# 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)

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

### BUSINESS REVIEW

2013 was a testy year for the Group's management. The unwanted spotlight on the industry had had every player under scrutiny, heaping enormous pressure on management's ability to execute growth strategy with adaptability and adjustment. It was the belief of the Group in knowledge-based promotion and its conviction on evidence-based medicine provided the necessary strength to come through the challenge with flying color. The progress made in every aspect of the business in the first year of the new 10 year journey has been electrifying and set a tone for the development of the Group in the future.

### Turnover and Profit

Turnover for the year reached a record high of HK$696,953,000 which represented a significant increase of 30.4% compared with last year. The newer product *Zanidip*® noticeably outperformed other products with sales surged by 124% compared with last year. The significance of *Zanidip*®'s breakthrough is two folds. Not only the Group has started to glean from its investment in the direct sales force, but also such newer product has begun to contribute to revenue growth in a meaningful way. As to other major products, i.e. *Yallaferon*®, *Carnitene*®, *Ferplex*® and *Livaracine*®, they also kept up the growth momentum with sales increased by 45%, 38%, 34% and 28% respectively, the Group was able to reach historic height in revenue with broader revenue base and with better position to mitigate potential market risks.

* *For identification purposes only*

Gross profit ratio for the year improved slightly by 0.9 percentage point to 72.2%. Selling expenses to turnover ratio continued to drop from 34% of last year to 32% of this year, a reflection of persistent improvement in efficiency of the Group's sales and marketing organization. The rapid expansion of the business with efficiency had resulted in record height in net profit attributable to shareholders of HK$150,467,000, which represented an increase of 32.2% over last year. The net profit margin for the year 2013 was 21.6%, represented a slight improvement from 21.3% of last year. The accomplishment is remarkable in that it was managed despite the doubling of the research and development investments and the widening in the year of loss from its subsidiary and associated company. During 2013, research and development expenses jumped to HK$32 million from HK$16 million of the previous year. It corroborates the Group's commitment to new drug development as the cornerstone to build pipeline for the Group's sustainable growth. Consequential to Powder Pharmaceuticals Incorporated ("PPI") becoming an associated company of the Group in July 2013, the share of loss of PPI for the year amounted to HK$2,418,000. However, PPI has successfully obtained approval from the US FDA in July 2013 and entered into a distribution agreement with the US company Marathon Pharmaceuticals in November 2013. With its first shipment of *Zingo*® to USA in February 2014, PPI has transformed itself from a development company to a full fledge manufacturing and commercial organization that could translate into improved financial performance of the company in the years to come.

**Quality System, Production and Manufacturing Facilities**

The construction of a new manufacturing facility in Hefei (Anhui Province) that is built in accordance with China Food and Drug Administration ("CFDA")'s new GMP standards was completed in the fourth quarter of 2013. The 4,600 square meter of manufacturing space was equipped with state-of-the-art production system for four dosage forms, namely small volume for injection, lyophilized powder for injection, recombinant interferon topical gel and eye gel. The production lines are highly automatic to minimize production risks and to ensure product quality. The production capacity has also been scaled up to three times the previous one, reserving ample room to cope with increasing market demand for the Group's products. CFDA inspectors audited the new manufacturing site in December 2013 for compliance with new GMP standards and the field inspection found the site in good compliance. The new manufacturing site has subsequently received GMP compliance certificate from CFDA for all existing formulations and products. The Group thus joins other 50% of existing aseptic producers in China that have been able to fulfill the mandated requirements before the deadline of 1 January 2014. The open of the new production facility will undoubtedly bolster the Group's competitiveness in the market place.

In Nansha of Guangzhou City, the Group has erected a new production site which will be put into use in the second quarter of 2014. The total floor area of 57,000 square meters will cater to production areas of different products, including biologics and medical devices, as well as to other functions such as research and development center, office and warehouse. It is envisaged that the facility will be filled gradually and eventually becomes the hub for the Group's production for medical devices, pharmaceuticals and biologics for both domestic and overseas markets.

