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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Three months ended			Six months ended		
	30 June		Change	30 June		Change
	2016	2015		2016	2015	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Revenue	224,191	247,580	-9.4%	449,729	477,903	-5.9%
Gross profit	169,340	174,216	-2.8%	327,751	337,829	-3.0%
Profit attributable to the owners of the Company	68,311	62,580	+9.2%	121,418	103,026	+17.9%
	HK cents	HK cents		HK cents	HK cents	
Earnings per share						
Basic	11.60	10.83	+7.1%	20.65	18.23	+13.3%
Diluted	11.56	10.65	+8.5%	20.53	17.95	+14.4%

* For identification purposes only

INTERIM FINANCIAL STATEMENTS

The directors (the “**Directors**”) of Lee’s Pharmaceutical Holdings Limited (the “**Company**”) present herewith the unaudited consolidated interim financial results (the “**Interim Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016, together with the comparative figures for the corresponding period in 2015. The Interim Results are unaudited, but have been reviewed by the Company’s auditor, HLM CPA Limited (the “**Auditor**”) in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The Auditor’s report on their review of the Interim Results of the Group will be included in the interim report to be sent to the owners of the Company. The audit committee of the Company has also reviewed with the management and the Auditor the Interim Results before recommending it to the Board for approval.

BUSINESS REVIEW

The tougher market environment persisted during the period under review and Renminbi (“**RMB**”) devaluation continued to cast a shadow over the performance of the Group in year 2016. While the top-line growth remained sluggish during the quarter under review, the Group managed to achieve decent net profit growth despite the market environment remained subdued. This is the result of steadfast cost saving benefit reaped from the implementation of the streamlined cost structure launched since year 2015 in sales and marketing spending. The healthy growth in profit allows the Group to keep spending heavily in research and development (“**R&D**”) for new products at different development stages that would enable the Group to widen its product portfolio and gear up for future growth.

Revenue for the second quarter of this year was HK\$224,191,000, fell by 9.4% over same quarter last year. Revenue for the first half of 2016 was HK\$449,729,000, decreased by 5.9% over same period last year when RMB currency has been weakened by 6.9% year-on-year. It was also a significant improvement over the second half of 2015 when the revenue decreased by 13.3% on an year-on-year basis. During the first six months of the year, the Group’s flagship products such as Yallaferon[®] and Livaracine[®] have recorded a mild revenue growth of 9.3% and 10.1%, respectively, compared with same period last year. Notwithstanding the successful renewal of the Import Drug License of Ferplex[®] in early 2016, the supply interruption due to the delivery lead time temporarily hindered its revenue growth in the quarter. Furthermore, overall revenue growth momentum was still depressed by the underperformance of Carnitene[®] and Zanidip[®] in the first half of the year.

Sales of licensed-in products accounted for 51.5% (For the six months ended 30 June 2015: 55.2%) of the Group’s revenue while sales of proprietary products contributed 48.5% (For the six months ended 30 June 2015: 44.8%) of the Group’s revenue.

During the period under review, the gross profit margin was 72.9%, notably improved by 2.2 percentage points over same period last year which reflected the increasing revenues from the Group's proprietary products that normally have higher profit margin than licensed-in products.

During the period under review, the Group managed to achieve decent growth in net profit compared to same period last year. The cost-optimality of its sales and marketing strategies remained in effect and the selling expenses to revenue ratio has lowered to 24.6%, reduced by 4.8 percentage points as compared to same period last year. The Group continued the plan to intensify its R&D efforts and the investment therein during the first half of the year was increased by 49.4% to HK\$32,629,000, as compared to the same period last year, and represented 7.3% of revenue during the period under review. In addition, HK\$11,429,000 of licensing and R&D costs capitalised in the prior years were written off during the period under review. During the quarter under review, the Group received compensation for service provided in the registration area from the third party upon termination of the product license therewith and has been recognised as other income. With administrative expenses to revenue ratio was kept in line in the period, net profit attributable to the owners of the Company for the period increased by 17.9% over the same period last year and reached HK\$121,418,000 despite the revenue growth has hitherto been stagnant.

