LEE'S PHARM.

李 氏 大 藥 廠

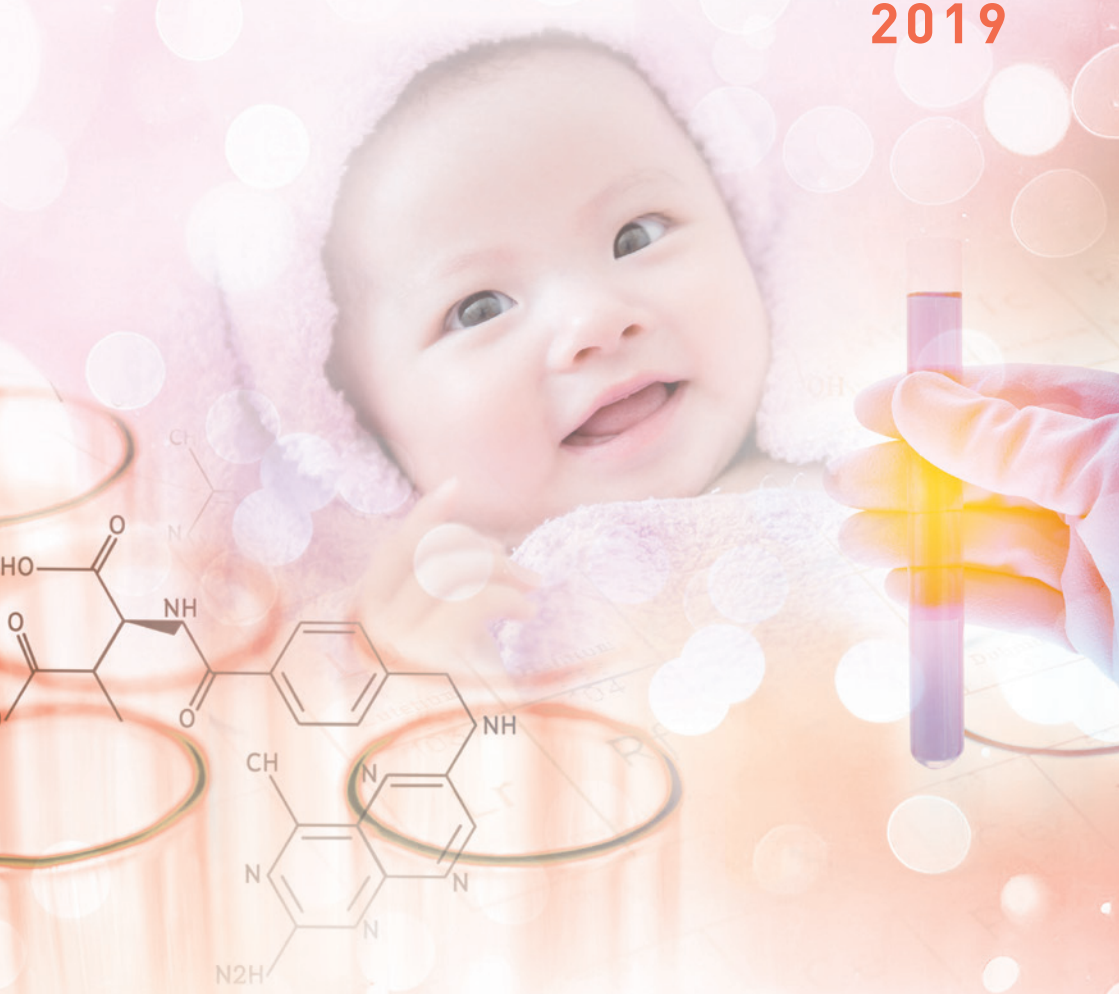
Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

First Quarterly Report 2019



* For identification purpose only

QUARTERLY FINANCIAL STATEMENTS

The directors (the "**Directors**") of Lee's Pharmaceutical Holdings Limited (the "**Company**") present herewith the unaudited consolidated quarterly financial results (the "**Quarterly Results**") of the Company and its subsidiaries (collectively, the "**Group**") for the three months ended 31 March 2019, together with the comparative figures for the corresponding period in 2018. 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 three months ended 31 March 2019 before recommending it to the board of Directors for approval.

