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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2017	2016	**Change**
	HK$'000	*HK$'000*	
Revenue	**1,008,522**	929,821	+8.5%
Gross profit	**682,404**	668,235	+2.1%
Profit attributable to the owners of the Company	**232,559**	252,002	-7.7%
	HK cents	*HK cents*	
Earnings per share			
Basic	**39.38**	42.79	-8.0%
Diluted	**39.26**	42.60	-7.8%

The board of Directors recommends the payment of final dividend of HK7.0 cents (2016: HK7.9 cents) per ordinary share for the year ended 31 December 2017.

* *For identification purposes only*

ANNUAL RESULTS

The directors (the "**Directors**") of Lee's Pharmaceutical Holdings Limited (the "**Company**") are pleased to present the results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2017 and the comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	2	**1,008,522**	929,821
Cost of sales		**(326,118)**	(261,586)
Gross profit		**682,404**	668,235
Other income		**47,109**	72,137
Gain on deemed disposal of a subsidiary		**58,066**	–
Impairment of intangible assets		**(52,326)**	(23,324)
Selling and distribution expenses		**(214,150)**	(204,225)
Administrative expenses		**(159,218)**	(146,511)
Research and development expenses		**(85,057)**	(67,886)
Profit from operations		**276,828**	298,426
Finance costs		**(4,256)**	(3,803)
Share of results of associates		**(14,944)**	(12,019)
Profit before taxation		**257,628**	282,604
Taxation	3	**(54,689)**	(50,198)
Profit for the year		**202,939**	232,406
Attributable to:			
Owners of the Company		**232,559**	252,002
Non-controlling interests		**(29,620)**	(19,596)
		202,939	232,406
		HK cents	*HK cents*
Earnings per share			
Basic	5	**39.38**	42.79
Diluted	5	**39.26**	42.60

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**202,939**	232,406
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**66,005**	(49,054)
Fair value changes of available-for-sale financial assets	**(17,705)**	(11,817)
Reclassification of other reserves upon deemed disposal of a subsidiary	**(19,576)**	–
Reclassification of exchange reserve upon deemed disposal of a subsidiary	**(94)**	–
Share of other comprehensive income of associates	**859**	–
Other comprehensive income (expense) for the year, net of tax	**29,489**	(60,871)
Total comprehensive income for the year	**232,428**	171,535
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**261,170**	190,883
Non-controlling interests	**(28,742)**	(19,348)
	232,428	171,535

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Non-current Assets			
Property, plant and equipment		**565,662**	437,092
Intangible assets		**448,638**	421,853
Lease premium for land		**142,520**	134,583
Goodwill		**3,900**	3,900
Interests in associates		**87,363**	46,820
Held-to-maturity financial assets		**–**	5,659
Available-for-sale financial assets		**203,123**	127,778
		1,451,206	1,177,685
Current Assets			
Lease premium for land		**3,077**	2,844
Inventories		**160,637**	134,910
Trade receivables	6	**85,801**	87,069
Other receivables, deposits and prepayments		**101,320**	106,223
Convertible instrument		**3,165**	–
Advance to associates		**24,639**	20,524
Tax recoverable		**11,532**	528
Held-to-maturity financial assets		**5,826**	–
Pledged bank deposits		**27,915**	26,639
Time deposits		**175,416**	209,693
Cash and bank balances		**273,990**	295,282
		873,318	883,712
Current Liabilities			
Trade payables	7	**26,148**	42,301
Other payables		**281,150**	172,340
Obligations under license contracts		**4,441**	490
Bank borrowings		**99,004**	133,578
Obligations under finance leases		**485**	467
Tax payables		**19,857**	9,199
		431,085	358,375
Net Current Assets		**442,233**	525,337
Total Assets less Current Liabilities		**1,893,439**	1,703,022

