LEE'S PHARM.
李氏大藥廠

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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

THIRD QUARTERLY REPORT
2014

* 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 nine months ended 30 September 2014, together with the comparative figures for the corresponding period in 2013. 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 ("HKICPA"). The audit committee of the Company has also reviewed with the management and the Auditor this unaudited report for the nine months ended 30 September 2014 before recommending it to the Board for approval.

BUSINESS REVIEW

The period under review was quite eventful during which the Group not only maintained sound momentum for revenue growth, but also regained the momentum for growth for net profit attributable to shareholders. Drug development remained at forefront of the Group's drive to sustainable growth and international partnership intensified to provide the catalyst during the quarter.

Turnover for the third quarter of this year was HK$246,679,000, which represented an increase of 39.0% over same quarter last year and was in line with the growth rate of last few quarters. For the first nine months of 2014, turnover registered an increase of 34.6% over the same period last year to reach a new height of HK$689,395,000, leveling with the total revenue achieved for the entire year of 2013. The drivers for the remarkable growth of turnover during the third quarter had significant attributes that could provide stronger sustainability for future growth. The Group's established products *Ferplex*® and *Yallaferon*® made a breakthrough in the quarter, leapfrogging other established products to lead the growth with jumps of 81.4% and 49.6% respectively. The acceleration in sales growth of these two products presents a more balanced revenue stream for the Group and injects new energy for future development. Other established product *Slounase*® continued to rebuild its growth momentum and recorded a sales increase of 14.1% in the quarter that is an improvement over the 7.9% increase in the first six months of 2014. Newer product *Zanidip*® kept up the pace with a stellar sales growth of 80.3% and contributed more significantly to the overall revenue.

For the third quarter of this year, net profit attributable to shareholders increased by 30.7% over third quarter of 2013 to HK$49,466,000, evidencing a return to higher growth trajectory after suffering a blip due to some one-time charges during the second quarter. Net profit attributable to shareholders for the nine months ended 30 September 2014 increased by 22.3% over same period last year to reach a historical height of HK$136,539,000. Gross profit margin for the third quarter was 69.2%, a slight decrease of 0.1 percentage point over the second quarter this year. Gross profit margin for the nine months ended 30 September 2014 were 70.0%, a decrease of 1.7 percentage point over same period last year. As production in Hefei has transited into optimal phase, the lower gross margin observed in the third quarter was the result of increasing revenue from licensed-in product that normally has higher cost of goods.

Net profit margin for the third quarter remained at 20.1%, improved by 1.1 percentage point over the second quarter this year. Net profit margin for the nine months ended 30 September 2014 were 19.8%, a decrease of 2 percentage points over same period last year. The decrease was mainly due to the drop in the second quarter as the net margin in the third quarter had since stabilised.

During the nine months ended 30 September 2014, the investment in research and development ("R&D") expenses has been increased 69.2% to HK$32,224,000 from HK$19,042,000 of the same period last year. The R&D spending to the revenue during the nine months period represented an increase of 1 percentage point as compare to the same period last year. The Group uphold its steadfast commitment to and focus on long-term sustainable growth through continuous new drug development.

The Group's two manufacturing sites in both Hefei and Guangzhou Nansha were busy with activities during the quarter. After three months of running, the manufacturing facility in Hefei has entered into an optimal phase of production. The highly automated production line has started to show its efficiency that in a long run will not only better ensure the product quality, but also reduce the production cost that could translate to better gross margin. The new GSP compliant warehouse of Zhaoke Lianfa in the Nansha site was completed and passed the audit by China Food and Drug Administration ("CFDA") during the quarter. Zhaoke Lianfa has since been moved to the new facility in Nansha and is in full operation. It is expected that Zhaoke Lianfa will leverage on its new location to consolidate importation and logistic service for the Group's licensed-in products, bringing significant saving to the operation.

Sales and marketing organisation of the Group continued to deliver spectacular results despite the market environment remained challenging. The direct sales team maintained its course to relentnessly improve operational efficiency. While the headcount of the team held steady during the period under review, the business had expanded rapidly to account for 21.6% of total revenue of the third quarter, improved 4 percentage points over the same period last year.