PPI, an associated company of the Group as from July 2013, has successfully obtained approval from the US FDA in 2013 for its manufacturing facility located in Hong Kong to produce *Zingo*® powder intradermal injection system and to market the product in the US. The GMP manufacturing facility of PPI in Hong Kong is the first and only facility in Hong Kong that has successfully obtained the approval from the US FDA. It marks a monumental moment to Hong Kong pharmaceutical's development as *Zingo*® becomes the first pharmaceutical product approved by the US FDA which is manufactured in Hong Kong for the US market.

**Drug Development**

In 2013, the Group also witnessed significant advancements in every stage of drug development that was highlighted with five Investigational New Drug (IND) applications.

In August 2013, the Group has successfully submitted an IND application to the CFDA for conducting a phase III clinical study for Gimatecan in ovarian cancer patients in China. The clinical study application was submitted with the fast-track designation, and has been accepted for review by the CFDA. The registration-enabling phase III pivotal clinical trial will test oral Gimatecan versus Topotecan in refactory patients with advanced epithelial ovarian, fallopian or peritoneal cancer, resistant or partial sensitive to platinum. Ovarian cancer is one of the most deadly tumor for woman in China and Gimatecan is aimed to fill a highly unmet medical need. The application is under active review now and study approval is expected in the second quarter of 2014.

In the same month of August 2013, the Group has also submitted an IND application to conduct Phase III APEX study of Betrixaban in China and the submission was accepted for review by CFDA. The clinical study application was submitted with the fast-track designation. Betrixaban is a novel, oral small molecule that directly inhibits the activity of Factor Xa, an important validated target in the blood coagulation pathway. APEX is a global pivotal phase III study with targeted enrollment of 6,800 critical ill patients from over 300 sites in various countries. APEX trial will test Betrixaban's efficacy for prevention of deep vein thrombosis in critical ill patients, a population that is not addressed by the current Anti-FXa compounds. The application is under initial review now and study initiation is envisaged in the third quarter of 2014.

In September 2013, the Group filed an IND application for conducting a global phase IIb study for Istaroxime, a novel compound for acute heart failure. The study is carried out in both Italy and China, and first 10 patients have been enrolled in Italy. Istaroxime is a first-in-class luso-inotropic agent under development for the treatment of acute decompensated heart failure. Istaroxime does not increase heart rate, minimizes the increase in oxygen consumption, is less arrhythmogenic and does not cause hypotension. The preliminary read out of the study is quite positive without major safety concern. This important initial milestone of Istaroxime will be followed by initiation of the Chinese arm of the study in the first half of 2014.

The IND application for Rostafuroxin global phase IIb study was resubmitted in October 2013. The first patient of the Italian arm of the study has been enrolled. Rostafuroxin is endowed of high potency and efficacy in reducing blood pressure and preventing organ hypertrophy in animal model. It is indicated for treatment of newly diagnosed hypertension patients who carry certain genetic profiles representative of adducing and EO-hypertensive mechanisms. Rostafuroxin is the first anti-hypertensive drug that deploys pharmacogenomic approach and this personalized treatment of hypertension could signify a shift of paradigm in hypertension management.

The IND application for ZK003, a Group's proprietary peptide with hair growth and healing property was also filed with CFDA in November 2013. Animal studies have shown that ZK003 is effective in the treatment of chemo-induced alopecia and in accelerating the healing of cornea ulcer. The Group's IND covers both indications, Further, CFDA has granted fast track review status to ZK003. Chemo-induced alopecia is frequent in cancer patients and affects cancer survivor's quality of life. It is an area of highly unmet medical need as oncologist is increasingly looking to improve patient's quality of life with better cancer supporting care.

The Group's ongoing clinical studies made significant advancements during 2013 as well. The second cohort of the Anfibatide's phase IIa dose escalating study was 80% completed and enrollment is to be completed in the first quarter of 2014. So far, the higher dose exhibits same safety profile as in the lower dose cohort and the final cohort will be initiated in the second quarter of 2014. The Group also intensified its collaboration network with renowned platelet researchers around the world to understand the mechanism of action of Anfibatide. Studies has since unveiled new findings in the mechanism of action of Anfibatide, suggesting Anfibatide's application in not only acute coronary syndromes, but also in stroke and thrombocytopenia thrombosis purpura, an attractive orphan indication. As data accumulates, there is increasing interest and appreciation of Anfibatide being a unique and novel anti-platelet agent that could change the paradigm of treating different thrombosis diseases.

