programme implementation, and the extension of consistency evaluation of generic drugs from oral dose formulation products to injectable formulation products. These major healthcare reform policies have undoubtedly created more challenges to the pharmaceutical industry. Nevertheless, the Group has prepared to adapt to this continual business environmental changes and there was no significant impact to the Group's business operations and financial performances during the Reporting Year.

Revenue and Profit

During the Reporting Year, the Group recorded revenue of HK$1,216,716,000 (2019: HK$1,218,913,000), representing a year-on-year decrease of 0.2%. Sales of licensed-in products was HK$677,951,000 (2019:HK$683,286,000) and accounted for 55.7% (2019: 56.1%) of the Group's revenue while sales of proprietary and generic products was HK$538,765,000 (2019:HK$535,627,000) and contributed 44.3% (2019: 43.9%) of the Group's revenue.

For the sales of licensed-in products, Carnitene® achieved a decent growth of 15.0% as the demand for chronic disease medications remains intact and the Group's other marketable products such as Gaslon N®, Mictonorm® and Sancuso® also made contribution to the revenue growth during the Reporting Year which helped to alleviate the negative impact on the growth of Ferplex® which recorded a decrease of 4.6%, and Zanidip® which recorded a decrease of 13.1% following its early termination of the license and supply agreement with effect from 30 June 2020. Overall, revenue of licensed-in products (excluding sales of Remodulin®) during the Reporting Year was HK$677,951,000 (2019: HK$642,368,000), represented a positive growth of 5.5% as compared to that of in 2019.

The Group's first generic product, Treprostinil Injection, was timely launched in March 2020 which instantly contributed the Group's revenue during the Reporting Year and fully compensated the loss of revenue following the termination of Remodulin® distribution by the end of 2019. Sales of generic Treprostinil Injection was HK$42,868,000 during the Reporting Year, represented 4.8% growth as compared to the sales of Remodulin® of HK$40,918,000 achieved in 2019.

For the sales of proprietary products during the Reporting Year, Yallaferon® achieved sales growth of 8.9%, but sales of drugs for surgical use such as Livaracine® and Slounase® dropped 6.3 % and 22.5 %, respectively, which were affected by the COVID-19 pandemic when the hospitals postponed non-urgent surgeries during the first half of 2020, and only began to improve during the second half of 2020. Revenue of proprietary products during the Reporting Year was HK$495,897,000 (2019: HK$535,627,000), represented a decrease of 7.4% as compared to last year.

The Group achieved a gross profit of HK$781,066,000 (2019: HK$798,256,000). Despite the slow start to the year, the decrease has eventually narrowed considerably to 2.2% as compared to last year. The gross profit margin was 64.2% in 2020, declined by 1.3 percentage point from 65.5% in 2019.

The Group continued to increase its research and development ("**R&D**") efforts in new drugs development and HK$389,399,000 was spent in R&D activities during 2020 (2019: HK$325,985,000), represented 32.0% (2019: 26.7%) to the corresponding yearly revenue, which was believed to be among the highest in domestic pharmaceutical companies. Among which HK$203,294,000 (2019: HK$149,945,000) has been recognised as expenses and HK$186,105,000 (2019: HK$176,040,000) has been capitalised as intangible assets. In additions, HK$111,139,000 (2019: HK$66,326,000) license fees for licensed-in products has been recognised as intangible assets during 2020.

In order to streamline the sales and marketing efficiency, the Group implemented some significant reforms in its sales team during the Reporting Year, including the reorganisation thereof into six business units and led by the newly established Group Commercial Operations Centre ("**GCOC**"). The GCOC is a dedicated unit to manage all aspects of the Group's commercial operations in China, such as to enhance the efficiency and effectiveness thereof, to respond to the rapidly changing pharmaceutical market environment and business needs, to unleash the full potential of the launched products, to enhance the readiness for new product launch, and with a view to achieve steady and sustainable sales growth. During the Reporting Year, special focus had been placed on strengthening existing and exploring new distribution channels as well as on the preparation for the roll-out of new and upcoming products and adequate resources have been deployed thereto. Overall, the selling expenses to revenue ratio has increased to 23.0%, compared to 20.7% last year.