BUSINESS REVIEW

The Group had a slower start to the year as compared to the past several quarters of 2018. During the first quarter of the year, the Group initiated action to further consolidate and regularise the channel sales in respect of compliance matters which led to temporary business interruption thereof. Together with the escalating trade battle between China and the United States of America which triggered Renminbi depreciation of more than 6% as compared to the same quarter last year, revenue growth of the Group was flat for the first quarter of 2019. At the same time, inflationary pressure in the operating environment in China, pricing pressure and active pharmaceutical ingredients ("**API**") cost pressure persisted during the quarter under review. In order to ensure the cost-effectiveness of the Group's operations to balance such cost impact, the Group continued to streamline its cost structure of the direct and channel sales to achieve savings therefrom which enabled the Group to invest sufficient resources to research and development efforts. Nevertheless, with the absence of foreign exchange gain as compared to the same quarter last year, net profit attributable to the owners of the Company has been weighed down thereby for the first quarter of 2019.

The Group generated revenue of HK$282,941,000 (For the three months ended 31 March 2018: HK$281,905,000) during the quarter under review, achieved 0.4% increased compared to the same period last year when Renminbi currency has been weakened by 6.1% year-on-year. For licensed-in products, Ferplex® and Zanidip® registered modest revenue growth of 4.2% and 8.7%, respectively, while Carnitene® dropped in revenue by 2.9%, over the same quarter last year. For proprietary products, despite the remarkable 39.8% revenue growth of Yallaeron® during the quarter under review, overall growth was dragged down by the underperformance of Livaracine® and Slounase®.

Sales of licensed-in products accounted for 54.4% (For the three months ended 31 March 2018: 53.7%) of the Group's revenue while sales of proprietary products contributed 45.6% (For the three months ended 31 March 2018: 46.3%) of the Group's revenue.

During the period under review, the Group's overall gross profit margin held at 66.8%, decreased by 1.5 percentage points as to 68.3% achieved in the same quarter of 2018.

While the revenue growth was stagnant during the quarter under review, the Group continued to impose stringent cost-control measures in order to achieve further efficiencies and mitigate cost pressures in other areas. As a result, the Group's selling expenses to revenue ratio was 17.1%, reduced by 5.1 percentage points as compare to the same quarter last year, and eliminated the impact arising from the increased administrative expenses in the quarter for its business expansion and the increased spending in the research and development ("**R&D**") activities. However, with the absence of exchange gain during the quarter under review (For the three months ended 31 March 2018: HK$20,460,000), the Group's profit from operations was HK$64,220,000, decreased by HK$22,865,000 or 26.3%. Net profit attributable to the owners of the Company in the first quarter of 2019 was HK$46,954,000, decreased by 33.1% over the same quarter in 2018.

The Group's solid dosage production facilities and ophthalmic drug production facilities in Nansha site are already fully operational with valid manufacturing licenses for various kinds of products. During the first quarter of 2019, batch samples such as Apremilast tablets, TG02 capsules, Gimatecan liquid capsules, and Mictonorm® capsules have been successfully manufactured for GMP application and clinical trials. In Hefei site, the upgrading of facilities for APIs such as Nadroparin calcium (那曲肝素鈣) is in progress during the quarter under review.

During the first quarter of 2019, the Group invested HK$73,038,000 in R&D, including expensed and capitalised parts, which was equivalent to 25.8% of the Group's revenue. The Group continued its efforts to accelerate various ongoing clinical development programs to reach the destinations.

During the quarter under review and up to date, the Group's applications for Import Drug License ("**IDL**"), namely Trazodone®, Prulifloxacin and INOMax®, were under review by the Centre for Drug Evaluation (the "**CDE**").

