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 2016

* 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 2016, together with the comparative figures for the corresponding period in 2015. 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 2016 before recommending it to the board of Directors for approval.

BUSINESS REVIEW

While the Group still regard the current market environment as challenging and expect the Chinese currency to weaken further, the sales performances of certain licensed-in products have shown signs of regaining stability during the quarter under review that resulted in a turnaround of topline performance in the quarter. Nevertheless, the Group managed to achieve decent net profit growth during the quarter under review as well by capitalising the potential of pipeline product collaboration opportunities and create values that resulted in a consistent performance of bottomline growth. The healthy growth in profit also allows the Group to continue its research and development ("**R&D**") spending on various new product developments that would enable the Group to keep up the pace of innovation and drive future growth.

Revenue for the third quarter of this year was HK$248,924,000. This represented positive quarter-on-quarter growth of 7.2% and quarter-over-quarter growth of 11.0% which marked a successful revenue turnaround after four consecutive quarters of decline. Despite the adverse currency movements of Renminbi throughout the period, revenue for the nine months ended 30 September 2016 was HK$698,653,000 and decline narrowed to 1.6% as compared to the same period last year. Sales of Ferplex® has been recovered as the supply has resumed normal in the third quarter, and recorded a decent growth of 42.0% as compared to the same quarter last year. Sales of Carnitene® picked up in the third quarter and has recorded around 8.5% growth over the same quarter last year. During the first nine months of the year, the Group's in-house products such as Yallaferon® and Livaracine® maintained a mild revenue growth of 7.4% and 8.1%, respectively, compared with same period last year. The market of haemocoagulase in China has slowed to low single-digit growth during the year and as a result, sales growth of Slounase® remained stagnant during the quarter under review despite outperforming the market. Sales of Zanidip® remained underperforming but have already shown early signs of improvement during the quarter under review.

Sales of licensed-in products accounted for 52.6% (For the nine months ended 30 September 2015: 54.2%) of the Group's revenue while sales of proprietary products contributed 47.4% (For the nine months ended 30 September 2015: 45.8%) of the Group's revenue.

During the period under review, the gross margin held steadily at 71.2%, slightly improved by 0.8 percentage point as to 70.4% achieved in the same period of 2015.

While the Group's revenue stayed flat, decent net profit growth has been delivered mainly due to the benefits from the cost optimisation on its sales and marketing expenses. Selling expenses to revenue ratio during the quarter was notably reduced by 4.2 percentage points over the corresponding quarter of last year to a level of 21.1%, and the selling expenses to revenue ratio for the period was 23.3% (For the nine months ended 30 September 2015: 28.0%). With the savings therefrom went to R&D efforts, the investment in R&D expenses was increased by 83.9% to HK$48,159,000, as compared to the same period last year, and represented 6.9% of revenue during the period under review. Additional HK$11,215,000 of licensing and R&D costs capitalised in the prior years were written off during the quarter under review, and tallied HK$22,644,000 for the nine months ended 30 September 2016. In addition to development grants, development milestone income and compensation for service provided in the registration area from the third party received in the prior quarters of the year, the Group received upfront payment for the co-development of a combination product for the treatment of late stage cancers and has been recognised as other income during the quarter under review. With administrative expenses to revenue was kept in line in the period, net profit attributable to the owners of the Company for the period increased by 18.0% over the same period last year and reached HK$194,229,000.

After the obtaining of manufacturing license for tablet and capsule from China Food and Drug Administration ("**CFDA**") in June 2016, the Group is currently working on the stability testing for the Good Manufacturing Practices ("**GMP**") application for its solid dose production line in Guangzhou Nansha. The production of samples is expected to be ready by end of November 2016 and the Group expects to file the GMP application in the second quarter of 2017. The construction work of ophthalmic drugs production facility in Guangzhou Nansha is in progress and is targeted to be completed in mid 2017. The construction and installation of a new pre-filled syringe facility for the upgrading of production capability in Hefei has been completed, and the next milestone therefor will be the manufacturing license application.

Two new business units have been created for the sales and marketing of new and newer products as well as oncology products, respectively, during the period under review. The team is currently working in full swing to the preparation work for the launch of Mictonorm® by end of this year.