The phase III, registration-enabling clinical study of Prulifloxacin has completed 75% of the targeted enrollment. The phase III clinical study aims to evaluate the efficacy and safety of Prulifloxacin filmcoating tablets for the treatment of acute exacerbation of chronic bronchitis in the Chinese population. The study will be completed in May 2014 with Import Drug License application to follow thereafter.

**Imported Products Registration**

In April 2013, the Group successfully obtained the Import Drug License from CFDA for *Remodulin*® (treprostinil) injection, for the treatment of patients with pulmonary arterial hypertension (PAH). *Remodulin*® is a prostacyclin vasodilator that is indicated for treatment of PAH (WHO Group 1) by intravenous and subcutaneous administration, to diminish symptoms associated with exercise. *Remodulin*® will be launched in the second quarter of 2014 and will fill a major void in treatment options that could result in better care for pulmonary arterial hypertension patients in China.

In 2013, the Group has received marketing approval for its oral Carnitine, making the Group as the only marketer in China with both injection and oral formulations of Carnitine. Carnitine franchise is the key driver of the Group's growth for the last few years and continues to thrive in the market place. The *Carnitene*® brand is well recognized and respected in China now. The availability of oral *Carnitene*® will surely widen the market breadth of Carnitine franchise, complementing to the current success of *Carnitene*® injection. The oral *Carnitene*® has been launched in January 2014.

During the period under review, the Group completed the registration-enabling study for Trazodone and the primary efficacy end point of the study was successfully reached with the expected safety profile. Submission has been made to CFDA for obtaining Import Drug License and approval is expected in 2015. Trazodone (*Trittico*®) is a product licensed from Angelini of Italy and the registration-enabling study was to evaluate the efficacy and safety of Trazodone for treatment of depression in Chinese population.

**International Partnerships**

The Group also achieved major milestone in corporate development and partnership. In January 2013, the Group entered into agreement with Portola Pharmaceuticals, Inc. to jointly expand the Phase 3 APEX study of Betrixaban into China, with an option for the Group to negotiate the commercial rights to the drug in China. Betrixaban is a novel, oral small molecule that directly inhibits the activity of Factor Xa, an important validated target in the blood coagulation pathway. The ongoing phase III pivotal trial involves 6,800 patients in over 50 countries and aims to address a highly unmet medical need for critically ill patients. The Chinese arm of the study is expected to initiate during the second half of 2014 with US, Europe and China registration filing planned for late 2015. This collaboration is a manifestation of Group's step up effort to be in the forefront of global drug development.

Also in January 2013, the Group entered into licensing agreement with the Spanish company GP Pharm for exclusive marketing and distribution of a long acting Leuprolide, a drug indicated for prostate cancer. The agreement augments the Group's oncology pipeline and boosts its competitiveness in the area.

In February 2013, CVie Therapeutics Company Limited ("CVie"), a subsidiary of the Group, concluded a strategic partnership with Dyax Corp. for the development and commercialization of *Kalbitor*® (ecallantide) in the treatment of hereditary angioedema (HAE) in China, Hong Kong and Macau. *Kalbitor*® is currently marketed in the US for the treatment of acute attacks of HAE in patients 16 years of age and older. HAE is a rare and deadly disease and no effective therapy is currently available in China. *Kalbitor*® will be the second orphan drug after *Remodulin*® that the Group has committed to bring into China and the effort is a reflection of the Group's dedication to neglected diseases and neglected patients in China.

The Group entered into a partnership in August 2013 with the School of Continuing Education, Tsinghua University in China. Tsinghua University is the most renowned university in China and its School of Continuing Education is reputed with its Executive Training Programs that cover many different industries, including healthcare. The Group will work together with the School of Continuing Education, Tsinghua University to expand the executive training program on hospital directors and other responsible personnel, providing opportunity to improve managerial and administrative skill for hospital executives. This partnership is a demonstration of the Group's commitment to the development and reform of China's healthcare system.

In November 2013, PPI entered into an exclusive distribution agreement with Marathon Pharmaceuticals, LLC, a US based pharmaceutical company for marketing and selling of its product *Zingo*® in the US market. This signing is an affirmation of *Zingo*®'s market potential and made PPI the first company in the greater China area that produces and exports original pharmaceutical product into the US market. The first shipment of *Zingo*® left Hong Kong for the US in February 2014 that signifies the transformation of PPI from a development company into a full fledge manufacturing and commercial organization.