The Group's applications for Abbreviated New Drug Application ("**ANDA**"), namely Sodium Phenylbutyrate Tablet, Sodium Phenylbutyrate Powder, Treprostinil and Fondaparinux, were also in good progress. Among these ANDA submissions, the bioequivalence studies for Sodium Phenylbutyrate Powder has commenced in May 2019, and technical reviews of Sodium Phenylbutyrate Tablet has been substantially completed and a notice for supplementary information has been received. For Treprostinil, the Group is actively communicating with the CDE for its acceptance for priority review. For Fondaparinux, the bioequivalence studies have been completed and is pending for ANDA approval.

The Phase I clinical trials for PD-L1 (ZKAB001) were in progress during the quarter under review. The trial for cervical cancer is being conducted by two centers, Cancer Hospital Chinese Academy of Medical Sciences and Wuhan Union Hospital with Doctor Lingying Wu as the principal investigator. The trial consists of two phases, a traditional open labeled 3+3 dose escalation phase followed by an expansion phase. In the dose escalation phase, 3 doses, 5mg/kg, 10mg/kg, 15mg/kg, will be tested with 14 days administration cycle in patients with recurrent and metastatic cervical cancer. Once the maximum tolerated dose ("**MTD**") has been determined, 60 patients will be enrolled under MTD treatment as an expansion phase. The trials for sarcoma and bladder cancer are also using a 3+3 design with 5mg/kg, 10mg/kg and 15mg/kg dosing regimens. Once the MTD has been established, addition patients are expected to be recruited in an expanded Phase I protocol. To date, 12 cervical cancer patients, 13 sarcoma patients and 9 urothelial carcinoma patients have been enrolled for the respective clinical trials and the initial observations to the diagnosis results of certain patients have shown positive outcomes. For cervical cancer, 6 patients were examined and 3 of whom had partial response (PR), and 1 had stable disease (SD). For sarcoma, 6 patients were examined and 5 of whom had SD, and 1 progressive disease (PD). For bladder cancer, 6 patients were examined and 2 of whom had PR. Clinical data from these studies is expected to be available by the end of 2019, and positive results could lead to conditional approval of the antibody prior to a confirmatory Phase III study.

The progress of the global Phase III clinical trial for advanced liver cancer using oncolytic immunotherapy called Pexa-Vec (formerly JX-594), the PHOCUS study, by the China National Medical Products Administration ("**NMPA**") (Approval No. 2017L04441), was accelerating during the quarter under review. This study in China is led by world renowned oncologist Professor Qin Shukui. To date, the trial has already taken place at 21 major cancer centers around China and 43 patients have been enrolled. The trial will globally enroll 600 patients and over 400 of the patients have been enrolled to date, and an interim analysis is expected to be conducted in mid-2019.

The Phase II study of the Group's in-house product, Cyclosporine A Eye Gel for the treatment of dry eye syndrome (the "**DES**") in China is designed as a Phase II multi-center, randomised, single-blind, positive controlled and dose finding exploratory clinical trial to evaluate efficacy and safety of Cyclosporine A Eye Gel in treating patients with moderate to severe DES and to explore the optimal dose and frequency of Cyclosporine A Eye Gel in those patients. This trial is led by Professor Zhou Shiyou from Zhongshan Ophthalmic Centre, Sun Yat-sen University. The study plans to enroll a total of 240 patients assigned to four cohorts and patient enrolment has been completed. The primary outcome measures of the change of eye dryness score from the baseline after the 12 weeks treatment in each cohort. The study is expected to be completed by mid-2019.

The registration enabling Phase III study of the Group's inhouse product, Adapalene and Clindamycin combination gel for acne is led by Professor Gu Heng from the Hospital for Skin Diseases, Chinese Academy of Medical Sciences and involved 30 most important dermatology centers in China. The targeted enrollment is 1,650 patients and to date, approximately 40% of patients have been enrolled. This study is expected to be completed by end of 2019.