Hospital pharmacies were used to be the main retail channel for prescription drugs, but Covid-19 pandemic has accelerated the conversion to online. In addition, the China's Drug Administration Law which permits drug developers, manufacturers and sellers, as well as third-party e-commerce platforms, to sell prescription medicines online has been in effect in late 2019 has been elaborated further with the draft regulations in November 2020 which outlining clearer procedures for online consultation and sales of prescription drugs. Accordingly, the importance of online pharmacies has increased significantly. During the year under review, the Group has set up a new Retail Business Unit (零售事業部) and officially entered the e-commerce business with 2 OTC products, namely 30g Yallaferon® and 4-vial box Ferplex®, and is planned to put more resources toward the online sale channels.

Certain one-off items such as compensation income of HK$41,208,000 from the early termination of the license and supply agreement of Zanidip®; and net negative impact of approximately HK$23,296,000 which represented a gain on disposal of interest in Zhaoke Ophthalmology Limited ("**ZKO**"), the then 50.117% owned subsidiary of the Group, following the completion of the share repurchase under the license agreement dated 2 October 2020 which reducing the retained interest to 48.539% of approximately HK$157,345,000, and a loss on reduction in equity interest in ZKO of approximately HK$180,641,000 after ZKO conducted the Series B financing with its investors on 9 October 2020, were recognised during the Reporting Year. Taking into account the effect of the absence of considerable intangible assets impairment as compared to the non-recurring loss of approximately HK$108,564,000 incurred by the Group's 65%-owned oncology R&D arm in relations to the discontinuation of Pexa-Vec global Phase III clinical trial for advanced liver cancer last year, net profit attributable to the owners of the Company for the year was HK$129,316,000, compared to HK$125,553,000 last year.

Manufacturing Facilities and Production Capability

During the Reporting Year and up to date, the Group achieved good progress in production capacity expansions and manufacturing facility upgrades of Yallaferon® and Livaracine® in Hefei site. In Nansha site, the manufacturing of Tecarfarin tablet and Nokxaban tablet for GMP applications and clinical trials are actively moving forward in good progress. The equipment installation and commission for the productions of oral cytotoxic drugs and continuous glucose monitor were completed, and both facilities are ready for making clinical samples and/or registration batch.

Drug Development

The Group's R&D pipeline covers major therapeutics areas such as cardiovascular, woman health, paediatrics, rare diseases, dermatology, obstetrics and urology. It also operates a separate R&D arm in the area of oncology. To date, the Group has over 40 projects from early- to late-stage development and measurable progress has been made during the Reporting Year and up to date.

Major therapeutic areas

INOmax®

On 20 February 2020, the New Drug Application ("**NDA**") of INOmax® (nitric oxide) gas for inhalation ("**INOmax®**") has been granted priority review for paediatric orphan disease by China National Medical Products Administration ("**NMPA**"). INOmax® is an inhaled nitric oxide pharmaceutical for treating term and near-term neonates (>34 weeks) with hypoxic respiratory failure (HRF) associated with pulmonary hypertension.

Natulan®

On 28 April 2020, NDA of Natulan® for the treatment of advanced Hodgkin's lymphoma ("**HL**") has been accepted for review by NMPA. Natulan® (Procarbazine Hydrochloride Capsule) in combination chemotherapy is suitable for the treatment of HL and certain brain cancers (such as glioblastoma multiforme). It is a member of a group of medicines called alkylating agents.