**Sales and Marketing**

With respect to sales and marketing, the Group kept stressing the theme of efficiency in its relentless restructuring efforts. A new market access team has been established during the period under review to focus on tender, pricing, reimbursement and distributors relationship. The compartmentization of functions with dedicated team is going to streamline the selling process, maintain price stability and better leverage distributors' resources.

Belief in science-based promotion and conviction in evidence-based medicine have been the strength of the Group, allowing it to maintain growth momentum even in a very challenging environment such as the one the market has experienced in 2013. The Group has invested heavily in post-launch clinical study to support the marketing effort with scientific data. Two important phase IV studies for *Zanidip*® and *Carnitene*® respectively were completed during the period under review and satisfactory results have been obtained. The clinical study on *Zanidip*® has demonstrated that *Zanidip*® is not only as effective as other calcium channel blockers, but is also more advantageous in maintaining daily blood pressure stability. The better control in blood pressure variability is clinical relevant as cardiovascular events such as stroke is associated with blood pressure fluctuation. These encouraging results provide new catalyst for the increasing acceptance of *Zanidip*® as the preferred choice among calcium channel blockers in the treatment of hypertension in the medical practice in China. In addition, the Group has sponsored three other investigator-initiated studies involving *Zanidip*® and has continued to accumulate clinical data in Chinese patients. Those efforts have translated into 124% leapt for *Zanidip*® in 2013 compared with 2012. The successful conclusion of *Carnitene*® study in heart failure provides new scientific evidence for the product, making it possible to reposition the product with significant differentiation

from its competitors. The application for the new indication of chronic heart failure treatment has been made to CFDA. Thanks to the *Carnitene*® study being double blinded, placebo controlled study with sizable patient numbers in Chinese population, the evidence of the study had been instrumental in placing Carnitine as a treatment option in the latest guideline for treatment of heart failure issued by the China Medical Association of Cardiology.

**Corporate Development**

During the year 2013, the Group's subsidiary CVie Therapeutics Company Limited ("CVie") posed to become a commercial operation with the approval of *Remodulin*® in April 2013. The successful in-licensed of *Kalbitor*® reinforced CVie as a leading orphan drug company in China. The initiation of both phase IIb study for Rostafuroxin and Istaroxime in Italy was also an endorsement of CVie development strategy. As a result, CVie had attracted strong interest from investors and had successfully raised additional US$13 million to accelerate the development of the company. Major milestones such as the commercial launch of *Remodulin*® and initiations of phase IIb study for both Rostafuroxin and Istaroxime in China in 2014 are projected.

Group had also completed the building of new human resource system to better cope with the Group's fast expansion. This new system is vital for the Group to attain growth sustainability. It will enhance the Group's ability to recruit and retain talent, providing impetus for improvement of each and every aspect of the Group.

**PROSPECTS**

The Group is enthusiastic about its prospect in 2014 and beyond and is confident on continually executing its growth strategy with steady performance.

The new government of China has stressed the need to accelerate the transformation of China's economy from export and investment driven one to domestic consumption model. Pertaining to this effort, healthcare has been identified by the government, as one of the key areas to propel the makeover and safety net for medical care will be widened with further government investment. The focus in healthcare creates enormous growth opportunity for the pharmaceutical industry and the Group is well positioned to benefit from it.

The aging of the Chinese population has tilted the balance toward demand as prevalence of cardiovascular diseases and cancer increases exponentially in recent years. The enhanced healthcare awareness in urban dwellers and available medical reimbursement for peasants in the countryside have produced an upsurge in hospital traffics and huge demands for pharmaceuticals that favor specialty pharmaceutical companies such as the Group.

Innovation has also been the main theme of China renewal effort of reform. Biopharmaceutical industry has been selected as one of the pillars for innovation. Policy has been crafted to encourage innovation by granting proprietary drugs fast track review and preferential treatment in pricing and reimbursement. As five out of the Group's seven current clinical programs are for 1.1 category drugs with fast track review designations, the Group sits well to take advantage of the situation for speedy development of its products.