	2017	2016
	HK$'000	*HK$'000*
Capital and Reserves		
Share capital	**29,547**	29,503
Reserves	**1,774,799**	1,572,223
Equity Attributable to the Owners of the Company	**1,804,346**	1,601,726
Non-controlling interests	**(7,414)**	32,990
Total Equity	**1,796,932**	1,634,716
Non-current Liabilities		
Deferred tax liabilities	**39,981**	25,290
Retirement benefits	**56,010**	42,015
Obligations under finance leases	**516**	1,001
	96,507	68,306
	1,893,439	1,703,022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the owners of the Company										
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investment revaluation reserve	Exchange reserve	Retained profits	Sub-total	Attributable to non-controlling interest	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 2017	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716
Employee share option benefits	-	-	-	4,440	-	-	-	-	4,440	-	4,440
Exercise of share options	44	3,714	-	(766)	-	-	-	-	2,992	-	2,992
Share of share-based compensation reserve of a subsidiary	-	-	-	23	-	-	-	-	23	17	40
Share of reserve of associate	-	-	-	-	56	-	-	-	56	-	56
Share options lapsed in associate	-	-	-	-	(110)	-	-	110	-	-	-
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(12,577)	(12,577)
Gain on partial disposal of interests in a subsidiary	-	-	-	-	666	-	-	-	666	(666)	-
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	1,564	1,564
Profit (loss) for the year	-	-	-	-	-	-	-	232,559	232,559	(29,620)	202,939
Other comprehensive (expense) income for the year											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	65,127	-	65,127	878	66,005
- Fair value changes of available-for-sale financial assets	-	-	-	-	-	(17,705)	-	-	(17,705)	-	(17,705)
- Reclassification of other reserves upon deemed disposal of a subsidiary	-	-	-	-	(19,576)	-	-	-	(19,576)	-	(19,576)
- Reclassification of exchange reserve upon deemed disposal of a subsidiary	-	-	-	-	-	-	(94)	-	(94)	-	(94)
- Share of other comprehensive income of associates	-	-	-	-	859	-	-	-	859	-	859
Total comprehensive income (expense) for the year	-	-	-	-	(18,717)	(17,705)	65,033	232,559	261,170	(28,742)	232,428
2016 final dividend paid	-	-	-	-	-	-	-	(46,635)	(46,635)	-	(46,635)
2017 interim dividend paid	-	-	-	-	-	-	-	(20,092)	(20,092)	-	(20,092)
At 31 December 2017	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

	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$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Attributable to non-controlling interest *HK$'000*	Total *HK$'000*
At 1 January 2016	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	–	–	–	3,901	–	–	–	–	3,901	–	3,901
Exercise of share options	163	3,229	–	(971)	–	–	–	–	2,421	–	2,421
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	17	40
Share of reserve of associate	–	–	–	–	168	–	–	–	168	–	168
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,931	2,931
Profit (loss) for the year	–	–	–	–	–	–	–	252,002	252,002	(19,596)	232,406
Other comprehensive (expense) income for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(49,302)	–	(49,302)	248	(49,054)
– Fair value changes of available-for-sale financial assets	–	–	–	–	–	(11,817)	–	–	(11,817)	–	(11,817)
Total comprehensive income (expense) for the year	–	–	–	–	–	(11,817)	(49,302)	252,002	190,883	(19,348)	171,535
2015 final dividend paid	–	–	–	–	–	–	–	(43,645)	(43,645)	–	(43,645)
2016 interim dividend paid	–	–	–	–	–	–	–	(19,463)	(19,463)	–	(19,463)
At 31 December 2016	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies and method of computation used in these consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2016 except as described below.

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards ("**HKASs**") and Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants that are relevant for the preparation of the Group's consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle relating to Amendments to HKFRS 12 Disclosure of Interests in Other Entities

Except as described below, the application of the amendments to HKASs and HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the changes from financing cash flows to be disclosed.

A reconciliation between the opening and closing balances of these items is provided. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

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 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014–2016 Cycle except Amendments to HKFRS 12[1]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015–2017 Cycle[2]

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

2 Effective for annual periods beginning on or after 1 January 2019, 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 is assessing the full impact of these new and amendments to HKASs and HKFRSs. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resources 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-developed pharmaceutical products
Licensed-in products	–	Trading of licensed-in pharmaceutical products

