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)

FIRST QUARTERLY RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2021

FINANCIAL HIGHLIGHT

	Three months ended 31 March		Change
	2021	2020	
	HK$'000	*HK$'000*	
Revenue	**283,142**	272,984	+3.7%
Gross profit	**192,411**	180,518	+6.6%
Profit attributable to the owners of the Company	**41,048**	39,896	+2.9%
	HK cents	*HK cents*	
Earnings per share			
Basic	**6.98**	6.78	+2.9%
Diluted	**6.97**	6.78	+2.8%

* *For identification purpose only*

QUARTERLY FINANCIAL STATEMENTS

The directors (the "**Directors**") of Lee's Pharmaceutical Holdings Limited (the "**Company**") present herewith the unaudited consolidated quarterly financial results (the "**Quarterly Results**") of the Company and its subsidiaries (collectively, the "**Group**") for the three months ended 31 March 2021, together with the comparative figures for the corresponding period in 2020. The Quarterly 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. The audit committee of the Company has also reviewed with the management and the Auditor this unaudited report for the three months ended 31 March 2021 before recommending it to the board of Directors for approval.

BUSINESS REVIEW

First-quarter 2021 revenue of the Group totalled HK$283,142,000 (First-quarter 2020: HK$272,984,000), an increase of 3.7% compared to the prior-year quarter. First-quarter 2021 growths was primarily driven by the sales of Yallaferon®, Ferplex®, Slounase® and Treprostinil Injection which strongly grew by 96.6%, 41.1%, 40.8% and 160.2%, respectively, compensated the sales decline caused by the negative impacts such as the termination of the distribution of Zanidip® and the hospital re-listing of Livaracine® after the obtaining of drug registration approval as Nadroparin Calcium for Injection.

Sales of licensed-in products in the first-quarter 2021 accounted for 55.6% (First-quarter 2020: 64.6%) of the Group's revenue while sales of proprietary and generic products in the first-quarter 2021 contributed 44.4% (First-quarter 2020: 35.4%) of the Group's revenue.

First-quarter 2021 gross profit of the Group was HK$192,411,000 (First-quarter 2020: HK$180,518,000). The Group's overall gross profit margin was 68.0%, improved by 1.9 percentage points as to 66.1% achieved in the first-quarter 2020 due to increase in proportion of revenue generated from the sales of proprietary and generic products.

With the spin-off of ophthalmology unit taking place during the first-quarter 2021, research and development ("**R&D**") expenses recorded in the book represented new drugs development in major therapeutic areas such as cardiovascular, woman health, paediatrics, rare diseases, dermatology, obstetrics and urology, as well as in the area of oncology under a separate R&D arm within the Group. An aggregate of HK$76,530,000 (First-quarter 2020: HK$49,118,000) has been spent in the first-quarter 2021, represented 27.0% (First-quarter 2020: 18.0%) to the corresponding quarterly revenue. Among which HK$47,865,000 (First-quarter 2020: HK$25,368,000) has been recognised as expenses and HK$28,665,000 (First-quarter 2020: HK$23,750,000) has been capitalised as intangible assets. The Group's R&D activities resumed normal level in the first-quarter 2021, whereas that of in the first-quarter 2020 were significantly lower due to the COVID-19 pandemic.

Following the establishment of Group Commercial Operations Centre ("**GCOC**"), special focus has 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 has been deployed thereto. Overall, the selling expenses to revenue ratio during the first-quarter 2021 increased to 25.6%, compared to 24.2% same quarter last year.

Net profit attributable to the owners of the Company in the first-quarter 2021 was HK$41,048,000, increased by 2.9% over the same quarter in 2020.

During the quarter under review, 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 manufacturing of inhaled pharmaceutical aerosols is also in 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.

To date, the Group has over 40 projects from early- to late-stage development and measurable progress has been made during the quarter under review and up to date.

Major Therapeutic Areas

Cetraxal® Plus

On 4 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 China's National Medical Products Administration ("**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**"). The preparation work for this pivotal Phase III study is in progress and is expected to initiate patient recruitment in July 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 New Drug Application ("**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.

Staccato® fentanyl

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 preparation work for this Phase I/IIa clinical trial of Staccato® fentanyl is in progress and is expected to initiate patient recruitment in July 2021.