Drug research and development continued its hectic pace during the quarter, achieving important milestones. The Group's in-house developed combination gel for acne had completed the preparation for its phase I&II clinical trial and successfully obtained the ethic committee approval from the principle investigator's institute. The first patient enrollment is expected soon. This proprietary formulation provides a new treatment option for acne that could improve significantly the patient compliance. Another Group's in-house developed drug Anfibatide has also successfully completed its phase IIa clinical study for non STEMI patient. This is a randomised, placebo-controlled, dose-escalating study involved 90 patients in three cohorts. The efficacy data is under analysed but preliminary safety data shows that Anfibatide is a safe anti-platelet agent with minimum bleeding issue that warrants further study. A phase IIb clinical study for treatment of STEMI patient is planned to initiate early next year. It is the Group's intention to devote full resource to accelerate the development of this first-in-class new anti-platelet agent.

In November 2014, the Group has successfully obtained an Import Drug License (IDL No. H20140799) from the CFDA to import and market *Mictonorm*® (Propiverine Hydrochloride) 30mg Capsules in China. *Mictonorm*® contains Propiverine Hydrochloride as its active ingredient. Propiverine belongs to the anticholinergic or antimuscarinic muscle relaxant class and is one of the most frequently prescribed drugs for the treatment of unstable bladder conditions and urinary incontinence. The anticipated launch of *Mictonorm*® by the second quarter of 2015 could further broaden the Group's revenue base.

2014 has so far been the Group's most productive year for partnership establishment. Having completed three partnership agreements in the first half of the year, the Group shifted into higher gear and concluded several cooperation agreements and strategic investments during the third quarter and up to the date of this report. In September 2014, the Group entered into a License, Distribution and Supply Agreement to market Cholecalciferol (or Vitamin D3) in China, Hong Kong, Macau and Taiwan. Deficiency of Vitamin D is a common condition especially in patients on dialysis, as the patients who are suffering impaired renal function may result in reduced production of Vitamin D. Management expect the availability of Cholecalciferol will strengthen the Group's exposure in dialysis area together with one of the Group's flagship product, *Carnitene*®, to help the improvement of quality of life of dialysis patients.

In October 2014, China Oncology Focus Limited, a 65% owned subsidiary of the Group, entered into an Exclusive Licensing Agreement in China, Hong Kong, Macau and Taiwan to develop and commercialise anti-PD-L1 monoclonal antibody (mAb) STI-A1014 with Sorrento Therapeutics, Inc. ("Sorrento"), a late-stage clinical oncology company developing new treatments for cancer and its associated pain. Capitalising Sorrento's antibody technologies as well as its immunotherapy expertise, this partnership will enable the Group to address high unmet oncology needs in the Chinese market by bringing new effective immuno-oncology therapy thereto. Phase 1 clinical trial of the anti-PD-L1 antibody in China is expected to be initiated in 2016. In addition, the Company has invested US$3.6 million (approximately HK$27.9 million equivalent) by purchasing common stock in Sorrento and aimed to create long-term mutual beneficial business relationship with Sorrento. PD-L1 and PD-1 monoclonal antibody is also called checkpoint inhibitor. It could unlock cancer patient's immune response to effectively combat cancer. The development of checkpoint inhibitor has created tremendous excitement in cancer therapy field and first product has been approved by FDA and Japanese authority for the treatment of advanced malenoma.

In November 2014, Powder Pharmaceuticals Incorporated ("PPI"), an associate of the Group, entered into a Strategic Partnership with EyeSense AG to develop and commercialise a novel continuous blood glucose monitoring system for diabetes patients in China and other South Asian countries. EyeSense AG is a Switzerland based company which develops diagnostic systems focusing on glucose testing for diabetic patients. This partnership will enable the Group to create new territory in pharmaceutical device for future growth. Moreover, the Company has invested a minority stake in EyeSense AG and aimed to enhance the Group's development in the area of pharmaceutical product.

In November 2014, the Group entered into a Strategic Collaboration with Ikaria, Inc., for the Registration and Commercialisation of Ikaria's *INOmax*® Line Products in China, Hong Kong, Macau and Taiwan. Ikaria, Inc. is a critical care company focused on developing and commercialising innovative therapies designed to address the significant needs of critically ill patients. *INOmax*® (nitric oxide) is currently the only drug approved by the US FDA to treat hypoxic respiratory failure (HRF) associated with pulmonary hypertension in term and near-term infants greater than 34 weeks gestational age. *INOmax*® therapy package is currently sold in the North American Region directly to hospitals and the Group has committed to bring *INOmax*® therapy package into the Chinese market.