Segment revenue and results

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

	Proprietary products		Licensed-in products		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**464,120**	440,073	**544,402**	489,748	**1,008,522**	929,821
Segment operating results	**207,113**	209,695	**102,548**	139,456	**309,661**	349,151
Impairment of intangible assets	**–**	(2,121)	**(52,326)**	(21,203)	**(52,326)**	(23,324)
Gain on deemed disposal of a subsidiary	**–**	–	**58,066**	–	**58,066**	–
Segment results	**207,113**	207,574	**108,288**	118,253	**315,401**	325,827
Unallocated income					**7,299**	1,651
Unallocated expenses					**(45,872)**	(29,052)
Profit from operations					**276,828**	298,426
Finance costs					**(4,256)**	(3,803)
Profit before share of results of associates					**272,572**	294,623
Share of results of associates					**(14,944)**	(12,019)
Profit before taxation					**257,628**	282,604
Taxation					**(54,689)**	(50,198)
Profit for the year					**202,939**	232,406

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2016: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, 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-in products		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**358,678**	258,895	**1,232,755**	1,104,866	**1,591,433**	1,363,761
Unallocated assets					**733,091**	697,636
Total assets					**2,324,524**	2,061,397
Segment liabilities	**135,039**	85,420	**276,705**	264,757	**411,744**	350,177
Unallocated liabilities					**115,848**	76,504
Total liabilities					**527,592**	426,681

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

- all assets are allocated to operating segments other than interests in associates, part of lease premium for land, advance to associates, tax recoverable, time deposits and cash and bank balances. Pledged bank deposits is not allocated to operating segments in 2017 since it relates to the Group's security given to a bank for an associate. 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 operating segments other than tax payables, deferred tax liabilities, and retirement benefits. 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 segment assets or regularly provided to the chief operating decision maker)

	Proprietary products		Licensed-in products		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of property, plant and equipment	**27,186**	26,289	**17,528**	6,761	**44,714**	33,050
Amortisation of intangible assets	**–**	–	**13,394**	12,678	**13,394**	12,678
Additions to non-current assets (Property, plant and equipment and intangible assets) during the year	**59,756**	52,331	**207,716**	217,339	**267,472**	269,670
Impairment of intangible assets	**–**	2,121	**52,326**	21,203	**52,326**	23,324

Geographical information

During the years ended 31 December 2017 and 2016, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "**PRC**"), no geographical information on revenue is presented. The Group's assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong and others		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Total assets	**1,549,776**	1,167,680	**774,748**	893,717	**2,324,524**	2,061,397
Total liabilities	**248,085**	157,941	**279,507**	268,740	**527,592**	426,681

3. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**4,741**	18,538
PRC Enterprise Income Tax	**35,255**	23,318
	39,996	41,856
Under (over) provision in prior years		
Hong Kong Profits Tax	**3,191**	119
PRC Enterprise Income Tax	**(1,004)**	(62)
	2,187	57
Deferred tax		
Origination and reversal of temporary differences	**12,506**	8,285
	54,689	50,198

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

Under the Law of the PRC 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% (2016: 15% to 25%).

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

4. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Interim – HK$0.034 (2016: 2016 interim dividend HK$0.033) per share	**20,092**	19,463
2016 Final – HK$0.079 (2016: 2015 final dividend HK$0.074) per share	**46,635**	43,645
	66,727	63,108

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK7.0 cents per share (2016: final dividend in respect of the year ended 31 December 2016 of HK7.9 cents per share), in an aggregate amount of HK$41,366,000 (2016: HK$46,635,000) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2017.

5. 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:

	2017	2016
	HK$'000	*HK$'000*
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**232,559**	252,002

	2017	2016
	Share(s)	Share(s)
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**590,505**	588,923
Effect of dilutive potential ordinary shares:		
Options	**1,824**	2,688
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**592,329**	591,611

6. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**86,362**	87,453
Less: Allowances for bad and doubtful debts	**(561)**	(384)
	85,801	87,069

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:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**41,782**	47,314
31 – 120 days	**41,234**	38,368
121 – 180 days	**2,544**	1,073
181 – 365 days	**223**	225
Over 365 days and under 3 years	**18**	89
	85,801	87,069

The fair value of the Group's trade receivables at 31 December 2017 approximates to their corresponding carrying amount.

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.