GCC-4401C

On 1 March 2021, the Group has been granted the approval of the Investigational New Drug ("**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 quarter under review and up to date, the Group obtained 2 NDA and Abbreviated New Drug Application ("**ANDA**") approvals from NMPA.

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.

Sodium Phenylbutyrate Granules

On 13 May 2021, the Drug Registration Certificate for Sodium Phenylbutyrate Granules (specification: 150g/bottle, containing 0.94g Sodium Phenylbutyrate for every 1g) developed and manufactured by Zhaoke Pharmaceutical (Guangzhou) Company Limited ("**Zhaoke Guangzhou**"), a wholly-owned subsidiary of the Company, has been obtained from the NMPA. Sodium Phenylbutyrate is used as an adjuvant treatment for long-term treatment on urea cycle disorders patients resulting from carbamoyl phosphate synthetase deficiency, ornithine transcarbamylase deficiency or argininosuccinate synthetase deficiency. It is applicable to new-born babies (born less than 28 days) with profound biotinidase deficiency and to patients with a history of late-onset hyperammonemia brain dysfunction (partial biotinidase deficiency, born for more than one month). The Sodium Phenylbutyrate Granules developed and manufactured by Zhaoke Guangzhou is the first generic version in China. As there is no original Sodium Phenylbutyrate available for sale in China, the Group's Sodium Phenylbutyrate Granules would address the unmet medical needs in China.

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 5 February 2021, the breakthrough therapy designation ("**BTD**") has been granted by the NMPA to COF for its Socazolimab (anti-PD-L1 monoclonal antibody, formerly known as ZKAB001) to treat 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. To date, Centre for Drug Evaluation has provided feedbacks in respect of the pre-NDA meetings and NDA submission is expected by end of June 2021.

Socazolimab in osteosarcoma

During the quarter under review and up to date, the registration enabling Phase III clinical trial using Socazolimab in osteosarcoma is in good progress. To date, 83 patients have been enrolled.

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 July 2021.

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. In addition, the Group has achieved a new breakthrough of business during the quarter under review. 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.

Corporate Development

The Group believes that the spin-off of certain R&D arms, such as ophthalmology and oncology projects, into standalone companies will in turn drive the market to recognise the value of its robust pipelines. A major milestone has been achieved by one of those arms on 29 April 2021 when its investment in Zhaoke Ophthalmology Limited ("**ZKO**", stock code: 6622.HK) has been successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited and the final offer price was HK$16.80 per ZKO share. Following completion of the listing thereof, ZKO ceased to be an associate of the Company since the Group will not exercise significant influence over the operation of ZKO. The Group's investment in ZKO is hence accounted for as financial assets at fair value through other comprehensive income for financial reporting purposes. The Group will record a gain of approximately HK$2.32 billion in the Company's consolidated statement of profit or loss on this derecognition of investment in ZKO as an associate of the Company in the second quarter of 2021.

PROSPECTS

The Group remains of the view that the tough environment will be persisted in 2021 and foresees that pressure on drug prices will be one of the key challenges to industry players as China adopts a progressively more dynamic approach to National Reimbursement Drug List updates. The central government has completed the fourth round of national volume-based procurement ("**VBP**") in February 2021, followed by a notice released by Joint Procurement Office in early May 2021 mentioned the collection of relevant drug information for the China's fifth round of VBP. Nevertheless, positive catalysts such as the containment of COVID-19 pandemic in China and the re-opening of economy within the region, the newly approved products to be launched, and the transformed sales force led by the GCOC, may drive the Group to overcome the challenges. In addition, it is believed that the Group would be eventually benefited from the new laws and regulations for the pharmaceutical industry in the long run, and the Group will continue to stay focus on its new drug development and cost containment in order to differentiate itself from other pharmaceutical companies.

Following the completion of the spin-off of ZKO in April 2021, the Group can now spare more resources to develop its business in major therapeutic areas. Besides, the Group will endeavour to continue its efforts to seek opportunities on the fundraising and possible spin-off of its oncology R&D arm in the near future.