Adasuve®

In April 2020, the Group has commenced a pivotal Phase III study of Staccato® loxapine for inhalation system (Adasuve®) in China. Adasuve® is the first and only orally inhaled loxapine powder for the acute treatment of agitation associated with schizophrenia or bipolar I disorder in adults. This pivotal Phase III multicentre, randomised, double-blind, placebo-controlled, parallel group study (NCT04148963) is designed to evaluate the efficacy and safety of Adasuve® or placebo in treating acute agitation in patients with schizophrenia or bipolar disorder (manic or mixed episodes) as defined by The Diagnostic and Statistical Manual of Mental Disorders, Fifth Edition (DSM-5) criteria. The study was conducted at 19 trial sites in China and the enrollment of 150 patients has been completed in July 2020. The analysis of unblinded topline data and the positive results thereof in August 2020 showed that this study has met its primary endpoint, a rapid onset of action was demonstrated by a statistically significant decrease ($p < 0.05$) from baseline in the Positive and Negative Syndrome Scale Excited Component (also known as PEC) score at 2 hours post dose. NDA has been filed to NMPA for review during the year.

Staccato® fentanyl

On 2 November 2020, the Investigational New Drug ("**IND**") application of Staccato® fentanyl for inhalation for the treatment of cancer breakthrough pain has been granted the approval by NMPA. Staccato® fentanyl for inhalation system is a combination drug-device delivery product designed for rapid, systemic delivery of aerosolised fentanyl via the lung. The product integrates the latest technology with a unique drug delivery technology, ensuring efficacy while deterring abuse and preventing overdose. The coming Phase I/IIa multicentre study in China is designed to evaluate the efficacy and safety of Staccato® fentanyl in treating breakthrough pain in patients with cancer. The study will be comprised of two stages: stage one study is designed to determine the recommended dosage; and stage two study will be a pharmacokinetic(PK) study based on the recommended dosage which can get the patients relieved from the pain in stage one. The Group is expected to commence this Phase I/IIa clinical trial of Staccato® fentanyl in early 2021.

Cetraxal® Plus

On 5 January 2021, the Group recruited its first patient dosed with Cetraxal® Plus an ear drops product licensed from Laboratorios Salvat S.A. targeting acute otitis externa (AOE), and acute otitis media with tympanostomy tubes (AOMT) in a Phase III clinical trial in China.

Intrarosa®

On 5 January 2021, the Group has been granted the clinical trial approval from the NMPA to initiate a Phase III, multicentre, randomised, double blinded, parallel group clinical trial of Intrarosa®, a product licensed from Endoceutics, Inc., in the treatment of vulvovaginal atrophy ("**VVA**"). This pivotal Phase III study is expected to initiate patient recruitment in the second quarter of 2021. Intrarosa is the only U.S. Food and Drug Administration ("**FDA**") approved, locally administered, daily non-estrogen steroid for the treatment of moderate to severe dyspareunia (pain during intercourse), a symptom of VVA, due to menopause. Intrarosa®'s product information does not have any boxed (safety) warnings, contrary to all other FDA approved drugs for the treatment of VVA, which have boxed warnings. Intrarosa® contains prasterone, also known as dehydroepiandrosterone (DHEA). Prasterone is an inactive endogenous steroid, which is converted locally into androgens and estrogens to help restore the vaginal tissue as indicated by improvements in the percentage of superficial and parabasal cells, and pH.

Lutrate®

On 27 January 2021, the NDA of Lutrate® Depot (leuprolide acetate for depot suspension) 3.75 mg 1-month administration ("**Lutrate®**") for the palliative treatment of advanced prostate cancer has been accepted for review by NMPA. Lutrate® contains the active ingredient leuprolide acetate which belongs to a group of drugs called luteinising hormone-releasing hormone ("**LHRH**") agonists that reduce testosterone – the major androgen. Treatment with LHRH agonists is the predominant form of androgen deprivation therapy and has become the standard of care for metastatic prostatic cancer.