In June 2016, the Group's solid dose production facility in Guangzhou Nansha has successfully obtained the first pharmaceutical manufacturing license for tablet and capsule from the China Food and Drug Administration (the "CFDA"). The approval was a major milestone in its efforts to enhance drug manufacturing and developing capability. The Group's ophthalmic drugs production facility in Nansha has also commenced its construction work.

With the continuous efforts in knowledge-based promotion, the number of medical practitioners/physicians registered to the Group's fully sponsored China-Europe Echocardiography CME Project has reached the "10,000" mark in June 2016. Leveraging on new media to disseminate scientific and educational information together with the transformation of its sales and marketing organisation continued to improve operation efficiency. Besides the new business unit has been created to focus on sales and marketing of new and newer products in the last quarter, the Group has planned to create another new business unit specifically focus on oncology products soon.

A steadfast commitment to R&D is the hallmark of the Group and is the way to help survive tough and uncertain market environment.

During the quarter under review, the CFDA modified its regulations for conducting clinical trials in the PRC, in which the CFDA changed its regulations to allow Phase 1 or Phase 2 clinical trials with drug candidates manufactured abroad (including both the active pharmaceutical ingredient and the finished product). This rule change can significantly speed up drug development in China as the local drug development in China may now rely on drugs sourced outside of the country in early clinical trials. This change allowed the Group to immediately resume its previous development activities in China for RGN-259 to treat ocular disorders prior to the completion of the Group's manufacturing capability in ophthalmic products.

Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris is in progress. Its Phase IIa component of the study has since been completed and the remaining Phase Ib study has finished enrollment. Phase III study is envisaged to initiate by first quarter of 2017.

For Natulan® registration study, the Group has worked together with the principle investigator in developing the study protocol that has been confirmed by the CFDA. The preparation for the study was substantially completed and first enrollment is expected in the fourth quarter of 2016.

Phase IIb clinical study (Protocol No. CVTCV-001) in Taiwan for Rostafuroxin capsule 50, 500ug with antihypertensive effect is in full swing. The Phase IIb multi-centers, randomised, comparator-controlled, dose-finding clinical study and the study aims to evaluate the anti-hypertensive effects indifferent doses of Rostafuroxin in comparison with Losartan®, assessed by office and ambulatory blood pressure monitoring in a hypertensive population selected according to specific genetic profiles. The study involved a total of 17 centers and 18 centers respectively across Italy and Taiwan. The Italian arm of the study was substantially completed, and to date, around one-third of the patients required have been enrolled for Taiwan study (MOHW's Approval Notice No. 1046044455) and the enrolment is expected to be completed by end of this year.

Istaroxime is a first-in-class luso-inotropic agent for the treatment of acute decompensated heart failure. Istaroxime possesses a dual mode of action, combining inotropic (myocyte contraction) and lusotropic (myocyte relaxation) effects and its Phase IIb clinical study in Italy was substantially completed. To date, the Group is waiting for the Human Genetic Material Collection approval and therefore, the first patient enrollment in China is expected in the fourth quarter of 2016. In August 2016, the Group has initiated a discovery and development collaboration with ScinoPharm Taiwan Limited to identify the new generation compound to Istaroxime for the treatment of acute and chronic heart failure in oral form.

Pexa-Vec (formerly JX-594) is continuing its Phase III registration enabling clinical study at the moment. The multinational randomised Phase 3 open-label study of Pexa-Vec, in patients with advanced liver cancer, also known as hepatocellular carcinoma (HCC) has been commenced early this year in New Zealand, the United States and Europe. For the clinical trial to be conducted in mainland China, the approval certificate from CFDA is expected to be received in the fourth quarter of 2016.