There are also good news in the corporate development front. The Group has become a constituent stock of MSCI Global Small Cap China Index, effective as of the market close on 25 November 2014. MSCI indices have become one of the most widely used international equity benchmarks by institutional investors. The inclusion will enhance the Group's reputation and position in the international capital market.

The Group's subsidiary CVie Therapeutics Company Limited ("CVie") and PPI also made great strike during the quarter. In August 2014, PPI obtained the PIC/S GMP certificate from the Department of Health of Hong Kong SAR, making *Zingo*® the first injection product in Hong Kong with such GMP certification. Since then, the shipment volume of *Zingo*® has been ramping up and the performance of PPI has been improved. In September 2014, PPI has achieved the first milestone and relevant milestone payment was received from the distribution partner.

During the period under review, our specialised team in pulmonary hypertension which operates through CVie continued to market and promote the use of *Remodulin*® in mainland China and achieved significant quarter-on-quarter improvement on sales volume. So far, more than 80 critically ill patients have been able to access to and benefit from *Remodulin*® treatment. It is most gratifying to see that doctors have a new treatment option to make a difference and to save lives.

PROSPECT

Given the fact that fundamentals of the key drivers of the pharmaceutical industry in China such as market demand and healthcare investment remain strong, the Group is optimistic that the core product portfolio of the Group will sustain the remarkable growth and deliver consistent results in the years to come.

As more and more tender process is expected to open in the next six months, newer products such as oral *Carnitene*® will have the opportunity to participate with ensuing enlistment in the hospital formulary to generate sales. For older products such as *Liveracine*®, the available of tender process provides the chance to increase the market penetration in some areas and to regain the market momentum in others.

The continual progress on the enhancement of operation efficiency for the Group's direct sales forces will contribute significantly to the improvement of operation margin in future. The contribution of sales from the direct sales team to the overall revenue of the Group is also expected to grow to more significant level, bringing more reliability and sustainability to its revenue stream.

While the Group will keenly explore more strategic partnership opportunities to enrich and broaden the imported drug portfolio for future growth, it will strengthen its in-house development program by leveraging on its partnership with Scinopharm Taiwan, Limited. The new matrix of product development allows the Group to build a more balanced and better risk-mitigated pipeline, entailing the capture of those unique opportunities pertained to China's pharmaceutical market.

The Group believes that by increasing investment in research and development, and strengthening operation efficiency are the key to success. Leveraging on its solid foundation of business operations and financial position, the Group will be able to grasp the market opportunities while progressing forward, providing the best return for the shareholders.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and nine months ended 30 September 2014

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2014	2013	**2014**	2013
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Turnover	(2)	**246,679**	177,407	**689,395**	512,176
Cost of sales		**(75,872)**	(48,394)	**(207,121)**	(144,936)
Gross profit		**170,807**	129,013	**482,274**	367,240
Other revenue		**4,273**	1,524	**11,016**	4,251
Selling and distribution expenses		**(81,059)**	(58,168)	**(229,665)**	(160,374)
Research and development expenses		**(9,808)**	(4,641)	**(32,224)**	(19,042)
Administrative expenses		**(25,340)**	(21,503)	**(66,255)**	(58,909)
Profit from operations		**58,873**	46,225	**165,146**	133,166
Finance costs		**(673)**	(563)	**(2,055)**	(1,122)
Share of results of an associate		**1,276**	(1,096)	**(2,213)**	(1,096)
Profit before taxation		**59,476**	44,566	**160,878**	130,948
Taxation	(3)	**(11,401)**	(6,997)	**(28,642)**	(19,907)
Profit for the period		**48,075**	37,569	**132,236**	111,041
Attributable to:					
Shareholders of the Company		**49,466**	37,848	**136,539**	111,602
Non-controlling interests		**(1,391)**	(279)	**(4,303)**	(561)
		48,075	37,569	**132,236**	111,041
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings per share					
Basic	(5)	**9.10**	7.05	**25.17**	21.18
Diluted	(5)	**8.92**	6.83	**24.42**	20.54