The implementation of new GMP standards has shake up the competition landscape in the pharmaceutical industry in China by forcing consolidation. Consequently, market place is set to favor stronger players with resources. The successful accreditation of the Group's Hefei new manufacturing facility by CFDA boosts its products' competitiveness in the market place.

Three of the Group's imported drugs are under final review by CFDA at the moment. The Group has reason to believe that approval for some of them will be received in the first half of 2014. Although the new approvals will not contribute directly to the Group's revenue, it could augment the profile of the Group, helping the brand building effort that will indirectly inject fuel to the growth of launched products.

With the imminent launch of both *Remodulin*® and oral Carnitine, the Group will further broaden its revenue in the near future. The oral Carnitine will ride along the phenomenal growth of the Group's injection Carnitine, complementing to patient's need after discharging from the hospital. The complete package will surely make Carnitine franchise stronger in the market place. *Remodulin*® will be the only injection medication for pulmonary hypertension patient in China. The unique characteristics of China's pulmonary hypertension market could fit well with *Remodulin*®'s profile to make it an important treatment option for the patients.

The Group is also optimistic that the six major products of the company will continue to perform well in the market place. The current market shares of the respective product are yet satisfactory and expansions in market penetration remain a priority for all six leading products. The expected opening of tendering process in several provinces in China could also be a determinant of the Group's because several of the Group's newly launched products have been underperforming due to lack of tenders. Once the door is open, those products could provide additional revenue contributions to the Group, helping to mitigate market risks.

Both macro and micro environments favor strong players in the pharmaceutical industry with innovation and the Group has prepared itself to thrive in the competition.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Turnover | 2 | **696,953** | 534,333 |
| Cost of sales | | **(193,700)** | (153,498) |
| Gross profit | | **503,253** | 380,835 |
| Other revenue | | **10,731** | 12,385 |
| Selling and distribution expenses | | **(222,850)** | (179,512) |
| Research and development expenses | | **(32,262)** | (16,304) |
| Administrative expenses | | **(78,511)** | (63,042) |
| Profit from operations | | **180,361** | 134,362 |
| Share of results of associates | | **(2,418)** | – |
| Finance costs | | **(1,853)** | (1,192) |
| Profit before taxation | | **176,090** | 133,170 |
| Taxation | 3 | **(27,087)** | (20,104) |
| Profit for the year | | **149,003** | 113,066 |
| Attributable to: | | | |
| Shareholders of the Company | | **150,467** | 113,807 |
| Non-controlling interests | | **(1,464)** | (741) |
| | | **149,003** | 113,066 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share: | | | |
| Basic | 5 | **28.41** | 22.82 |
| Diluted | 5 | **27.05** | 22.38 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year | **149,003** | 113,066 |
| Other comprehensive income: | | |
| Items that will not be reclassified to profit or loss: | | |
| Exchange difference on translation of revaluation of overseas buildings | **71** | 56 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange difference on translation of financial statements of overseas subsidiaries | **8,649** | 4,267 |
| Other comprehensive income for the year, net of tax | **8,720** | 4,323 |
| Total comprehensive income for the year | **157,723** | 117,389 |
| Total comprehensive income (expenses) for the year attributable to: | | |
| Shareholders of the Company | **159,186** | 118,127 |
| Non-controlling interests | **(1,463)** | (738) |
| | **157,723** | 117,389 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2013*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current Assets** | | | |
| Property, plant and equipment | | **263,073** | 128,814 |
| Intangible assets | | **194,129** | 127,156 |
| Lease premium for land | | **15,213** | 15,157 |
| Goodwill | | **3,900** | 3,900 |
| Interests in associates | | **34,531** | – |
| Held-to-maturity financial assets | | **5,156** | – |
| Available-for-sale financial asset | | **7,882** | 9,660 |
| | | **523,884** | 284,687 |
| **Current Assets** | | | |
| Lease premium for land | | **333** | 324 |
| Inventories | | **117,881** | 64,071 |
| Trade receivables | 6 | **78,320** | 71,469 |
| Other receivables, deposits and prepayments | | **43,788** | 33,573 |
| Advance to related party | | **20,387** | 6,505 |
| Pledged bank deposits | | **2,000** | 2,000 |
| Time deposits | | **176,437** | 175,313 |
| Cash and bank balances | | **202,625** | 158,589 |
| | | **641,771** | 511,844 |
| **Current Liabilities** | | | |
| Trade payables | 7 | **36,493** | 29,111 |
| Other payables | | **145,365** | 94,760 |
| Obligations under license contracts | | **7,923** | 3,683 |
| Bank borrowings | | **69,468** | 31,483 |
| Obligations under finance leases | | **150** | 563 |
| Tax payables | | **12,758** | 13,089 |
| | | **272,157** | 172,689 |
| **Net Current Assets** | | **369,614** | 339,155 |
| **Total Assets less Current Liabilities** | | **893,498** | 623,842 |