Overall, the Group has more than 13 clinical studies in either operational or preparatory stage. Several of those clinical studies are registration enabling study and successful conclusion of those studies is the Group's priority. And the Group will continue to commit in these new drugs development as the engines for sustainable growth.

PROSPECT

While the structural headwinds to revenue growth persists, the Group is cautiously optimistic for the rest of the year and beyond. The Group will continue to commit high percentage of total revenue to R&D spending in order to bring in new products to fuel growth as soon as practicable. Together with the next milestone of the manufacturing facility in Nansha to obtain Good Manufacturing Practice (“GMP”) certification in next year, the Group believes that a pathway to future success has already created.

The Group will continue its efforts to the revenue growth of the six major products and will also focus on the growth of newer products such as Remodulin[®], Gaslon N[®], oral L-Carnitine, as well as Mictonorm[®] which is expected to launch within the year.

The board of directors is confident that the Group will bounce back and resume revenue growth trajectory and will continue to deliver satisfactory return to its shareholders in the upcoming period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2016

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Revenue		224,191	247,580	449,729	477,903
Cost of sales		<u>(54,851)</u>	<u>(73,364)</u>	<u>(121,978)</u>	<u>(140,074)</u>
Gross profit		169,340	174,216	327,751	337,829
Other income	(6)	26,633	1,361	35,941	3,630
Gain on deemed disposal of interest in an associate		–	31,908	–	31,908
Fair value changes of derivative financial instruments		–	8,119	–	7,065
Impairment of intangible assets		(7,723)	(28)	(11,429)	(395)
Selling and distribution expenses		(59,014)	(67,921)	(110,443)	(140,345)
Administrative expenses		(33,592)	(40,149)	(68,629)	(75,320)
Research and development expenses		<u>(17,864)</u>	<u>(9,792)</u>	<u>(32,629)</u>	<u>(21,838)</u>
Profit from operations	(7)	77,780	97,714	140,562	142,534
Finance costs		(775)	(747)	(1,691)	(1,501)
Share of results of associates		<u>(2,210)</u>	<u>(21,112)</u>	<u>(4,780)</u>	<u>(23,356)</u>
Profit before taxation		74,795	75,855	134,091	117,677
Taxation	(8)	<u>(11,172)</u>	<u>(16,373)</u>	<u>(21,260)</u>	<u>(22,033)</u>
Profit for the period		<u>63,623</u>	<u>59,482</u>	<u>112,831</u>	<u>95,644</u>
Attributable to:					
Owners of the Company		68,311	62,580	121,418	103,026
Non-controlling interests		<u>(4,688)</u>	<u>(3,098)</u>	<u>(8,587)</u>	<u>(7,382)</u>
		<u>63,623</u>	<u>59,482</u>	<u>112,831</u>	<u>95,644</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share					
Basic	(10)	<u>11.60</u>	<u>10.83</u>	<u>20.65</u>	<u>18.23</u>
Diluted	(10)	<u>11.56</u>	<u>10.65</u>	<u>20.53</u>	<u>17.95</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the three months and six months ended 30 June 2016

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Profit for the period	63,623	59,482	112,831	95,644
Other comprehensive (expense) income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	(35,933)	(992)	(12,280)	2,776
Fair value changes of available-for-sale financial assets	682	18,796	(9,646)	23,417
Other comprehensive (expense) income for the period, net of tax	(35,251)	17,804	(21,926)	26,193
Total comprehensive income for the period	28,372	77,286	90,905	121,837
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	33,003	81,676	99,202	128,708
Non-controlling interests	(4,631)	(4,390)	(8,297)	(6,871)
	28,372	77,286	90,905	121,837