Adapalene-Clindamycin Combination Gel

Adapalene-Clindamycin Combination Gel ("**ACCG**") is a proprietary product of ZKO under development for the treatment of moderate acne vulgaris. Adapalene is a retinoic acid receptor ("**RAR**") agonist that stimulates skin growth and Clindamycin is an antibiotic that blocks bacterial protein synthesis. Combination of Adapalene and Clindamycin with different mechanisms of action is believed to be more efficacious than each alone in the treatment of acne vulgaris. The pivotal Phase III clinical trial of ACCG for the treatment of moderate acne vulgaris in China, administered by ZKO, was completed in June 2020. The top-line results from the pivotal Phase III trial show that the study has met its primary endpoint, demonstrating ACCG's superiority over either the Adapalene Gel or Clindamycin Phosphate Gel alone with a highly significant statistical difference ($p < 0.0001$). On 2 February 2021, ZKO had its NDA submission filed to the NMPA and marketing approval is expected in 2021.

On 2 October 2020, the Group has entered into a licensing agreement with ZKO pursuant to which exclusive license right have been granted by ZKO to the Group in relation to ACCG in the PRC, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan region. The Group disposed 1.578% indirect interest in ZKO for the settlement of US$10,000,000 (equivalent to HK$77,500,000 approximate) upfront payment for the license rights. By obtaining the license rights, the Group will be able to supplement its existing capabilities in the treatment of dermatology diseases and will be beneficial to the Group. Details of which have been disclosed in the announcement dated 4 October 2020.

GCC-4401C

On 1 March 2021, the Group has been granted the approval of the IND application of GCC-4401C from the NMPA to conduct clinical trials investigating GCC-4401C as a potential treatment for cirrhotic patients with non-tumoral portal vein thrombosis (PVT). GCC-4401C is a novel direct oral anticoagulant with structural similarity to rivaroxaban. It directly inhibits the activity of factor Xa, an important validated target in the blood coagulation pathway, to prevent thrombosis.

During the Reporting Year and up to date, the Group obtained 5 NDA and Abbreviated New Drug Application ("**ANDA**") approvals from NMPA.

Treprostinil Injection

On 18 March 2020, Treprostinil Injection, a drug indicated for the treatment of pulmonary arterial hypertension ("**PAH**") obtained approval for manufacturing and marketing from the NMPA. Treprostinil Injection is a subcutaneously or intravenously administered prostacyclin analogue for the treatment of PAH in patients (PAH; WHO Group 1) to diminish symptoms associated with exercise and improve exercise capacity. The aforesaid approval by NMPA has made Treprostinil the first generic available in China.

Prulifloxacin

On 12 June 2020, Unidrox® (Prulifloxacin tablet), a drug indicated for the treatment of patients with acute uncomplicated lower urinary tract infections (simple cystitis), complicated lower urinary tract infections, acute exacerbation of chronic bronchitis, or acute bacterial rhinosinusitis, obtained the Imported Drug License from the NMPA. Prulifloxacin is an oral quinolone antibacterial agent.

Nadroparin Calcium

On 24 July 2020, Nadroparin Calcium for Injection (brand name: Livaracine®), a low molecular weight heparin ("**LMWH**") product, obtained drug registration approval from the NMPA. The classification of Livaracine® as Nadroparin is a validation and confirmation of Livaracine®'s quality, safety and efficacy profile and, significantly expanding its current indications. Nadroparin is an anticoagulant and is a specific class of LMWH. It is indicated to prevent deep vein thrombosis after surgery and treat the formation of deep vein thrombosis. It is also indicated in the treatment of ischemic complications in unstable angina and non-q-wave myocardial infarction in combination with aspirin and prevention of clotting during hemodialysis.