| | Notes | 2013<br>***HK$'000*** | 2012<br>*HK$'000* |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | | **26,912** | 26,055 |
| Reserves | | **759,093** | 556,101 |
| **Equity attributable to the shareholders of the Company** | | **786,005** | 582,156 |
| Non-controlling interests | | **66,053** | 11,123 |
| **Total Equity** | | **852,058** | 593,279 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **14,661** | 13,215 |
| Obligations under finance leases | | **–** | 319 |
| Retirement benefit | | **23,569** | 10,891 |
| Obligations under license contracts | | **3,210** | 6,138 |
| | | **41,440** | 30,563 |
| | | **893,498** | 623,842 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Attributable to the shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Merger difference *HK$'000* | Share-based compensation reserve *HK$'000* | Other reserves *HK$'000* | Revaluation reserve *HK$'000* | Exchange reserve *HK$'000* | Retained profits *HK$'000* | Sub-total *HK$'000* | Attributable to non-controlling interests *HK$'000* | Total *HK$'000* |
| At 1 January 2013 | 26,055 | 260,656 | 9,200 | 3,292 | 17,038 | 4,036 | 14,636 | 247,243 | 582,156 | 11,123 | 593,279 |
| Employee share option benefits | – | – | – | 2,727 | – | – | – | – | 2,727 | – | 2,727 |
| Exercise of share options | 99 | 5,300 | – | (654) | – | – | – | – | 4,745 | – | 4,745 |
| Share of share-based compensation reserve of a subsidiary *(Note)* | – | – | – | 27 | – | – | – | – | 27 | 13 | 40 |
| Transfer of revaluation reserve to retained earnings upon disposal | – | – | – | – | – | (4,107) | – | 4,107 | – | – | – |
| Issue of shares pursuant to Shareholders' Agreement | 758 | 26,370 | – | – | – | – | – | – | 27,128 | – | 27,128 |
| Deemed partial disposal of interests in a subsidiary | – | – | – | – | 43,274 | – | – | – | 43,274 | 56,380 | 99,654 |
| Profit (loss) for the year | – | – | – | – | – | – | – | 150,467 | 150,467 | (1,464) | 149,003 |
| Other comprehensive income | – | – | – | – | – | 71 | 8,648 | – | 8,719 | 1 | 8,720 |
| Total comprehensive income (expenses) for the year | – | – | – | – | – | 71 | 8,648 | 150,467 | 159,186 | (1,463) | 157,723 |
| 2012 final dividend paid | – | – | – | – | – | – | – | (20,871) | (20,871) | – | (20,871) |
| 2013 interim dividend paid | – | – | – | – | – | – | – | (12,367) | (12,367) | – | (12,367) |
| At 31 December 2013 | 26,912 | 292,326 | 9,200 | 5,392 | 60,312 | – | 23,284 | 368,579 | 786,005 | 66,053 | 852,058 |
| At 1 January 2012 | 23,489 | 105,533 | 9,200 | 2,440 | – | 3,980 | 10,372 | 156,900 | 311,914 | 417 | 312,331 |
| Employee share options benefits | – | – | – | 1,456 | – | – | – | – | 1,456 | – | 1,456 |
| Exercise of share options | 142 | 5,416 | – | (606) | – | – | – | – | 4,952 | – | 4,952 |
| Share of share-based compensation reserve of a subsidiary *(Note)* | – | – | – | 2 | – | – | – | – | 2 | 1 | 3 |
| Issue of ordinary shares by placement | 2,424 | 149,707 | – | – | – | – | – | – | 152,131 | – | 152,131 |
| Capital contribution from non-controlling interests | – | – | – | – | – | – | – | – | – | 203 | 203 |
| Deemed partial disposal of interests in a subsidiary | – | – | – | – | 17,038 | – | – | – | 17,038 | 11,240 | 28,278 |
| Profit (loss) for the year | – | – | – | – | – | – | – | 113,807 | 113,807 | (741) | 113,066 |
| Other comprehensive income | – | – | – | – | – | 56 | 4,264 | – | 4,320 | 3 | 4,323 |
| Total comprehensive income (expenses) for the year | – | – | – | — | – | 56 | 4,264 | 113,807 | 118,127 | (738) | 117,389 |
| 2011 final dividend paid | – | – | – | – | – | – | – | (14,107) | (14,107) | – | (14,107) |
| 2012 interim dividend paid | – | – | – | – | – | – | – | (9,357) | (9,357) | – | (9,357) |
| At 31 December 2012 | 26,055 | 260,656 | 9,200 | 3,292 | 17,038 | 4,036 | 14,636 | 247,243 | 582,156 | 11,123 | 593,279 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2013*