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
Non-current Assets			
Property, plant and equipment	(11)	404,920	355,940
Intangible assets		370,589	337,825
Lease premium for land		13,068	13,401
Goodwill		3,900	3,900
Interests in associates	(12)	53,922	58,671
Held-to-maturity financial assets		5,575	5,491
Available-for-sale financial assets		125,898	99,029
Prepayment for acquisition of a leasehold land		133,565	135,402
Deferred tax assets		26,428	–
		1,137,865	1,009,659
Current Assets			
Lease premium for land		302	306
Inventories		115,192	169,878
Trade receivables	(13)	102,267	107,780
Other receivables, deposits and prepayments		174,763	108,821
Amount due from a related party		–	37,275
Advance to an associate		20,605	22,588
Tax recoverable		85	674
Time deposits		113,966	115,903
Cash and bank balances		294,302	278,244
		821,482	841,469
Current Liabilities			
Trade payables	(14)	28,198	37,621
Other payables		164,782	172,619
Obligation under license contract		518	505
Bank borrowings	(15)	95,771	66,769
Obligation under finance leases		421	303
Tax payables		41,230	4,139
		330,920	281,956
Net Current Assets		490,562	559,513
Total Assets less Current Liabilities		1,628,427	1,569,172

		At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
Capital and Reserves			
Share capital	(16)	29,490	29,340
Reserves		<u>1,496,590</u>	<u>1,438,098</u>
Equity Attributable to the Owners of the Company		1,526,080	1,467,438
Non-controlling interests	(17)	<u>41,102</u>	<u>49,390</u>
Total Equity		<u>1,567,182</u>	<u>1,516,828</u>
Non-current Liabilities			
Deferred tax liabilities		20,776	18,281
Retirement benefits		39,195	33,195
Obligation under finance leases		<u>1,274</u>	<u>868</u>
		<u>61,245</u>	<u>52,344</u>
		<u>1,628,427</u>	<u>1,569,172</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to the Owners of the Company								Attributable to non- controlling interests	Total	
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger difference <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Investments revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>			Sub-total <i>HK\$'000</i>
At 1 January 2016 (audited)	29,340	717,925	9,200	8,718	59,344	(899)	(47,540)	691,350	1,467,438	49,390	1,516,828
Employee share option benefits	-	-	-	1,892	-	-	-	-	1,892	-	1,892
Exercise of share options	150	1,709	-	(708)	-	-	-	-	1,151	-	1,151
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Share of reserve of associate	-	-	-	-	31	-	-	-	31	-	31
Profit (loss) for the period	-	-	-	-	-	-	-	121,418	121,418	(8,587)	112,831
Other comprehensive (expense) income for the period	-	-	-	-	-	(9,646)	(12,570)	-	(22,216)	290	(21,926)
Total comprehensive income (expense) for the period	-	-	-	-	-	(9,646)	(12,570)	121,418	99,202	(8,297)	90,905
2015 final dividend paid	-	-	-	-	-	-	-	(43,645)	(43,645)	-	(43,645)
At 30 June 2016 (unaudited)	<u>29,490</u>	<u>719,634</u>	<u>9,200</u>	<u>9,913</u>	<u>59,375</u>	<u>(10,545)</u>	<u>(60,110)</u>	<u>769,123</u>	<u>1,526,080</u>	<u>41,102</u>	<u>1,567,182</u>
At 1 January 2015 (audited)	27,236	301,196	9,200	7,782	59,344	3,319	7,793	518,471	934,341	64,526	998,867
Employee share option benefits	-	-	-	1,942	-	-	-	-	1,942	-	1,942
Exercise of share options	228	19,172	-	(2,417)	-	-	-	-	16,983	-	16,983
Share of share-based compensation reserve of a subsidiary	-	-	-	11	-	-	-	-	11	9	20
Issue of shares pursuant to Placing Agreement	1,500	382,319	-	-	-	-	-	-	383,819	-	383,819
Issue of shares pursuant to Shareholders' Agreement	345	12,035	-	-	-	-	-	-	12,380	-	12,380
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	586	586
Profit (loss) for the period	-	-	-	-	-	-	-	103,026	103,026	(7,382)	95,644
Other comprehensive income for the period	-	-	-	-	-	23,417	2,265	-	25,682	511	26,193
Total comprehensive income (expense) for the period	-	-	-	-	-	23,417	2,265	103,026	128,708	(6,871)	121,837
2014 final dividend paid	-	-	-	-	-	-	-	(38,577)	(38,577)	-	(38,577)
At 30 June 2015 (unaudited)	<u>29,309</u>	<u>714,722</u>	<u>9,200</u>	<u>7,318</u>	<u>59,344</u>	<u>26,736</u>	<u>10,058</u>	<u>582,920</u>	<u>1,439,607</u>	<u>58,250</u>	<u>1,497,857</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	30 June 2016 HK\$'000 (unaudited)	30 June 2015 HK\$'000 (unaudited)
Net cash generated from operating activities	159,108	10,233
Net cash used in investing activities	(143,736)	(213,994)
Net cash (used in) generated from financing activities	(13,153)	373,951
Net increase in cash and cash equivalents	2,219	170,190
Cash and cash equivalents at 1 January	337,129	392,912
Effect of foreign exchange rate changes	(14,006)	598
Cash and cash equivalents at 30 June	<u>325,342</u>	<u>563,700</u>
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	294,302	324,606
Time deposits	113,966	352,561
	408,268	677,167
Less: Time deposits with original maturity more than three months	(82,926)	(113,467)
	<u>325,342</u>	<u>563,700</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2015 except as described below.