Subsequent to the end of the quarter under review, on 2 April 2019, the Company made an investment of US$200,000 (approximately HK$1,560,000 equivalent) in the convertible debt issued by RegeneRx Biopharmaceuticals, Inc. (OTCQB: RGRX) to support its accelerating development of RGN-259 for ophthalmic indications in which the Group had licensed RGN-259 in the territories of China, Taiwan, Macau and Hong Kong many years ago. In May 2019, RegeneRx has enrolled the first patient for ARISE-3, the third Phase III clinical trial to evaluate RGN-259, a sterile, preservative-free eye drop in 700 patients with DES. Upon the completion of this trial by RegeneRx which is expected during mid-2020, the Group will commence the registration enabling studies of RGN-259 in China.

The Group continued to restructure certain of its earlier stage R&D assets and functions such as in oncology and ophthalmology areas into standalone biotech companies during the quarter under review in order to enhance the opportunities for these earlier phase pipeline assets to raise money at decent valuations and to bring its clinical trial programs moving forward. And the Group has successfully sought additional funds for investing in clinical development and building teams for its ophthalmology arm subsequent to the end of the quarter under review. On 23 May 2019, the Group's R&D arm in ophthalmology, namely China Ophthalmology Focus Limited, managed to attract a good set of investors and successfully entered into a share subscription agreement therewith to raise US$50,000,000 (approximately HK$390,000,000 equivalent) by mean of the issuance of Series A Preferred Shares thereof. Before the completion of the Series A Shares Subscription Agreement (the "**Completion**"), the Group owned 92% of the interest in China Ophthalmology Focus Limited. Immediately after the Completion, the Group's equity interest in China Ophthalmology Focus Limited will be reduced to 50.117% of the total issued share capital thereof (on as an enlarged basis by taking into account the issuance of the Series A Preferred Shares on an as if converted basis). China Ophthalmology Focus Limited will remain as an indirect non-wholly owned subsidiary of the Group after the Completion.

PROSPECT

As foreseen at the beginning of the year, policies on drug pricing and reimbursement constraints will continue to be in place in this industry. Going forward, together with the inflationary and foreign currency issues as noted above, these will remain the challenges in the coming quarters.

Nevertheless, the Group continues to carry out its plan to separate its earlier R&D arms by means of additional fund raisings under individual biotech vehicles. The recent raise of US$50,000,000 for its ophthalmology R&D arm has enabled this arm with adequate resources to invest in development and manufacturing capability and to build a competitive ophthalmology specialty company in Asia (excluded Japan), covering both front and back of the eyes.

The Group believes its ophthalmology R&D arm could become a magnet for attracting innovative ophthalmic product and technology from the world to serve products in Asia. Following the completion thereof, the Group will be able to reallocate the resources and to revamp the Group's business strategy by sharpening our focus on those near term opportunities in other therapeutic areas such as cardiovascular, woman health, paediatric and rare diseases.

Beyond the present headwinds, the Group believes that its fundamentals are remained strong. In addition, with the completion of the channel sales compliance matters consolidation, sales operations have been resume normal from the second quarter onwards. Moreover, the newly launched products such as Sancuso®, Probiotics VSL#3® and Rasilez® have commenced their contributions to the Group and will become new growth drivers in the future. As always, the operation and management team will continue to make its unremitting efforts to achieve additional uplift on the performance in the upcoming quarters.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2019

	Notes	For the three months ended 31 March	
		2019	2018
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
Revenue	3	**282,941**	281,905
Cost of sales		**(93,944)**	(89,351)
Gross profit		**188,997**	192,554
Other income	4	**10,978**	12,190
Other gains and losses, net		**(2,821)**	20,460
Selling and distribution expenses		**(48,357)**	(62,597)
Administrative expenses		**(49,990)**	(43,492)
Net provision for impairment loss on financial assets		**(149)**	(581)
Research and development expenses		**(34,438)**	(31,449)
Profit from operations		**64,220**	87,085
Finance costs		**(1,204)**	(655)
Share of results of associates		**(2,558)**	(4,465)
Profit before taxation		**60,458**	81,965
Taxation	5	**(16,842)**	(18,784)
Profit for the period		**43,616**	63,181
Attributable to:			
Owners of the Company		**46,954**	70,178
Non-controlling interests		**(3,338)**	(6,997)
		43,616	63,181
		HK cents	*HK cents*
Earnings per share:			
Basic	6	**7.93**	11.87
Diluted	6	**7.91**	11.77

