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Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHT

	For the year ended		Change
	31 December		
	2021	2020	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	1,266,157	1,216,716	+4.1%
Gross profit	806,284	781,066	+3.2%
Profit attributable to the owners of the Company	1,987,176	129,316	+1,436.7%
	<i>HK cents</i>	<i>HK cents</i>	
Earnings per share			
Basic	337.58	21.99	+1,435.2%
Diluted	337.35	21.99	+1,434.1%

The Board recommends the payment of final dividend of HK3.1 cents (2020: HK3.1 cents) per ordinary share for the year ended 31 December 2021.

* For identification purpose only

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Lee’s Pharmaceutical Holdings Limited (the “**Company**”) is pleased to present the results of the Company and its subsidiaries (collectively, the “**Group**”) for the financial year ended 31 December 2021 and the comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	1,266,157	1,216,716
Cost of sales		(459,873)	(435,650)
Gross profit		806,284	781,066
Other income	3	102,323	150,587
Other gains and losses, net	4	2,067,799	(57,588)
Selling and distribution expenses		(366,439)	(279,947)
Administrative expenses		(297,265)	(237,721)
Net provision for expected credit losses on financial assets		(90,284)	(1,180)
Research and development expenses		(243,835)	(203,294)
Profit from operations		1,978,583	151,923
Finance costs		(5,722)	(6,472)
Share of results of associates		(3,495)	(11,414)
Profit before taxation		1,969,366	134,037
Taxation	5	(9,482)	(55,503)
Profit for the year		1,959,884	78,534
Attributable to:			
Owners of the Company		1,987,176	129,316
Non-controlling interests		(27,292)	(50,782)
		1,959,884	78,534
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
Basic		337.58	21.99
Diluted		337.35	21.99

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
Profit for the year	1,959,884	78,534
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries	37,920	89,829
– Reclassification of exchange reserve upon disposal of subsidiaries (<i>Note 10</i>)	–	(3,460)
– Reclassification of other reserves upon disposal of subsidiaries (<i>Note 10</i>)	–	(92,545)
– Share of other comprehensive income of associates	46	314
Item that will not be reclassified subsequently to profit or loss:		
– Fair value changes of financial assets at fair value through other comprehensive income	(1,706,606)	(256,320)
Other comprehensive expense for the year, net of tax	(1,668,640)	(262,182)
Total comprehensive income (expense) for the year	<u>291,244</u>	<u>(183,648)</u>
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	330,243	(125,820)
Non-controlling interests	<u>(38,999)</u>	<u>(57,828)</u>
	<u>291,244</u>	<u>(183,648)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		688,265	724,552
Intangible assets		922,525	844,954
Goodwill		3,900	3,900
Interests in associates		6,267	6,056
Financial assets at fair value through profit or loss		30,480	38,050
Financial assets at fair value through other comprehensive income		1,006,717	377,584
Deferred tax assets		15,424	18,729
		2,673,578	2,013,825
Current assets			
Inventories		331,394	414,377
Trade receivables	8	168,323	159,574
Other receivables, deposits and prepayments		162,736	149,081
Advance to associates		–	77,504
Tax recoverable		23,338	–
Pledged bank deposits		–	24,025
Time deposits		–	39,336
Cash and bank balances		277,529	375,199
		963,320	1,239,096
Current liabilities			
Trade payables	9	62,599	73,733
Other payables and accruals		684,670	691,195
Bank borrowings		162,540	141,377
Lease liabilities		12,639	7,828
Tax payables		132	29,916
		922,580	944,049
Net current assets		40,740	295,047
Total assets less current liabilities		2,714,318	2,308,872