### 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The accounting policies and methods of computation used in these consolidated financial statements are the same as those followed in the presentation of the Group's annual financial statements for the year ended 31 December 2012, except for the following HKFRSs that the Group has applied for the first time in the current year.

| | |
|---|---|
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| Amendments to HKFRS 7 | Disclosure – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance |
| HKAS 19 (as revised in 2011) | Employee Benefits |
| HKAS 27 (as revised in 2011) | Separate Financial Statements |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle except for the amendments to HKAS 1 |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current year.

### 2. SEGMENT INFORMATION

Information reported to 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 products | – | Trading of license-in pharmaceutical products |

**Segment revenue and results**

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

| | Proprietary products | | Licensed products | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment turnover | **307,073** | 257,463 | **389,880** | 276,870 | **696,953** | 534,333 |
| Segment profit | **106,809** | 88,206 | **100,929** | 66,980 | **207,738** | 155,186 |
| Interest income | | | | | **2,717** | 1,981 |
| Unallocated expenses | | | | | **(30,094)** | (22,805) |
| Profit from operations | | | | | **180,361** | 134,362 |
| Finance costs | | | | | **(1,853)** | (1,192) |
| Profit before share of results of associates | | | | | **178,508** | 133,170 |
| Share of results of associates | | | | | **(2,418)** | – |
| Profit before taxation | | | | | **176,090** | 133,170 |
| Taxation | | | | | **(27,087)** | (20,104) |
| Profit for the year | | | | | **149,003** | 113,066 |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2012: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, finance costs, share of results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Segment assets and liabilities**

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

| | Proprietary products | | Licensed products | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment assets | **226,132** | 144,755 | **503,542** | 315,873 | **729,674** | 460,628 |
| Unallocated assets | | | | | **435,981** | 335,903 |
| Total assets | | | | | **1,165,655** | 796,531 |
| Segment liabilities | **98,890** | 72,997 | **163,719** | 93,060 | **262,609** | 166,057 |
| Unallocated liabilities | | | | | **50,988** | 37,195 |
| Total liabilities | | | | | **313,597** | 203,252 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, advance to related party, pledged bank deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to reportable segments other than tax payables, deferred tax liabilities, and retirement benefit. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

**Other segment information (included in the measure of segment profit or loss or regularly provided to the chief operating decision maker)**

| | Proprietary products | | Licensed products | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | **9,705** | 8,634 | **1,813** | 1,744 | **11,518** | 10,378 |
| Amortisation of intangible assets | **197** | 287 | **4,443** | 3,657 | **4,640** | 3,944 |
| Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year | **69,357** | 35,803 | **152,699** | 102,486 | **222,056** | 138,289 |
| Impairment of intangible assets | **–** | – | **6,094** | 3,752 | **6,094** | 3,752 |

**Geographical information**

During the years ended 31 December 2013 and 2012, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

| | **The PRC** | | **Hong Kong** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment assets | **556,559** | 402,494 | **609,096** | 394,037 | **1,165,655** | 796,531 |
| Segment liabilities | **175,882** | 148,236 | **137,715** | 55,016 | **313,597** | 203,252 |