The Group firmly believes that all these works to be done will eventually drive growth therefor and will eventually create more value for the shareholders.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2021

	Notes	For the three months ended 31 March	
		2021	2020
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
Revenue	3	**283,142**	272,984
Cost of sales		**(90,731)**	(92,466)
Gross profit		**192,411**	180,518
Other income	4	**31,581**	12,310
Other gains and losses, net		**2,349**	(1,489)
Selling and distribution expenses		**(72,569)**	(65,929)
Administrative expenses		**(58,871)**	(49,795)
Reversal of (provision for) expected credit losses on financial assets		**330**	(211)
Research and development expenses		**(47,865)**	(25,368)
Profit from operations		**47,366**	50,036
Finance costs		**(1,271)**	(1,582)
Share of results of associates		**(2,264)**	(3,062)
Profit before taxation		**43,831**	45,392
Taxation	5	**(7,475)**	(11,394)
Profit for the period		**36,356**	33,998
Attributable to:			
Owners of the Company		**41,048**	39,896
Non-controlling interests		**(4,692)**	(5,898)
		36,356	33,998
		HK cents	*HK cents*
Earnings per share:	6		
Basic		**6.98**	6.78
Diluted		**6.97**	6.78

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2021

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**36,356**	33,998
Other comprehensive expense:		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries	**(7,062)**	(24,150)
– Share of other comprehensive expense of associates	**(54)**	(99)
Item that will not be reclassified subsequently to profit or loss:		
– Fair value changes of financial assets at fair value through other comprehensive income	**(91,196)**	(126,616)
Other comprehensive expense for the period, net of tax	**(98,312)**	(150,865)
Total comprehensive expense for the period	**(61,956)**	(116,867)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(53,047)**	(102,996)
Non-controlling interests	**(8,909)**	(13,871)
	(61,956)	(116,867)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2021

	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 2021 (audited)	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
Employee share option benefits	–	–	–	3,533	–	–	–	–	3,533	–	3,533
Share of reserve of an associate	–	–	–	–	14	–	–	–	14	–	14
Profit (loss) for the period	–	–	–	–	–	–	–	41,048	41,048	(4,692)	36,356
Other comprehensive expense for the period											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(7,006)	–	(7,006)	(56)	(7,062)
– Share of other comprehensive expense of associates	–	–	–	–	(54)	–	–	–	(54)	–	(54)
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(87,035)	–	–	(87,035)	(4,161)	(91,196)
Total comprehensive (expense) income for the period	–	–	–	–	(54)	(87,035)	(7,006)	41,048	(53,047)	(8,909)	(61,956)
At 31 March 2021 (unaudited)	29,406	714,813	9,200	44,380	65,188	(341,190)	(21,849)	1,600,347	2,100,295	(43,326)	2,056,969

	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 (audited)	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	–	–	–	1,386	–	–	–	–	1,386	–	1,386
Exercise of share options	10	667	–	(231)	–	–	–	–	446	–	446
Share options lapsed	–	–	–	(39)	–	–	–	39	–	–	–
Share of reserve of an associate	–	–	–	–	14	–	–	–	14	–	14
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	31,226	31,226
Profit (loss) for the period	–	–	–	–	–	–	–	39,896	39,896	(5,898)	33,998
Other comprehensive expense for the period											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(21,334)	–	(21,334)	(2,816)	(24,150)
– Share of other comprehensive expense of associates	–	–	–	–	(99)	–	–	–	(99)	–	(99)
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(121,459)	–	–	(121,459)	(5,157)	(126,616)
Total comprehensive (expense) income for the period	–	–	–	–	(99)	(121,459)	(21,334)	39,896	(102,996)	(13,871)	(116,867)
At 31 March 2020 (unaudited)	29,406	714,813	9,200	24,791	157,319	(129,845)	(119,041)	1,508,107	2,194,750	198,893	2,393,643

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2021

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards ("**HKASs**") 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.

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 2020.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the three months ended 31 March 2021 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2020 except as described below.