In the current interim period, the Group has applied, for the first time, the following new amendments to HKAS 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 HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above amendments to HKASs and HKFRSs in the current interim 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 HKASs and HKFRSs that have been issued but are not yet effective:

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Loss ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

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

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates.

4. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the Group's annual financial statements for the year ended 31 December 2015. In current interim period, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets.

5. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

Six months ended 30 June

	Proprietary products		Licensed-in products		Consolidated	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Segment revenue	217,979	214,071	231,750	263,832	449,729	477,903
Segment results	92,535	86,261	64,759	42,138	157,294	128,399
Gain on deemed disposal of interests in an associate					–	31,908
Interest income					933	2,541
Unallocated expenses					(17,665)	(20,314)
Profit from operations					140,562	142,534
Finance costs					(1,691)	(1,501)
Profit before share of results of associates					138,871	141,033
Share of results of associates					(4,780)	(23,356)
Profit before taxation					134,091	117,677
Taxation					(21,260)	(22,033)
Profit for the period					112,831	95,644

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current interim period (six months ended 30 June 2015: Nil).

Segment assets and liabilities

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

	Proprietary products		Licensed-in products		Consolidated	
	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Segment assets	254,878	260,304	1,061,597	942,067	1,316,475	1,202,371
Unallocated assets					642,872	648,757
Total assets					<u>1,959,347</u>	<u>1,851,128</u>
Segment liabilities	91,582	87,839	199,382	190,846	290,964	278,685
Unallocated liabilities					101,201	55,615
Total liabilities					<u>392,165</u>	<u>334,300</u>

Geographical information

During the six months ended 30 June 2016 and 2015, 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.

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

	The PRC		Hong Kong and others		Total	
	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Segment assets	1,157,043	1,085,401	802,304	765,727	1,959,347	1,851,128
Segment liabilities	146,010	118,241	246,155	216,059	392,165	334,300

6. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Interest income on:				
Bank deposits	302	909	516	2,116
Held-to-maturity financial assets	42	42	84	84
Advance to an associate	201	337	417	425
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest income	545	1,288	1,017	2,625
Development grants	2,265	3	6,261	729
Development milestone income	–	–	4,501	–
Compensation on termination of product license	23,769	–	23,769	–
Sundry income	54	70	393	276
	<hr/>	<hr/>	<hr/>	<hr/>
	26,633	1,361	35,941	3,630
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. PROFIT FROM OPERATIONS