## 3. TAXATION

| | **THE GROUP** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Hong Kong | **14,763** | 8,931 |
| PRC Enterprise Income Tax | **11,278** | 8,724 |
| (Over) under-provision in prior year | **(191)** | 2,693 |
| | **25,850** | 20,348 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **1,237** | (244) |
| | **27,087** | 20,104 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries are 15% to 25% (2012: 15% – 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 4. DIVIDENDS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend paid – HK$0.023 (2012: HK$0.018) per share | **12,367** | 9,357 |
| Final dividend proposed – HK$0.052 (2012: HK$0.040) per share | **27,989** | 20,844 |
| | **40,356** | 30,201 |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2013 of HK5.2 cents per share (2012: HK4.0 cents per share in respect of the year ended 31 December 2012) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2013.

## 5. EARNINGS PER SHARE

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

| | **THE GROUP** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| *Earnings:* | | |
| Net profit attributable to shareholders of the Company for the purpose of basic earnings per share | **150,467** | 113,807 |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment in relation to contingent share arrangement | **(2,669)** | – |
| Net profit attributable to shareholders of the Company for the purpose of diluted earnings per share | **147,798** | 113,807 |

| | **2013** | 2012 |
|---|---|---|
| | ***Share(s)*** | *Share(s)* |
| *Number of shares:* | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **529,656,459** | 498,634,617 |
| Effect of dilutive potential ordinary shares: | | |
| Options | **11,705,878** | 9,816,286 |
| Contingent share arrangement | **4,995,724** | – |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **546,358,061** | 508,450,903 |

## 6. TRADE RECEIVABLES

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **82,230** | 76,377 |
| Less: Allowances for bad and doubtful debts | **(3,910)** | (4,908) |
| | **78,320** | 71,469 |

The credit period on sales of goods is 30-120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **38,656** | 36,118 |
| 31 – 120 days | **23,802** | 22,484 |
| 121 – 180 days | **4,362** | 5,639 |
| 181 – 365 days | **4,404** | 6,713 |
| Over 365 days and under 3 years | **7,096** | 515 |
| | **78,320** | 71,469 |

The fair value of the Group's trade receivables at 31 December 2013 approximate to the corresponding carrying amount.

Of the trade receivables balance at the end of the year, HK$15,973,326 (2012: HK$27,845,515) is due from the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for bad and doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

**Age of receivables that are past due but not impaired**

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Overdue by: | | |
| 1-180 days | **21,491** | 18,714 |
| 181-365 days | **1,655** | 2,343 |
| | **23,146** | 21,057 |

**Movement in allowance for bad and doubtful debts**

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **4,908** | 2,030 |
| Exchange rate adjustments | **35** | 7 |
| (Written back) provision for doubtful debts | **(1,033)** | 2,871 |
| Balance at the end of the year | **3,910** | 4,908 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

**Age of receivables that are past due and impaired**

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Overdue by: | | |
| 181-365 days | **1,655** | 2,343 |
| Over 365 days and under 3 years | **2,255** | 2,565 |
| | **3,910** | 4,908 |

## 7. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2013 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2012 and 2013.

| | THE GROUP | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| 0-90 days | **16,906** | 29,110 |
| 91-180 days | **19,583** | – |
| 181-365 days | **–** | – |
| Over 365 days | **4** | 1 |
| | **36,493** | 29,111 |

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit time frame.

## FINAL DIVIDEND

The Board of Directors recommended a final dividend of HK$0.052 (2012: HK$0.04) per share to shareholders registered in the Company's Register of Members as at the close of business on 21 May 2014. Upon approval by shareholders, the final dividend will be paid on or about 12 June 2014.

## CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the shareholders of the Company will be held on Monday, 12 May 2014. The register of members of the Company will be closed from Friday, 9 May 2014 to Monday, 12 May 2014 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the meeting. In order to qualify for the right to attend and vote at the above meeting, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 May 2014.

The register of members of the Company will be closed from Tuesday, 20 May 2014 to Wednesday, 21 May 2014 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled for the proposed final dividend for the year ended 31 December 2013. In order to qualify for the proposed final dividend for the year ended 31 December 2013, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 May 2014.

## 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 year ended 31 December 2013 (2012: Nil).

## AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2013 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## CORPORATE GOVERNANCE PRACTICES

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 year ended 31 December 2013, 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.

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

Hong Kong, 20 March 2014

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