The Group believe that combination therapy could enhance efficacy as compared to single drug therapy in cancer treatment. In August 2016, the Group has made the first step towards combination therapy clinical trial in oncology area and entered a collaboration agreement with a company in China to jointly develop and commercialise a combination product which composed of the Group's licensed-in clinical compound, Pexa-Vec (formerly JX-594), for treatment of late stage cancers.

In September 2016, the Group has made another licensing agreement with a private company in the United States to license a novel therapeutic formulation for treatment of Diabetic Retinopathy ("**DR**") and other diseases of the eye. This is currently in the planning stage of Phase II clinical testing in patients with moderate stage DR in the United States. DR is the damage occurs to the retina due to diabetes and can lead to blindness if it is not treated. Recent studies suggested that 35% people with diabetes have DR globally and more than 20 million people in China are suffering from DR. The Group believe that the addition of this will definitely strengthen its pipeline on ophthalmology diseases area.

The Group continue to strengthen its commitment to R&D through considerable investment in this field every year.

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

Import Drug License application for Propionyl L-Carnitine (丙酰左卡尼汀) has been in its final stage and it is expected that clinical trial on-site inspection (臨床現場核查) will be conducted by CFDA before end of this year. This could provide an alternative for the patients suffer from Peripheral Arterial Diseases and Intermittent Claudication.

Pexa-Vec is continuing its Phase III registration enabling clinical study at the moment. The multinational randomised Phase III open-label study of Pexa-Vec, in patients with advanced liver cancer, also known as hepatocellular carcinoma has since been commenced early this year in New Zealand, Australia, the United States, Taiwan, Thailand and Europe, and enrolment so far is in line with the expectation. For the clinical trial to be conducted in mainland China, the approval certificate from CFDA is expected to be received by end of 2016.

Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris has been completed and topline data is expected in the fourth quarter. Phase III study is envisaged to initiate by first quarter of 2017.

The development of two first-in-class assets of the Group under its Taiwan vehicle continued to make good progress. Phase IIb clinical study (Protocol No. CVTCV-001) in Taiwan for Rostafuroxin capsule 50, 500ug with antihypertensive effect is now under way. Its Italy study has been completed early this year and, to date, around 50% of the patients required have been enrolled for Taiwan study (MOHW's Approval Notice No. 1046044455). For Istaroxime, Human Genetic Material Collection approval have been obtained recently and therefore, the first patient enrollment in China is expected before end of 2016. Meanwhile, in August 2016, the Group has also initiated a discovery and development collaboration with our partner in Taiwan to identify the new generation compound to Istaroxime for the treatment of acute and chronic heart failure in oral form.

Powder Pharmaceuticals Incorporated ("**PPI**"), an associated company of the Group, has successfully enrolled the first subject of its clinical study for Continuous Blood Glucose Monitoring System ("**CGM**") in Hong Kong at end of August 2016, collaborated between The Chinese University of Hong Kong, EyeSense AG (the Group's business partner), and PPI. The study is expected to be completed before end of this year.

Including other clinical studies such as hypertension drug Azilsartan registration enabling study, a glaucoma drug registration study, an ear infection drug phase I study and various others, the Group has more than 13 clinical studies in either operational or preparatory stage. The Group have committed to making investments in R&D, with careful prioritisation of resources, to facilitate future growth.

PROSPECT

The more price-sensitive environment and demanding conditions for tender process for pharmaceuticals are expected to continue in the near term and the Group will stay cautiously optimistic for the rest of the year and beyond. Meanwhile, the Group will continue to sharpen the execution of its strategy and to commit higher percentage of total revenue to science-based innovation.

The imminent launch of Mictonorm® and the expected launch of Sancuso® in the first half of 2017 will inject new catalyst of revenue growth in the near future. With a strong pipeline of many proprietary drugs, the Group will continue to explore ways to monetise its development assets, providing additional investments to accelerate its development effort. With the encouraging signs show that sales revenue of the Group may bottom out, the board of Directors is confident that the Group will bounce back and resume revenue growth trajectory and will continue to deliver satisfactory performance to its shareholders in the upcoming period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and nine months ended 30 September 2016