Ageing analysis of receivables that are past due but not impaired

	2017	2016
	HK$'000	*HK$'000*
Overdue by:		
1 – 180 days	**26,321**	16,674
181 – 365 days	**130**	202
	26,451	16,876

Movement in allowance for bad and doubtful debts

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**384**	262
Exchange rate adjustments	**36**	(21)
Provision for the year	**141**	143
Balance at the end of the year	**561**	384

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.

Ageing analysis of receivables that are past due and impaired

	2017	2016
	HK$'000	*HK$'000*
Overdue by:		
181 – 365 days	**130**	203
Over 365 days and under 3 years	**431**	181
	561	384

7. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2017 approximates to their corresponding carrying amount.

The following is an ageing analysis of trade payables at 31 December 2016 and 2017.

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**26,090**	36,631
91 – 180 days	**–**	–
181 – 365 days	**–**	5,618
Over 365 days	**58**	52
	26,148	42,301

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 timeframe.

BUSINESS REVIEW

2017 was a challenging yet exciting year for the pharmaceutical sector in China in general and the Group in specific. Chinese Government continued major medical reform during the year in order to ease the costly medical treatment and burden from both patients and the reimbursement system, together with the implementation of policies and measures such as two-invoice system, drug price negotiation, and pay by diseases. All those measures have put pressure on pricing.

On the other hand, the healthcare sector in China continued its transformation and liberalisation processes. The Government has introduced supportive and favourable policies on drugs and medical devices innovation, such as accelerated approval times and the recognition of international clinical trial data. New drug review and approval process is more in line with international standard that will quicken the time-to-clinic and time-to-market for innovative drugs and medical devices. Reimbursement policy is also under review that will provide more resources to drugs that address highly unmet medical need.

Against this backdrop, the Group continued to experience downward pressure on pricing during 2017, albeit it was to a lesser extent than previous year. Coupled with a reemergence of inflationary pressure on material costs such as active pharmaceutical ingredient ("**API**"), there was a squeeze on gross margin. In addition, the increasing spending in research and development ("**R&D**") heaped pressure on operating profit. Those factors resulted in a deceleration of net profit growth during the year under review.

On the brighter side, year 2017 marked the 15 year anniversary of the Group's listing on the Hong Kong Stock Exchange with important milestone as the Group finally reached the HK$1 billion annual sales level. Revenue growth has been in the positive territory for the past six quarters and the pace of recovery has been accelerated. Taking advantage of the new measures favoured innovation, the Group can have more peace of mind in adopting an aggressive yet prudent approach in its R&D budget on various development projects on hand as well as the licensing of new compounds and products activities to enrich the pipeline and expand the portfolio to fuel for future business growth. As a result, 2017 had become a banner year for the Group's R&D effort.

In addition, following the structural adjustments and transformation in the industry, the pharmaceutical investment and capital markets have also become increasingly hot towards the end of 2017 and beyond. Therefore, the Group capitalised the chance to raise capital for its Taiwan-based development arm in cardiovascular disease area in 2017.

Overall, the Group delivered a solid result in 2017 which provided sufficient resources to progress towards the path to become a successful specialty pharmaceutical company in China.

Revenue and Profit

The Group generated a revenue contribution of HK$1,008,522,000 from the sales of pharmaceutical products in 2017, representing a growth of 8.5% as compared to that of in 2016. Major six products contributed 94.9% of revenue in 2017, decreased by 1.3 percentage points as compared to that of in 2016, indicating progressive improvement of sales of other products. Sales of licensed-in products was HK$544,402,000 (2016: HK$489,748,000) and accounted for 54.0% (2016: 52.7%) of the Group's revenue while sales of proprietary products was HK$464,120,000 (2016: 440,073,000) and contributed 46.0% (2016: 47.3%) of the Group's revenue.

Overall revenue growth of licensed-in products resumed positive in 2017. *Ferplex*® achieved decent revenue growth of 25% and exceeded HK$100 million revenue in a year for the first time. Revenue growth of *Zanidip*® turned positive again to 17.0%, while that of *Carnitene*® fairly improved by 4.6%. Together with the increased revenue contribution from the sales of other licensed-in products such as *Remodulin*®, the Group has recorded revenue growth of 11.2% from its licensed-in products in 2017.