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2014

	For the three months ended 30 September		For the nine months ended 30 September	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period	**48,075**	37,569	**132,236**	111,041
Other comprehensive income:				
Item that may not be reclassified subsequently to profit or loss:				
Exchange differences on translation of revaluation of overseas buildings	–	13	–	71
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	**2,429**	1,181	**(9,137)**	5,340
Other comprehensive (expense) income for the period, net of tax	**2,429**	1,194	**(9,137)**	5,411
Total comprehensive income for the period	**50,504**	38,763	**123,099**	116,452
Total comprehensive income (expense) for the period attributable to:				
Shareholders of the Company	**51,894**	39,041	**127,389**	117,010
Non-controlling interests	**(1,390)**	(278)	**(4,290)**	(558)
	50,504	38,763	**123,099**	116,452

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2014

	Attributable to the shareholders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other 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 2014 (audited)	26,912	292,326	9,200	5,392	60,312	23,284	368,579	786,005	66,053	852,058
Employee share option benefits	–	–	–	2,812	–	–	–	2,812	–	2,812
Exercise of share options	286	7,443	–	(1,253)	–	–	–	6,476	–	6,476
Share of share-based compensation reserve of a subsidiary	–	–	–	17	–	–	–	17	13	30
Acquisition of additional interest in a subsidiary	–	–	–	–	(996)	–	–	(996)	966	(30)
Deemed partial disposal of interests in a subsidiary *(Note 6)*	–	–	–	–	28	–	–	28	4	32
Profit (loss) for the period	–	–	–	–	–	–	136,539	136,539	(4,303)	132,236
Other comprehensive (expense) income for the period	–	–	–	–	–	(9,150)	–	(9,150)	13	(9,137)
Total comprehensive income (expense) for the period	–	–	–	–	–	(9,150)	136,539	127,389	(4,290)	123,099
2013 final dividend paid	–	–	–	–	–	–	(28,251)	(28,251)	–	(28,251)
2014 interim dividend declared	–	–	–	–	–	–	(14,687)	(14,687)	–	(14,687)
At 30 September 2014 (unaudited)	27,198	299,769	9,200	6,968	59,344	14,134	462,180	878,793	62,746	941,539

	Attributable to the shareholders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other reserve *HK$'000*	Revaluation reserve *HK$'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 2013 (audited)	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279
Employee share option benefits	–	–	–	2,123	–	–	–	–	2,123	–	2,123
Exercise of share options	71	3,306	–	(512)	–	–	–	–	2,865	–	2,865
Share options lapsed	–	–	–	(81)	–	–	–	–	(81)	–	(81)
Share of share-based compensation reserve of a subsidiary	–	–	–	21	–	–	–	–	21	9	30
Issue of shares pursuant to Shareholders' Agreement	758	26,370	–	–	–	–	–	–	27,128	–	27,128
Deemed partial disposal of interests in a subsidiary	–	–	–	–	43,274	–	–	–	43,274	56,380	99,654
Profit (loss) for the period	–	–	–	–	–	–	–	111,602	111,602	(561)	111,041
Other comprehensive income for the period	–	–	–	–	–	71	5,337	–	5,408	3	5,411
Total comprehensive income (expense) for the period	–	–	–	–	–	71	5,337	111,602	117,010	(558)	116,542
2012 final dividend paid	–	–	–	–	–	–	–	(20,871)	(20,871)	–	(20,871)
2013 interim dividend declared	–	–	–	–	–	–	–	(12,367)	(12,367)	–	(12,367)
At 30 September 2013 (unaudited)	26,884	290,332	9,200	4,843	60,312	4,107	19,973	325,607	741,258	66,954	808,212

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2014

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated results have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared on the historical cost basis.

The accounting policies and method of computation used in preparing the unaudited condensed consolidated results are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2013 except as described below.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's unaudited condensed consolidated financial statements:

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

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

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

Amendments to HKFRSs	Annual Improvements to HKFRS 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRS 2011-2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRS 2012-2014 Cycle[3]
HKFRS 9	Financial Instruments[5]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 19	Defined Benefit Plan: Employee Contributions[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]

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

2 Effective for annual periods beginning on or after 1 July 2014, with limited exception. Earlier application is permitted

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

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

5 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the unaudited condensed consolidated financial statements of the Group.