Profit for the period has been arrived at after charging (crediting) the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Depreciation of property, plant and equipment	7,803	7,884	15,385	17,674
Amortisation of lease premium for land	76	81	154	162
Amortisation of intangible assets	2,488	2,874	5,015	5,716
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciation and amortisation	10,367	10,839	20,554	23,552
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Provision (reversal) of allowance for doubtful debts	219	221	(44)	(89)
Interest expenses on borrowings	692	687	1,510	1,361
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

8. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Current tax				
Hong Kong Profits Tax	(9,235)	8,911	36,647	12,899
PRC Enterprise Income Tax	3,645	4,630	8,313	8,247
(Over) underprovision in prior years	(64)	3	(64)	3
	<u>(5,654)</u>	<u>13,544</u>	<u>44,896</u>	<u>21,149</u>
Deferred tax				
Origination and reversal of temporary differences	16,826	2,829	(23,636)	884
	<u>11,172</u>	<u>16,373</u>	<u>21,260</u>	<u>22,033</u>

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

9. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Interim dividend declared – HK\$0.033 (2015: HK\$0.030) per ordinary share based on issued share capital at the end of the reporting period	<u>19,463</u>	<u>17,585</u>	<u>19,463</u>	<u>17,585</u>

Interim dividend will be payable on 28 September 2016 to shareholders registered in the Company's Register of Members as at the close of business on 15 September 2016. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position. 2015 final dividend of HK\$0.074 per share, totalling HK\$43,645,000 was paid on 16 June 2016.

10. EARNINGS PER SHARE

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<i>Earnings:</i>				
Net profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	68,311	62,580	121,418	103,026
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	Share(s)	Share(s)	Share(s)	Share(s)
	'000	'000	'000	'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	589,103	577,927	587,993	565,217
Effect of dilutive potential ordinary shares:				
Options	2,069	9,408	3,442	8,742
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per Share	591,172	587,335	591,435	573,959
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2016, additions to property, plant and equipment amount to HK\$70 million.

12. INTERESTS IN ASSOCIATES

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

	At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
Cost of investment, unlisted	91,208	91,208
Share of post-acquisition loss and other comprehensive income, net of dividend received	(37,317)	(32,537)
Share of reserve of associate	31	–
	53,922	58,671

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

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		30 June 2016	31 December 2015	30 June 2016	31 December 2015	
Powder Pharmaceuticals Incorporated ("PPI")	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Manufacture and sale of pharmaceutical products
Powder Pharmaceuticals (HK) Co. Limited	Hong Kong	33.92%	33.92%	33.92%	33.92%	Not yet commence business
RIT Biotech (Holding) Company Limited	British Virgin Islands/ Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals
RIT Biotech Company Ltd.	Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals

13. TRADE RECEIVABLES

The Group allows an average credit period of 30 – 120 days to its trade customers. The fair value of the Group's trade receivables at 30 June 2016 approximates to the corresponding carrying amount.

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

	At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
0 – 30 days	54,640	50,767
31 – 120 days	44,686	50,236
121 – 180 days	1,999	5,839
181 – 365 days	931	934
Over 365 days and under 3 years	11	4
	<hr/> 102,267 <hr/> <hr/>	<hr/> 107,780 <hr/> <hr/>

14. TRADE PAYABLES

The average credit period on purchases of certain goods is 90 days. The fair value of the Group's trade payables as at 30 June 2016 approximates to the corresponding carrying amount.

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

	At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
0 – 90 days	5,272	35,523
91 – 180 days	51	1
181 – 365 days	22,751	2,065
Over 365 days	124	32
	<hr/> 28,198 <hr/> <hr/>	<hr/> 37,621 <hr/> <hr/>

15. BANK BORROWINGS

	At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
Carrying amount of the borrowings are repayable:		
Within one year	72,335	34,146
More than one year but not exceeding two years	14,827	23,804
More than two year but not exceeding five years	8,609	8,819
	<u>95,771</u>	<u>66,769</u>

The carrying amounts of bank borrowings are denominated in Hong Kong dollars, Renminbi, Euro and Japanese Yen.