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**43,616**	63,181
Other comprehensive (expense) income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**36,701**	24,145
Share of other comprehensive income of associate	**–**	1,355
Item that will not be reclassified subsequently to profit or loss:		
Fair value changes of financial assets at fair value through other comprehensive income	**(60,210)**	(11,489)
Other comprehensive (expense) income for the period, net of tax	**(23,509)**	14,011
Total comprehensive income for the period	**20,107**	77,192
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**26,675**	84,205
Non-controlling interests	**(6,568)**	(7,013)
	20,107	77,192

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	Attributable to the owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other reserves *HK$'000*	Investments revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2019 (audited)	29,601	731,771	9,200	18,661	64,787	33,726	(80,236)	1,403,033	2,210,543	27,526	2,238,069
Employee share option benefits	–	–	–	1,261	–	–	–	–	1,261	–	1,261
Exercise of share options	14	1,828	–	(447)	–	–	–	–	1,395	–	1,395
Share of reserve of an associate	–	–	–	–	14	–	–	–	14	–	14
Gain on partial disposal of subsidiaries	–	–	–	–	444	–	–	–	444	11,962	12,406
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	2,340	2,340
Profit (loss) for the period	–	–	–	–	–	–	–	46,954	46,954	(3,338)	43,616
Other comprehensive income (expense) for the period											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	36,715	–	36,715	(14)	36,701
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(56,994)	–	–	(56,994)	(3,216)	(60,210)
Total comprehensive (expense) income for the period	–	–	–	–	–	(56,994)	36,715	46,954	26,675	(6,568)	20,107
At 31 March 2019 (unaudited)	29,615	733,599	9,200	19,475	65,245	(23,268)	(43,521)	1,449,987	2,240,332	35,260	2,275,592

	Attributable to the owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Share-based compensation reserve *HK$'000*	Other reserves *HK$'000*	Investments revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2018 (audited)	29,547	724,868	9,200	15,368	41,407	(30,421)	(31,809)	1,046,186	1,804,346	(7,414)	1,796,932
Employee share option benefits	–	–	–	1,136	–	–	–	–	1,136	–	1,136
Exercise of share options	40	5,014	–	(1,184)	–	–	–	–	3,870	–	3,870
Share of share-based compensation reserve of a subsidiary	–	–	–	6	–	–	–	–	6	4	10
Share of reserve of an associate	–	–	–	–	14	–	–	–	14	–	14
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	1,954	1,954
Profit (loss) for the period	–	–	–	–	–	–	–	70,178	70,178	(6,997)	63,181
Other comprehensive income (expense) for the period											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	24,161	–	24,161	(16)	24,145
– Share of other comprehensive income of associate	–	–	–	–	1,355	–	–	–	1,355	–	1,355
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(11,489)	–	–	(11,489)	–	(11,489)
Total comprehensive income (expense) for the period	–	–	–	–	1,355	(11,489)	24,161	70,178	84,205	(7,013)	77,192
At 31 March 2018 (unaudited)	29,587	729,882	9,200	15,326	42,776	(41,910)	(7,648)	1,116,364	1,893,577	(12,469)	1,881,108

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards ("**HKASs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2018.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the three months ended 31 March 2019 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2018 except as described below.

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

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendments, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the other new and amendments to HKASs and 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.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees which superseded HKAS 17 "Leases" and the related interpretations.