Proprietary products sustained a balanced revenue growth of 5.5% in 2017, improved by 0.4 percentage point as compared to that of in 2016. *Yallaferon*® and *Livaracine*® achieved modest revenue growth of 5.4% and 9.1%, respectively. Sale of *Slounase*® was underperformed in 2017 but the shortfall nevertheless compensated in full by the robust revenue growth from *Eyprotor*® during the year under review.

Overall gross profit margin was 67.7% in 2017, declined by 4.2 percentage points from 71.9% in 2016, reflecting the combined adverse effects of increased material purchase costs for the production of in-house products as well as increase in import costs of licensed-in products due to the appreciation of Euro throughout the year under review. The Group continued to put more resources into R&D of new drugs, especially in cardiovascular, oncology and ophthalmology therapeutic areas. Overall, HK$184,605,000 was spent in R&D activities during 2017 (2016: HK$169,198,000), representing 18.3% (2016: 18.2%) to the corresponding yearly revenue. Among which HK$85,057,000 (2016: HK$67,886,000) has been recognised as expenses and HK$99,548,000 (2016: HK$101,312,000) has been capitalised as intangible assets.

The Group continued to streamline its sales and marketing efficiency in 2017 and the selling expenses to revenue ratio has further lowered to 21.2% (2016: 22.0%). In addition, a one-time net positive impact of approximately HK$5,740,000 was recorded in 2017 which comprised the gain on deemed disposal of certain interest in CVie Therapeutics Limited ("**CVie Taiwan**") of HK$58,066,000 and the written off of certain intangible assets of HK$52,326,000.

Net profit attributable to the owners of the Company was HK$232,559,000 (2016: HK$252,002,000), and recorded net profit margin of 23.1% (2016: 27.1%).

Quality System, Production and Manufacturing Facilities

During the year under review, the Group continued to upgrade and enhance the production capability in Nansha and Hefei.

The Group's solid dose production facility in Nansha is already fully operational with valid manufacturing license. In 2017, the Group continued to work on the GMP compliance matters. To date, the GMP certificate for its outer packaging operations for *Mictonorm*® has been obtained, while the applications for the GMP certificates in respect of manufacturing of Azilsartan and Sodium Phenylbutyrate are still underway.

Ophthalmology product production facility in Nansha is now in installation and commissioning stage. In 2017, the Group commenced the preparation work for the application of manufacturing license.

In Hefei, the Group adopted the strategy to move up the value chain for proprietary products. The construction of facility on site of source of API production for *Eyprotor*® is in progress. In addition, the Group invested in snake farm and related facility in Huangshan for venom extraction and was already in operation. Those efforts will help control both quality and cost of API.

Drug Development

In March 2017, Powder Pharmaceuticals Incorporated ("**PPI**"), an associated company of the Group, has been granted by China Food and Drug Administration ("**CFDA**") priority review for the clinical trial application of its product, namely *Zingo*®, a needle-free local analgesia delivery platform technology for pediatric use. The approval of the clinical trial application was obtained in December 2017. Furthermore, in August 2017, *Zingo*® obtained product registration certificate from Hong Kong Department of Health. *Zingo*® will be launched in Hong Kong at the beginning of second quarter of 2018.

In June 2017, registration enabling global Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris (moderate to severe acne) was completed and positive results therefrom which met pre-specified endpoints was attained. The study demonstrated that patients treated with 0.1% Adapalene + 1% Clindamycin showed the best results in the percent reduction in both lesion and inflamed lesion count. The Group had held meeting with CFDA to discuss phase III protocol with positive conclusion. The Group will commence registration enabling Phase III study during the second quarter of 2018.

In July 2017, registration enabling global Phase III clinical trial for advanced liver cancer using its oncolytic immunotherapy called Pexa-Vec (formerly JX-594), the PHOCUS study, has been approved (Approval No. 2017L04441) by the CFDA. The clinical study will globally enroll 600 patients (300 in China, 300 in the rest of the world) and over 250 of the patients required from the rest of the world have been enrolled to date. In China, the study will be led by world-renowned oncologist Professor Qin and 26 major cancer centres around China have been confirmed to participate. The preparation work has been gearing up and first China patient is expected to enroll in second quarter of 2018.