Trittico®

On 2 December 2020, Trittico® (trazodone hydrochloride tablets), a drug indicated for the treatment of depression with or without anxiety, obtained the drug registration approval from the NMPA. Trazodone, a potent postsynaptic serotonin 5-HT2A receptor antagonist and a moderate inhibitor of serotonin reuptake, is the original member of the SARIs (serotonin-2 antagonist/reuptake inhibitors) group of antidepressants and currently Trazodone is the only SARI marketed all around the world.

Fondaparinux Sodium Injection

On 2 February 2021, Fondaparinux Sodium Injection (0.5 ml: 2.5 mg), a drug indicated to prevent deep vein thrombosis (DVT; a blood clot, usually in the leg), which can lead to pulmonary embolism (PE; a blood clot in the lung), in people who are having hip surgery, hip or knee replacement, or abdominal surgery, obtained approval for manufacturing and marketing from the NMPA. Fondaparinux sodium is a synthetic and specific inhibitor of coagulation activated factor X (factor Xa) with high bioavailability, fast acting and longer half-life. It has no effect on factor IIa, and has low bleeding adverse event. It inhibits only free factor Xa but not factor Xa bound to the prothrombinase. Use of fondaparinux does not require monitoring of PT (prothrombin time) and aPTT (activated partial thromboplastin time). The short chain length of fondaparinux sodium results in devoid of immunogenicity. It does not interact with platelet and does not induce thrombocytopenia. It has no hepatotoxicity and has less allergic reactions.

Among other ANDA submissions, Sodium Phenylbutyrate Granule has been successfully passed the manufacturing audit conducted by the NMPA. Supplemental data for Sodium Phenylbutyrate Tablet has been requested by the CDE and will be submitted soon.

Oncology Pipeline Highlights

China Oncology Focus Limited ("**COF**"), a 65% owned subsidiary of the Group, is the Group's R&D arm in the area of oncology. To date, there are 10 oncology assets, including 5 innovative and 5 generic, in development for the treatment of a range of cancers.

Socazolimab in recurrent and metastatic cervical cancer

On 10 July 2020, COF submitted the application of breakthrough therapy designation ("**BTD**") to the NMPA for Socazolimab (anti-PD-L1 monoclonal antibody, formerly known as ZKAB001) in recurrent and metastatic cervical cancer. Socazolimab is a fully human anti-PD-L1 monoclonal antibody targeting tumor PD-L1 protein. It can release the "brake" causing by the tumor cell to the immune system. The BTD has been granted by the NMPA on 5 February 2021.

Socazolimab in osteosarcoma

On 21 August 2020, COF commenced the patient enrolment and the first patient has been dosed in an osteosarcoma Phase III clinical trial using Socazolimab.

Socazolimab combined with chemotherapy in small-cell lung cancer

On 1 March 2021, COF has been granted the clinical trial application approval from the NMPA to conduct a Phase III, multicentre, randomised, double blinded, parallel-group clinical trial of Socazolimab combined with chemotherapy in the first-line treatment of extensive-stage small-cell lung cancer. The approval is based on the results from an earlier Phase Ib trial in which Socazolimab combined with carboplatin and etoposide showed promising efficacy and safety profile in patients with extensive-stage small-cell lung cancer. This clinical trial will be led by Prof. Shun Lu (陸舜) from Shanghai Chest Hospital (上海市胸科醫院) and is expected to initiate patient recruitment in the second quarter of 2021.

Opthalmology Pipeline Highlights

The Group has also involved in ophthalmology business through its investment in ZKO which includes over 20 proprietary products and difficult to manufacture generics (ranging from pre-clinical to registration stage) for the Chinese and ASEAN markets.