Under HKFRS 16, distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modification, amongst others.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application, i.e. 1 January 2019. Furthermore, the Group has opted the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Based on the allowed practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liability and right-of-use assets to leases for which the lease term ends within twelve months of the date of initial application.

The summary of net impacts of HKFRS 16 on the condensed consolidated statement of profit or loss of the Group for the three months ended 31 March 2019 are set out as below:

	As per HKFRS 16 *HK$'000* (Unaudited)	**As per HKAS 17** *HK$'000* (Unaudited)	**Impact due to change** *HK$'000* (Unaudited)
Cost of sales	(93,944)	(93,947)	3
Administrative expenses	(49,990)	(49,997)	7
Research and development expenses	(34,438)	(34,337)	(101)
Finance costs	(1,204)	(1,132)	(72)
Profit for the period	43,616	43,779	(163)
Profit for the period attributable to:			
Owners of the Company	46,954	47,117	(163)
Non-controlling interests	(3,338)	(3,338)	–
	43,616	43,779	(163)
	HK cents	*HK cents*	*HK cents*
Earnings per share			
Basic	7.93	7.96	(0.03)
Diluted	7.91	7.94	(0.03)

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

HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[2]
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 2020, with earlier application permitted

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted

3 Effective for annual periods beginning on or after 1 January 2021, 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 amendments to HKASs and HKFRSs but is not yet in a position to state whether these new and amendments to HKASs and HKFRSs would have a material impact on its results of operations and financial positions.

3. REVENUE

The principal activities of the Group are the 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 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Proprietary products	**129,149**	130,419
Licensed-in products	**153,792**	151,486
	282,941	281,905

Geographical segments

During the three months ended 31 March 2019 and 2018, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "**PRC**"), no geographical segmental information is presented.

4. OTHER INCOME

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income on:		
Bank deposits	**1,448**	1,752
Guaranteed investments measured at amortised cost	**–**	42
Advance to associates	**376**	200
Loan receivables	**257**	–
Total interest income	**2,081**	1,994
Development grants	**5,762**	4,605
Research and development service income	**2,866**	5,337
Sundry income	**269**	254
	10,978	12,190

5. TAXATION

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	**6,588**	1,465
PRC Enterprise Income Tax	**1,075**	12,644
	7,663	14,109
Deferred tax		
Origination and reversal of temporary difference	**9,179**	4,675
	16,842	18,784

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the three months ended 31 March 2018. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the three months ended 31 March 2019. Accordingly, the Hong Kong Profits Tax for the three months ended 31 March 2019 is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Tax arising in the PRC is calculated at the tax rates prevailing in the PRC. Taxation arising in other jurisdictions is calculated at the tax rate prevailing in the relevant jurisdictions.

6. EARNINGS PER SHARE

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

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**46,954**	70,178

	For the three months ended 31 March	
	2019	2018
	Share(s)'000	*Share(s)'000*
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**592,104**	591,422
Effect of dilutive potential ordinary shares:		
Options	**1,199**	4,713
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**593,303**	596,135

7. RELATED PARTY TRANSACTIONS

During the reporting 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) Transaction with associates

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income	**376**	200
Service income	**–**	5,337

(b) Compensation of key management personnel

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

	For the three months ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**4,876**	9,404
Share-based payments	**653**	497
Retirement and other post-employment benefits	**2,261**	3,514
– Defined contribution plan	**12**	14
– Retirement benefits	**2,249**	3,500
	7,790	13,415

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

During the three months ended 31 March 2019, total HK$1,119,000 (for the three months ended 31 March 2018: HK$150,000) 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.

8. CAPITAL COMMITMENTS

	31 March 2019	31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital commitments contracted for in respect of:		
Financial assets at fair value through other comprehensive income	**25,562**	27,780
Intangible assets – license fee and development cost	**80,110**	77,629
Property, plant and equipment	**109,372**	114,233
	215,044	219,642

DIVIDEND

The Board does not recommend payment of dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2019.

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

Hong Kong, 30 May 2019

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