In January 2018, China Oncology Focus Limited ("**COFL**"), a 65% owned subsidiary of the Group, has been granted the approval to proceed with the clinical trials for ZKAB001, an anti PD-L1 monoclonal antibody, in three separate cancer indications. The trials will be anticipated to use a 3+3 design with 5mg/kg, 10mg/kg and 15mg/kg dosing regimens. Once the Maximum Tolerated Dose (MTD) has been established, addition patients are expected to be recruited in an expanded Phase I protocol. 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.

During the year, the Group submitted three Investigational New Drugs ("**IND**") to the CFDA for TG02, Gimatecan and Tecarfarin respectively. These three products are new chemical entity (NCE) and will be developed for cancer treatment and anticoagulation treatment. Clinical studies will be initiated during the second half of 2018 in both Hong Kong and mainland China. The three NCE IND submissions rank the Group fourth in the nation in 2017 among 4,000 Pharma and Biotech companies, followed a second national ranking in 2015. It again affirms the Group's premium position as an R&D driven, innovative specialty pharma with biotech spirit.

International Partnerships

In June 2017, the Group made an exclusive licensing and collaboration agreement with Windtree Therapeutics, Inc. ("**WINT**") for the development and commercialisation of KL4 surfactant products in Asian countries. In addition, WINT granted the Group an exclusive license to manufacture KL4 surfactant in China. The Group is working on the technology transfer now and manufacture of the product will be made shortly. NDA submission is expected before the end of 2018.

In November 2017, the Group, via COFL, made another move in relations to combination therapy clinical trial in oncology area and entered a collaboration agreement with Beijing Shenogen Pharma Group Limited ("**Shenogen**") to jointly develop and commercialise a combination product which composed of the Group's license-in clinical compound, PD-L1 for treatment of late stage cancers.

In November 2017, the Group made an exclusive licensing and collaboration agreement with Eleison Pharmaceuticals, Inc. ("**Eleison**") for the development and commercialisation of Glufosfamide in China and Southeast Asia for the treatment of pancreatic cancer. A registration enabling global phase III study is ongoing with targeted enrolment of 400 patients, of which 200 will be from China. Clinical approval for China arm has been approved by CFDA and preparation is underway. It is expected that first patient will be enrolled in China during the second half of 2018.

In December 2017, the Group entered into an agreement with Noden Pharma DAC ("**Noden**"), an Ireland-based company, pursuant to which the Group was awarded the exclusive agency and sales rights of Aliskiren tablet (trade name: Rasilez) in Mainland China, Hong Kong, Macau and Taiwan. Aliskiren is the only renin inhibitor drug in the world that is approved for marketing and the indication for Aliskiren is the treatment of essential hypertension. China IDL has been obtained for Aliskiren and the product is ready for launched into market. The Group is now working on pre-marketing preparation and planning to sell the product during the second half of 2018. As a direct kinin inhibitor and potent blood pressure lower agent, Rasilez will complement to the Group's effort on calcium channel blocker *Zanidip*®. With both Azilsartan and Rostafuroxin on the horizon, it is the Group's attention to build a strong franchise on hypertension, allowing the maximum leverage on the resources.

In December 2017, the Group made an exclusive licensing and collaboration agreement with GC Pharma for the development and commercialisation of GCC-4401C, an investigational oral Factor Xa inhibitor anticoagulant, in Greater China and Southeast Asia for the prevention and treatment of thromboembolic disease. As a market leader with its low molecular weight heparin *Livaracine*® in the anticoagulation area, the control of a Factor Xa inbibitor will significantly enhance the Group's position in the area. Besides the above-mentioned, the Group is developing a proprietary anti-platelet agent Anfibatide, a vitamin K antagonist Tecarfarin and others with the aim to offer a complete solution in the anticoagulation realm.