Cyclosporine A Ophthalmic Gel

On 27 November 2020, ZKO recruited its first patient dosed with Cyclosporine A ("CsA") Ophthalmic Gel, a drug for the treatment of keratoconjunctivitis sicca (dry eye) in a Phase III clinical trial in China. CsA Ophthalmic Gel is an innovative hydrogel formulation as opposed to the oil-based emulsion formulation in Restasis. Its Phase II clinical trial data of CsA Ophthalmic Gel was published in Clinical Therapeutics, an international peer-reviewed journal of drug therapy, in an article entitled "Efficacy, Safety, and Tolerability of a Novel Cyclosporine, a Formulation for Dry Eye Disease: a Multicenter Phase II Clinical Study" (https://doi.org/10.1016/j.clinthera.2020.12.023). The publication showed Phase II clinical trial data of CsA Ophthalmic Gel for the treatment of moderate to severe dry eye disease and that CsA Ophthalmic Gel exhibited excellent safety, tolerability, and efficacy profiles at different concentrations and dosing frequencies. CsA Ophthalmic Gel's one dose every night regimen is expected to significantly improve patients' quality of life and have better treatment compliance compared to Restasis' twice-daily dosing regimen by relieving the patients from having to experience potential drug-related transient discomfort in the eye during the day.

ZKY001

On 24 December 2020, ZKO recruited its first patient dosed with ZKY001 through anti-inflammatory effects plus stimulation of epithelial cell migration, in a Phase II clinical trial in China. ZKY001 is a potential first-in-class eye drop targeting CED, the partial or complete loss of the epithelial cells in the cornea. ZKY001 is a seven amino acid peptide, LKKTETQ, resembling part of thymosin ß4 that plays a central role in cell structure and movement. Through its regulation of actin, ZKY001 is able to accelerate corneal epithelial wound repair and enhance epithelial cell migration.

Business Partnership

The in-licensing approach is the Group's preferred mode of business development strategy. Nevertheless, the Group has remained selective in entering new in-licensing deals. During the Reporting Year and up to date, ZKO entered into three in-licensing deals with foreign business partners which involve four new ophthalmic products to enrich its R&D pipeline.

In addition, the Group has achieved a new breakthrough of business subsequent to the Reporting Year. On 2 March 2021, a distribution agreement with Kunming Baker Norton Pharmaceutical Sales Co., Ltd. ("**KBNS**"), a wholly-owned subsidiary of KPC Pharmaceuticals, Inc. ("**KPC**", stock code: 600422.SH), had become effective and pursuant to which exclusive promotion right of Fondaparinux Sodium Injection (磺達肝癸鈉注射液) (0.5 ml: 2.5 mg) in 18 provinces in China including Jiangsu, Zhejiang, Henan and Shandong, etc, has been granted to KBNS. The Group believed that the collaboration with KPC shall enable the Group to leverage on KPC's proven sales force on new products promotion.

Strategic Investments

One of the Group's strategic investments has reached a milestone during the Reporting Year. On 20 May 2020, Windtree Therapeutics, Inc. ("**Windtree**") has successfully uplisted its common shares from the OTC Markets to the Nasdaq Capital Market® after the completion of financing via public offering. The proceeds therefrom provided additional resources for Windtree to advance its clinical studies and create value.

Corporate Development

The Group upholds its commitment to separate its R&D arms and to incubate them into standalone biotech entities. Following its Series A fund raising in May 2019, ZKO closed its Series B fund raising during the fourth quarter of the Reporting Year which provided adequate resources for ZKO to conduct drug innovation and development in various ophthalmic indications and to help pave its path towards possible spin-off and a separate listing. This Series B financing round was jointly led by Hillhouse COFL and TPG Asia, and participated by Loyal Valley Capital and other private equity firms such as Orbimed and Aier Eye Hospital, as well as the majority of Series A investors, which are among the most recognised and respected players in the biotech industry, and raised US$145,000,000 (approximately HK$1,131,000,000 equivalent). Right before the completion of the Series B preferred shares subscription agreement (the "**Series B Completion**"), the Group owned 48.539% of the interest in ZKO. Immediately after the Series B Completion, the Group's indirect interest in ZKO was reduced to 33.575% (on as an enlarged basis by taking into account the issuance of the preferred shares on an as if converted basis). All conditions to the Series B preferred shares subscription agreement were fulfilled and the aggregate consideration of US$145,000,000 was fully settled by the investors on 17 November 2020. Details of the Series B financing were disclosed in the Company's announcements dated 11 October 2020 and 17 November 2020.