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2016	2015	**2016**	2015
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue	(3)	**248,924**	232,262	**698,653**	710,165
Cost of sales		**(79,441)**	(70,399)	**(201,419)**	(210,473)
Gross profit		**169,483**	161,863	**497,234**	499,692
Other income	(4)	**32,442**	3,695	**68,383**	7,325
Gain on deemed disposal of interest in an associate		**–**	–	**–**	31,908
Fair value change of derivative financial instruments		**–**	3,027	**–**	10,092
Impairment of intangible assets		**(11,215)**	(2,148)	**(22,644)**	(2,543)
Selling and distribution expenses		**(52,504)**	(58,835)	**(162,947)**	(199,180)
Administrative expenses		**(38,526)**	(27,504)	**(107,155)**	(102,824)
Research and development expenses		**(15,530)**	(4,350)	**(48,159)**	(26,188)
Profit from operations		**84,150**	75,748	**224,712**	218,282
Finance costs		**(1,063)**	(779)	**(2,754)**	(2,280)
Share of results of associates		**(2,520)**	(4,515)	**(7,300)**	(27,871)
Profit before taxation		**80,567**	70,454	**214,658**	188,131
Taxation	(5)	**(13,694)**	(13,265)	**(34,954)**	(35,298)
Profit for the period		**66,873**	57,189	**179,704**	152,833
Attributable to:					
Owners of the Company		**72,811**	61,583	**194,229**	164,609
Non-controlling interests		**(5,938)**	(4,394)	**(14,525)**	(11,776)
		66,873	57,189	**179,704**	152,833
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings per share					
Basic	(7)	**12.35**	10.50	**33.00**	28.76
Diluted	(7)	**12.31**	10.36	**32.84**	28.35

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2016

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period	**66,873**	57,189	**179,704**	152,833
Other comprehensive (expense) income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of overseas subsidiaries	**3,282**	(25,304)	**(8,998)**	(22,528)
Fair value changes of available-for-sale financial assets	**6,637**	(28,628)	**(3,009)**	(5,211)
Other comprehensive (expense) income for the period, net of tax	**9,919**	(53,932)	**(12,007)**	(27,739)
Total comprehensive income for the period	**76,792**	3,257	**167,697**	125,094
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	**82,391**	9,744	**181,593**	138,452
Non-controlling interests	**(5,599)**	(6,487)	**(13,896)**	(13,358)
	76,792	3,257	**167,697**	125,094

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2016

	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 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	–	–	–	2,900	–	–	–	–	2,900	–	2,900
Exercise of share options	150	1,709	–	(708)	–	–	–	–	1,151	–	1,151
Share of share-based compensation reserve of a subsidiary	–	–	–	17	–	–	–	–	17	13	30
Share of reserve of associate	–	–	–	–	44	–	–	–	44	–	44
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	1,563	1,563
Profit (loss) for the period	–	–	–	–	–	–	–	194,229	194,229	(14,525)	179,704
Other comprehensive (expense) income for the period	–	–	–	–	–	(3,009)	(9,627)	–	(12,636)	629	(12,007)
Total comprehensive income (expense) for the period	–	–	–	–	–	(3,009)	(9,627)	194,229	181,593	(13,896)	167,697
2015 final dividend paid	–	–	–	–	–	–	–	(43,645)	(43,645)	–	(43,645)
2016 interim dividend paid	–	–	–	–	–	–	–	(19,463)	(19,463)	–	(19,463)
At 30 September 2016 (unaudited)	29,490	719,634	9,200	10,927	59,388	(3,908)	(57,167)	822,471	1,590,035	37,070	1,627,105

	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 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	–	–	–	2,860	–	–	–	–	2,860	–	2,860
Exercise of share options	247	21,301	–	(2,677)	–	–	–	–	18,871	–	18,871
Share of share-based compensation reserve of a subsidiary	–	–	–	17	–	–	–	–	17	13	30
Issue of shares pursuant to Placing Agreement	1,500	382,147	–	–	–	–	–	–	383,647	–	383,647
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	–	–	–	–	–	–	–	164,609	164,609	(11,776)	152,833
Other comprehensive expense for the period	–	–	–	–	–	(5,211)	(20,946)	–	(26,157)	(1,582)	(27,739)
Total comprehensive income (expense) for the period	–	–	–	–	–	(5,211)	(20,946)	164,609	138,452	(13,358)	125,094
2014 final dividend paid	–	–	–	–	–	–	–	(38,577)	(38,577)	–	(38,577)
2015 interim dividend declared	–	–	–	–	–	–	–	(17,596)	(17,596)	–	(17,596)
At 30 September 2015 (unaudited)	29,328	716,679	9,200	7,982	59,344	(1,892)	(13,153)	626,907	1,434,395	51,767	1,486,162

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

1. BASIS OF PREPARATION

The unaudited condensed consolidated results 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 (the "**Listing Rules**").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results 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 results 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 results for the nine months ended 30 September 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 HKASs and Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's unaudited condensed consolidated results:

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 results and/or disclosures set out in these unaudited condensed consolidated results.