2. Turnover

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

Business segments

	For the three months ended 30 September		For the nine months ended 30 September	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Proprietary products	**97,423**	74,258	**274,729**	220,239
Licensed-in products	**149,256**	103,149	**414,666**	291,937
	246,679	177,407	**689,395**	512,176

Geographical segments

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

3. Taxation

	For the three months ended 30 September		For the nine months ended 30 September	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Current tax				
Hong Kong Profits Tax	**8,300**	3,800	**18,700**	11,260
PRC Enterprise Income Tax	**2,392**	2,301	**8,500**	7,574
Under (over) provision in prior years	**274**	(11)	**1,252**	(153)
	10,966	6,090	**28,452**	18,681
Deferred tax				
Origination and reversal of temporary differences	**435**	907	**190**	1,226
	11,401	6,997	**28,642**	19,907

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

4. Dividend

An interim dividend of HK$0.027 per share, totalling HK$14,687,000 for the six months ended 30 June 2014 was declared on 25 August 2014 and paid on 16 October 2014.

The Board does not recommend the payment of other interim dividend for the nine months ended 30 September 2014 (2013: Nil).

5. Earnings per share

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Earnings:				
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	**49,466**	37,848	**136,539**	111,602
Effect of dilutive potential ordinary shares:				
Adjustment in relation to contingent share arrangement	**–**	–	**(418)**	–
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	**49,466**	37,848	**136,121**	111,602

	For the three months ended 30 September		For the nine months ended 30 September	
	2014	2013	**2014**	2013
	Share(s)'000	***Share(s)'000***	***Share(s)'000***	***Share(s)'000***
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	**543,798**	537,220	**542,427**	526,859
Effect of dilutive potential ordinary shares:				
Options	**10,991**	12,031	**10,002**	11,515
Contingent share arrangement	**–**	4,996	**4,996**	4,996
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**554,789**	554,247	**557,425**	543,370

For the three months ended 30 September 2014, the computation of diluted earnings per share does not assume the exercise of the contingent share arrangement as it had an anti-dilutive effect on the earnings per share calculation.

6. Deemed partial disposal of interests in a subsidiary

On 19 September 2014, China Oncology Focus Limited ("China Oncology") issued 4,200 shares to Perfect Concept Holdings Limited at consideration of USD4,200. After the issuance of shares, the Group's shareholding in China Oncology reduced by 35% to 65%. As the Group retained control over China Oncology, the Group recognised a gain on deemed partial disposal of interests in China Oncology of HK$28,000 in the equity attributable to the shareholders of the Company, and an increase in non-controlling interests of HK$4,000 during the reporting period.

7. Related party transactions

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

(a) Purchase from Sigma-Tau Group

Name of related party	*Note*	Nature of transaction	For the nine months ended 30 September	
			2014	2013
			HK$'000	*HK$'000*
			(unaudited)	(unaudited)
Sigma-tau Group	(1)	Purchase of pharmaceutical products	**59,848**	99,076
Sigma-tau Group	(1)	Purchase of experimental products for use in R&D	**809**	2,157
			60,657	101,233

Note:

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

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

During the nine months ended 30 September 2014, the Group received approximate HK$363,000 (30 September 2013: HK$325,000) interest income from loans to PPI. PPI is an associate to the Group.

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

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

(d) Compensation of key management personnel

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

	For the nine months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**9,458**	11,450
Share-based payments	**867**	572
Retirement and other post-employment benefits	**12,490**	10,326
	22,815	22,348

8. CAPITAL COMMITMENTS

	30 September 2014	31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital commitments in respect of:–		
Investment in available-for-sale financial asset	**15,403**	–
Intangible assets – license fee and development cost	**17,489**	15,049
Property, plant and equipment	**17,584**	15,308
Construction contract	**25,932**	28,096
	76,408	58,453

9. EVENT AFTER THE END OF THE REPORTING PERIOD

On 3 October 2014, China Oncology entered into a license agreement with Sorrento Therapeutics Inc. ("Sorrento") which is currently listed in NASDAQ Stock Market. Under the license agreement, China Oncology has to pay an up-front payment of USD1,000,000 (approximate HK$7,754,000) for acquiring the license right, and the Company has to acquire 400,000 common stock of Sorrento at consideration of USD3,600,000 (approximate HK$27,914,000). The common stock cannot be resale for a six-month period after acquisition.

DIVIDEND

The Board does not recommend payment of dividend for the nine months ended 30 September 2014. (For the nine months ended 30 September 2013: 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 nine months ended 30 September 2014.

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

Hong Kong, 27 November 2014

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