On 18 December 2020, ZKO submitted its listing application form to The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") for an application for the listing of, and permission to deal in, its ordinary shares on the main board of the Stock Exchange by way of global offering.

PROSPECTS

While the Group remains of the view that the tough environment will be persisted in 2021, positive catalysts such as the containment of COVID-19 pandemic in China and the gradual re-opening of economy within the region, the five newly approved products in 2020, and the transformed sales force led by the newly established GCOC, are expected to drive the Group to tide over the challenges.

The enhancement and reform in the pharmaceutical industry in China continues to move forward, from the new national reimbursement drug list, the intensified and expanded Group Purchasing Organisation (GPO) programme following the increasing number of bioequivalence qualified generic drug being approved, as well as the recent China's Biosecurity Law and China Patent Law which have been passed on 17 October 2020 and will take effect in 2021. Being a research-driven biopharmaceutical group, it is believed that the Group will be eventually benefited from these new laws and regulations in the long run.

The Group will continue to stay focus on its new drug development and cost containment in order to differentiate itself from other pharmaceutical companies. Besides, the Group has made a big step forward in the path towards possible spinoff and a separate listing of ZKO after the completion of the Series B fundraising of ZKO and submitted its listing application form to the Stock Exchange. With over 40 projects in the R&D pipeline in various therapeutic areas, the Group believes that the spin-off and separate listing of selective R&D arms into standalone companies may in turn enhance the progress of the R&D programmes and drive the market to recognise the value thereof, and also allow the Group to reserve more resources to drive sales growth of marketable products and create value for the shareholders.

FINAL DIVIDEND

The Board recommended a final dividend of HK$0.031 (2019: HK$0.038) per share to shareholders registered in the Company's register of members as at the close of business on Thursday, 3 June 2021.

ANNUAL GENERAL MEETING

The annual general meeting of the Company was scheduled to be held on Monday, 24 May 2021 ("**AGM**"). The notice of AGM will be issued to shareholders of the Company and published on the Company's website at www.leespharm.com and the designated website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at www.hkexnews.hk in due course.

CLOSURE OF REGISTER OF MEMBERS

(a) AGM

The register of members of the Company will be closed from Thursday, 20 May 2021 to Monday, 24 May 2021 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the AGM.

In order to qualify for the right to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 May 2021.

(b) Payment of the proposed final dividend

The register of members of the Company will be closed from Wednesday, 2 June 2021 to Thursday, 3 June 2021 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled for the proposed final dividend for the year ended 31 December 2020.

In order to qualify for the proposed final dividend for the year ended 31 December 2020, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 1 June 2021.

Subject to shareholders' approval of the proposed final dividend of shares at the AGM, the final dividend is payable to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 3 June 2021. The final dividend will be paid on Friday, 18 June 2021.

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 year ended 31 December 2020.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2020, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). The Company has made specific enquiries to all Directors, and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2020, with deviation from provision A.5 of the CG Code.

Under provision A.5 of the CG 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.

Detailed corporate governance practices will be stated in the annual report of the Company for the year ended 31 December 2020.

REVIEW OF ANNUAL RESULTS

The Group's annual results (including the audited consolidated financial statements) for the year ended 31 December 2020 including the accounting principles and practices adopted have been reviewed by the audit committee which consists of three independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY INDEPENDENT AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's independent auditor, HLM CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLM CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLM CPA Limited on this preliminary results announcement.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2020 containing all the detailed information will be dispatched to the shareholders of the Company and published on the Company's website at www.leespharm.com and the designated website of the Stock Exchange at www.hkexnews.hk in due course.

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

Hong Kong, 30 March 2021

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.