Corporate Development

As a result of good progress in the development of Rostafuroxin and Istaroxime, CVie Taiwan managed to attract a good set of Taiwan-based investors. In May 2017, CVie Taiwan successfully raised additional funding of US$7.5 million (approximately HK$58.5 million equivalent) by mean of the issuance of Series A Preferred Shares thereof to finance the ongoing clinical trials. The interests in CVie Taiwan held by the Group was diluted from 56.26% to 49.58% upon the completion in June 2017 and CVie Taiwan ceased to be an indirect non-wholly owned subsidiary and become an associated company of the Group. With respect to the abovementioned fund raising, the Group recorded a one-time gain of HK$58,066,000 which was arising from the deemed disposal of the Group's partial interests in CVie Taiwan. In order to tie in with the change of control of CVie Taiwan, HK$42,708,000 of R&D costs capitalised in the prior years in relation to Rostafuroxin and Istaroxime were written off during the period under review.

In November 2017, the Group has invested majority of shares in Windtree Therapeutics, Inc. (OTCQB: WINT) at a consideration of US$10 million, in which the major assets included certain products such as aerosolised KL4 surfactant therapies for respiratory diseases with near term potential. The transaction is expected to strengthen the Group's position in critical neonatal care, with the potential to expand also its acute pulmonary care portfolio. The investment marks an important milestone in the Group's development. The US biotech industry leads the world in innovation and cutting-edge technology. The investment in a US biotech company provides the Group professional managerial experiences and new prospective in new drug development, serving as springboard to launch the Group into the forefront of new drug development.

PROSPECTS

The medical reform in 2017 has already brought significant improvements to the business environment from various aspects, including policy, market, capital, and investment, and this trend is expected to continue into 2018. While persistent challenges is expected to the sales of existing products, favourable environment and conditions should be expected for innovation activities. The Group continues to view its strong balance sheet, full spectrum of manufacturing capability, comprehensive product pipeline and variety of partnerships, enhanced sales and marketing efficiency, and strengthened regulatory expertise as significant competitive advantages for the road ahead.

The open-up of new capital market for innovative company in the biotech area in Hong Kong will provide alternative funding to the Group's R&D effort, spurring its development. The Group has several business units that are specialised in areas such as ophthalmology, oncology, cardiovascular and medical device could take advantage of this new opportunity through spin-off exercise in the near future. It is the Group's belief that such exercise will not only make additional resources available, but also result in recognition of the value of the Group's development assets.

Thus, the Group remains confident that the intense focus on R&D activities on innovative products will eventually pay off.

FINAL DIVIDEND

The board of Directors recommended a final dividend of HK$0.070 (2016: HK$0.079) per share to shareholders registered in the Company's register of members as at the close of business on Friday, 25 May 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company was scheduled to be held on Tuesday, 15 May 2018 ("**AGM**"). The notice of AGM will be issued to shareholders of the Company and published on the Company's website at www.leespharm.com and the designated website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkexnews.hk in due course.

CLOSURE OF REGISTER OF MEMBERS

(a) AGM

The register of members of the Company will be closed from Thursday, 10 May 2018 to Tuesday, 15 May 2018 (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 AGM.

In order to qualify for the right to attend and vote at the AGM, all transfer documents 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 9 May 2018.

(b) Payment of the proposed final dividend

The register of members of the Company will be closed from Thursday, 24 May 2018 to Friday, 25 May 2018 (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 2017.

In order to qualify for the proposed final dividend for the year ended 31 December 2017, all transfers documents 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 23 May 2018.

Subject to shareholders' approval of the proposed final dividend of shares at the AGM, the final dividend is payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 25 May 2018. The final dividend will be paid on Wednesday, 13 June 2018.

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 2017.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2017, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). The Company has made specific enquiries to all Directors, and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, with deviation from provision A.5 of the Code which stipulates that every listed company should establish a nomination committee. Detailed corporate governance practices and considered reasons for the deviation from provision A.5 of the Code will be stated in the annual report of the Company for the year ended 31 December 2017.

REVIEW OF ANNUAL RESULTS

The Group's annual results (including the audited consolidated financial statements) for the year ended 31 December 2017 including the accounting principles and practices adopted have been reviewed by the Audit Committee which consists of three independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY INDEPENDENT AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's independent auditor, HLM CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLM CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLM CPA Limited on this preliminary results announcement.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2017 containing all the detailed information will be dispatched to the shareholders of the Company and published on the Company's website at www.leespharm.com and the designated website of the Stock Exchange at www.hkexnews.hk in due course.

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

Hong Kong, 22 March 2018

As at the date of this announcement, 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.