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	COVID-19-Related Rent Concessions

The application of these amendments to HKASs and HKFRSs 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:

Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[1]
HKFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to HKAS 1	Classification of Liabilities as Current and Non-current or related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[1]

1 Effective for annual periods beginning on or after 1 January 2022, earlier application is permitted

2 Effective for annual periods beginning on or after 1 January 2023, earlier application is permitted

3 Effective 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.

3. REVENUE

The principal activities of the Group are the developing, manufacturing and sales and marketing of pharmaceutical products. During the period, revenue represents the net amount received and receivable for goods sold by the Group to outside customers and are recognised at point in time as follows:

Business segments

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Proprietary and generic products	**125,612**	96,629
Licensed-in products	**157,530**	176,355
	283,142	272,984

Geographical segments

During the three months ended 31 March 2021 and 2020, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "**PRC**"), no geographical segmental information is presented.

4. OTHER INCOME

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income on:		
Bank and pledged bank deposits	**837**	2,767
Advance to associates	**751**	426
Total interest income	**1,588**	3,193
Development and government grants	**4,781**	8,050
Rental and utilities income	**2,815**	300
Research and development service income	**21,671**	30
Sundry income	**726**	737
	31,581	12,310

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

5. TAXATION

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	**7,360**	7,242
PRC Enterprise Income Tax	**912**	–
	8,272	7,242
Deferred tax		
Origination and reversal of temporary difference	**(797)**	4,152
	7,475	11,394

For a qualified entity, Hong Kong Profits Tax for the three months ended 31 March 2021 and 2020 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 the three months ended 31 March 2021 and 2020 for all other entities.

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.

6. EARNINGS PER SHARE

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

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**41,048**	39,896

	For the three months ended 31 March	
	2021	2020
	Share(s) '000	*Share(s) '000*
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**588,125**	588,105
Effect of dilutive potential ordinary shares:		
Options	**569**	12
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**588,694**	588,117

7. RELATED PARTY TRANSACTIONS

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

(a) Transaction with associates

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income	**751**	426
Rental and utilities income	**2,815**	300
Research and development service income	**21,671**	–
Purchase of consumables	**1,045**	–

(b) Compensation of key management personnel

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

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**3,287**	5,943
Share-based payments	**1,892**	790
Retirement and other post-employment benefits	**3,005**	5,039
– Defined contribution plan	**5**	9
– Retirement benefits	**3,000**	5,030
	8,184	11,772

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

During the three months ended 31 March 2021, total HK$500,000 (three months ended 31 March 2020: HK$1,175,000) 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 of the Group.

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

During the three months ended 31 March 2020, China Oncology Focus Limited, on a pro rata basis, issued 18,620 shares to PCH. Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi were both the directors of the Company and the substantial shareholders of PCH and PCH was considered as a related party to the Group. Total consideration received for the issue of shares thereto was US$4,003,300 (equivalent to approximately HK$31,226,000). No such event has occurred during the three months ended 31 March 2021.

(e) Interest expenses for shareholder loans from PCH

During the three months ended 31 March 2020, included in finance costs there was interest expenses for loans from PCH amounting to HK$147,000. Loans from PCH were fully settled in year 2020 and no interest expenses was incurred during the three months ended 31 March 2021.

8. CAPITAL COMMITMENTS

	31 March 2021	31 December 2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital commitments contracted for in respect of:		
Investment in financial assets at fair value through other comprehensive income	**10,750**	10,750
Intangible assets – license fee and development cost	**91,075**	88,458
Property, plant and equipment	**88,023**	91,212
	189,848	190,420

9. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group's then associate Zhaoke Ophthalmology Limited ("**ZKO**") was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 April 2021. Following the listing by ZKO, the Company, through a wholly-owned subsidiary, indirectly hold approximately 25.8% of the total issued share of ZKO. ZKO ceased to be an associate of the Group since the Group will not exercise significant influence over the operation of ZKO. The Group's investment in ZKO is hence accounted for as financial assets at fair value through other comprehensive income for financial reporting purposes. Immediately after the listing of ZKO, the Group recorded a gain of approximately HK$2.32 billion in the Company's consolidated statement of profit or loss on this derecognition of investment in ZKO as an associate of the Group.

DIVIDEND

The Board does not recommend payment of dividend for the three months ended 31 March 2021 (three months ended 31 March 2020: Nil).

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 three months ended 31 March 2021.

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

Hong Kong, 27 May 2021

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