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. REVENUE

The principal activities of the Group are the development of, manufacturing of 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 recognised as follows:

Business segments

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Proprietary products	**113,034**	111,304	**331,013**	325,375
Licensed-in products	**135,890**	120,958	**367,640**	384,790
	248,924	232,262	**698,653**	710,165

Geographical segments

During the nine months ended 30 September 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.

4. OTHER INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Interest income on:				
Bank deposits	**465**	1,127	**981**	3,243
Held-to-maturity financial assets	**42**	42	**126**	126
Advance to an associate	**200**	220	**617**	645
Total interest income	**707**	1,389	**1,724**	4,014
Development grants	**2,181**	2,033	**8,442**	2,762
Development milestone income	**–**	–	**4,501**	–
Development upfront income	**29,260**	–	**29,260**	–
Compensation on termination of product license	**–**	–	**23,769**	–
Sundry income	**294**	273	**687**	549
	32,442	3,695	**68,383**	7,325

5. TAXATION

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Current tax				
Hong Kong Profits Tax	**(10,231)**	10,601	**26,416**	23,500
PRC Enterprise Income Tax	**8,112**	2,476	**16,425**	10,723
Under provision in prior years	**140**	51	**76**	54
	(1,979)	13,128	**42,917**	34,277
Deferred tax				
Origination and reversal of temporary differences	**15,673**	137	**(7,963)**	1,021
	13,694	13,265	**34,954**	35,298

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.

6. DIVIDEND

An interim dividend of HK$0.033 per share, totalling HK$19,463,000 for the six months ended 30 June 2016 was declared on 25 August 2016 and paid on 28 September 2016.

The Board does not recommend the payment of other interim dividend for the nine months ended 30 September 2016 (2015: Nil).

7. 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 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Earnings:				
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**72,811**	61,583	**194,229**	164,609

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	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 earning per share	**589,795**	586,495	**588,598**	572,388
Effect of dilutive potential ordinary shares:				
Options	**1,790**	7,870	**2,888**	8,307
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**591,585**	594,365	**591,486**	580,695

8. 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 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 & development	–	2,899
			–	40,929

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 Powder Pharmaceuticals Incorporated ("PPI")

During the nine months ended 30 September 2016, the Group received approximate HK$617,000 (30 September 2015: HK$645,000) interest income from loans to PPI.

(c) Interest income from shareholder loan to China Oncology Focus Limited ("COF")

On 13 June 2016, Lee's Pharmaceutical International Limited ("**Lee's International**"), a wholly owned subsidiary of the Company, and 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

The remuneration of directors and other members of key managements during the period was as follow:

	For the nine months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**14,050**	10,224
Share-based payments	**845**	654
Retirement and other post-employment benefits	**5,445**	4,681
	20,340	15,559

(e) Issue of subsidiary's shares to Perfect Concept

During the period under review, COF, on a pro rata basis, issued 2,800 shares to Perfect Concept. Dr. Li Xiaoyi, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the majority of the beneficial owners of Perfect Concept and Perfect Concept is considered as a related party to the Group. Total consideration received for the issue of shares is US$201,600 (approximately HK$1,563,000).

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

During the nine months ended 30 September 2016, total HK$250,000 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.

9. CAPITAL COMMITMENTS

	30 September 2016 HK$'000 (unaudited)	31 December 2015 HK$'000 (audited)
Capital commitments in respect of:		
Investments in available-for-sale financial assets	–	36,431
Intangible assets – license fee and development cost	**96,912**	71,147
Property, plant and equipment	**30,109**	20,020
Construction contract	**45,531**	22,081
	172,552	149,679
Authorised but not contracted for:		
Intangible assets – license fee and development cost	**23,789**	–

DIVIDEND

The Board does not recommend payment of dividend for the nine months ended 30 September 2016. (For the nine months ended 30 September 2015: 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 2016.

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

Hong Kong, 24 November 2016

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, 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.