The effective interest rates of the bank borrowings range from 1.98% to 4.79% per annum.

16. SHARE CAPITAL

	Number of shares		Share Capital	
	At 30 June 2016 (unaudited)	At 31 December 2015 (audited)	At 30 June 2016 (unaudited) <i>HK\$'000</i>	At 31 December 2015 (audited) <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.05 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period/year	586,795,343	544,720,604	29,340	27,236
Exercise of share options	3,000,000	5,180,500	150	259
Issue of shares pursuant to the Placing Agreement	–	30,000,000	–	1,500
Issue of shares pursuant to the Shareholders' Agreement	–	6,894,239	–	345
At end of the period/year	<u>589,795,343</u>	<u>586,795,343</u>	<u>29,490</u>	<u>29,340</u>

17. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries <i>HK\$'000</i>	Share-based compensation reserve of subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016 (audited)	49,340	50	49,390
Share of loss for the period	(8,587)	–	(8,587)
Share of other comprehensive income for the period	290	–	290
Share of employee share options benefit	–	9	9
	<hr/>	<hr/>	<hr/>
At 30 June 2016 (unaudited)	<u>41,043</u>	<u>59</u>	<u>41,102</u>
At 1 January 2015 (audited)	64,494	32	64,526
Capital contribution from non-controlling interests	1,954	–	1,954
Share of loss for the year	(16,055)	–	(16,055)
Share of other comprehensive expense for the year	(1,053)	–	(1,053)
Share of employee share options benefit	–	18	18
	<hr/>	<hr/>	<hr/>
At 31 December 2015 (audited)	<u>49,340</u>	<u>50</u>	<u>49,390</u>

The non-controlling interests represent 43.74% (2015: 43.74%), 43.74% (2015: 43.74%) and 35% (2015: 35%) equity interests held by third parties in CVie Therapeutics Limited, CVie Therapeutics Company Limited, and China Oncology Focus Limited respectively.

18. RELATED PARTY TRANSACTIONS

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

(a) Purchase from Sigma-Tau Group

Name of related party	Note	Nature of transaction	For the six months ended 30 June	
			2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. ("STIFR")	(1)	Purchase of pharmaceutical products	-	38,030
STIFR	(1)	Purchase of experimental products for use in research and development	-	2,899
			<u>-</u>	<u>40,929</u>

Note:

1. The amount in 2015 represented the transactions made on or before 31 May 2015. STIFR ceased to be the related party of the Group from 1 June 2015 because it has ceased as an associate (as defined in the Listing Rules) of a substantial shareholder of the Company due to the restructuring of Sigma-Tau Group. As a result, STIFR is no longer a connected person of the Company and the transaction made between STIFR and any members of the Group thereafter will no longer constitute related party transactions and continuing connected transactions of the Company.

(b) Interest income from shareholder loans to PPI

During the six months ended 30 June 2016, the Group received approximate HK\$417,000 (30 June 2015: HK\$425,000) interest income from loans to PPI.

(c) **Interest income from shareholder loan to COF**

On 13 June 2016, Lee's Pharmaceutical International Limited ("**Lee's International**"), a wholly owned subsidiary of the Company, and China Oncology Focus Limited ("**COF**") entered into a shareholder loan agreement, pursuant to which Lee's International agrees to advance the shareholder loan in the principle amount of HK\$10,000,000 to COF for one year at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 13 June 2016.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 90% of the equity interest in Perfect Concept Holdings Limited ("**Perfect Concept**") and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules. Lee's International is a shareholder of COF and at the same time, Perfect Concept, is also a shareholder of COF. Perfect Concept, being a connected person of the Company, is holding 35% of the issued share capital of COF, and therefore, the shareholder loan made by Lee's International to COF under the shareholder loan agreement constitutes a connected transaction pursuant to Rule 14A.27 of the Listing Rules.

(d) **Compensation of key management personnel**

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term employee benefits	9,301	6,712
Share-based payments	521	454
Retirement and other post-employment benefits	6,027	10,695
	15,849	17,861

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

During the six months ended 30 June 2016, total HK\$200,000 was donated to Lee's Pharmaceutical – Kanya Lee Scholarship Limited ("**Kanya Lee Scholarship**"). Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

19. CAPITAL COMMITMENTS

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Capital commitments contracted for in respect of:		
Investment in available-for-sale financial assets	–	36,431
Intangible assets – license fee and development cost	89,515	71,147
Property, plant and equipment	22,984	20,020
Construction contract	18,235	22,081
	<u>130,734</u>	<u>149,679</u>
Authorised but not contracted for:		
Intangible assets – license fee and development cost	<u>37,951</u>	<u>–</u>

20. PLEDGE OF ASSETS

The Group's obligation under finance leases is secured by the lessor's title to the motor vehicles, which has a carrying amount of HK\$1,985,000 as at 30 June 2016 (31 December 2015: HK\$1,321,000).

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following gives information about how the fair values of these financial assets and financial liabilities are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2016

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Available-for-sale financial assets				
– listed overseas	<u>17,369</u>	<u>–</u>	<u>–</u>	<u>17,369</u>
Financial liabilities				
Retirement benefits	<u>–</u>	<u>–</u>	<u>39,195</u>	<u>39,195</u>

At 31 December 2015

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Available-for-sale financial assets				
– listed overseas	<u>27,015</u>	<u>–</u>	<u>–</u>	<u>27,015</u>
Financial liabilities				
Retirement benefits	<u>–</u>	<u>–</u>	<u>33,195</u>	<u>33,195</u>

There were no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments and no change in valuation techniques during the period.

The movements of Level 3 financial instruments are as follows:

Six months ended 30 June 2016

	Derivative financial instruments <i>HK\$'000</i>	Retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016 (audited)	–	33,195	33,195
Loss recognised in profit or loss	–	6,000	6,000
	<hr/>	<hr/>	<hr/>
At 30 June 2016 (unaudited)	<u>–</u>	<u>39,195</u>	<u>39,195</u>

Six months ended 30 June 2015

	Derivative financial instruments <i>HK\$'000</i>	Retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015 (audited)	10,092	46,812	56,904
(Gain) loss recognised in profit or loss	(7,065)	10,695	3,630
	<hr/>	<hr/>	<hr/>
At 30 June 2015 (unaudited)	<u>3,027</u>	<u>57,507</u>	<u>60,534</u>

22. CONTINGENT LIABILITIES

At the end of the reporting period/year, there were contingent liabilities, so far as not provided for in the consolidated financial statements, in respect of guarantee for the banking facilities made available to:

	At 30 June 2016 <i>HK\$'000</i> (unaudited)	At 31 December 2015 <i>HK\$'000</i> (audited)
Associate	<u>8,000</u>	<u>8,000</u>

INTERIM DIVIDEND

The Board of Directors recommended an interim dividend of HK\$0.033 (2015: HK\$0.030) per share to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 15 September 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 September 2016 to Thursday, 15 September 2016 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompany by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1726, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 13 September 2016. Interim dividend will be paid on Wednesday, 28 September 2016 to shareholders registered in the Company's Register of Members as at the close of business on Thursday, 15 September 2016.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of Main Board Listing Rules throughout the six months ended 30 June 2016, with deviations from provision A.5 of the Code. Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2016 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (<http://www.hkex.news.hk>) and the Company (<http://www.leespharm.com>) in due course.

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

Hong Kong, 25 August 2016

As at the date of this announcement, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive directors of the Company, Dr. Marco Maria Brughera 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.