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Capital and reserves		
Share capital	29,442	29,406
Reserves	<u>2,435,136</u>	<u>2,120,389</u>
Equity attributable to the owners of the Company	2,464,578	2,149,795
Non-controlling interests	<u>(73,416)</u>	<u>(34,417)</u>
Total equity	<u>2,391,162</u>	<u>2,115,378</u>
Non-current liabilities		
Other payables and accruals	40,000	–
Bank borrowings	84,090	–
Lease liabilities	7,869	7,502
Retirement benefits	111,970	104,000
Deferred tax liabilities	<u>79,227</u>	<u>81,992</u>
	<u>323,156</u>	<u>193,494</u>
	<u>2,714,318</u>	<u>2,308,872</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to the owners of the Company										
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits	Sub-total	Attributable to non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	29,406	714,813	9,200	40,847	65,228	(254,155)	(14,843)	1,559,299	2,149,795	(34,417)	2,115,378
Employee share option benefits	-	-	-	16,888	-	-	-	-	16,888	-	16,888
Exercise of share options	36	5,278	-	(1,771)	-	-	-	-	3,543	-	3,543
Share of reserve of an associate	-	-	-	-	28	-	-	-	28	-	28
Profit (loss) for the year	-	-	-	-	-	-	-	1,987,176	1,987,176	(27,292)	1,959,884
Other comprehensive income (expense) for the year											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	37,681	-	37,681	239	37,920
- Share of other comprehensive income of associates	-	-	-	-	46	-	-	-	46	-	46
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	(1,694,660)	-	-	(1,694,660)	(11,946)	(1,706,606)
Total comprehensive income (expense) for the year	-	-	-	-	46	(1,694,660)	37,681	1,987,176	330,243	(38,999)	291,244
2020 final dividend paid	-	-	-	-	-	-	-	(18,254)	(18,254)	-	(18,254)
2021 interim dividend paid	-	-	-	-	-	-	-	(17,665)	(17,665)	-	(17,665)
At 31 December 2021	29,442	720,091	9,200	55,964	65,302	(1,948,815)	22,838	3,510,556	2,464,578	(73,416)	2,391,162

	Attributable to the owners of the Company								Attributable to non-controlling interests	Total
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits	Sub-total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	29,396	714,146	9,200	23,675	157,404	(8,386)	(97,707)	1,468,172	2,295,900	2,477,438
Employee share option benefits	–	–	–	17,442	–	–	–	–	17,442	17,442
Exercise of share options	10	667	–	(231)	–	–	–	–	446	446
Share options lapsed	–	–	–	(39)	–	–	–	39	–	–
Share of reserve of an associate	–	–	–	–	55	–	–	–	55	55
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	31,226
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	(2,250)
Disposal of interests in subsidiaries (Note 10)	–	–	–	–	–	–	–	–	–	(187,103)
Profit (loss) for the year	–	–	–	–	–	–	–	129,316	129,316	(50,782)
Other comprehensive income (expense) for the year										
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	86,324	–	86,324	3,505
– Reclassification of exchange reserve upon disposal of subsidiaries (Note 10)	–	–	–	–	–	–	(3,460)	–	(3,460)	–
– Reclassification of other reserves upon disposal of subsidiaries (Note 10)	–	–	–	–	(92,545)	–	–	–	(92,545)	–
– Share of other comprehensive income of associates	–	–	–	–	314	–	–	–	314	–
– Fair value changes of financial assets at fair value through other comprehensive income	–	–	–	–	–	(245,769)	–	–	(245,769)	(10,551)
Total comprehensive (expense) income for the year	–	–	–	–	(92,231)	(245,769)	82,864	129,316	(125,820)	(183,648)
2019 final dividend paid	–	–	–	–	–	–	–	(22,349)	(22,349)	–
2020 interim dividend paid	–	–	–	–	–	–	–	(15,879)	(15,879)	–
At 31 December 2020	29,406	714,813	9,200	40,847	65,228	(254,155)	(14,843)	1,559,299	2,149,795	2,115,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“HKASs”); and HK (IFRIC) Interpretations, HK Interpretations and HK (SIC) Interpretations (collectively referred to as “Interpretations”).

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	COVID-19-Related Rent Concessions

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRS 3	Reference to the Conceptual Framework 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 HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

- ¹ Effective for annual periods beginning on or after 1 April 2021
- ² Effective for annual periods beginning on or after 1 January 2022
- ³ Effective for annual periods beginning on or after 1 January 2023
- ⁴ Effective for annual periods beginning on or after a date to be determined

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

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 which is recognised at a point in time.

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 goods delivered.

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

Proprietary and generic products	–	Manufacturing and sales of self-developed and generic 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 segments:

	Proprietary and generic products		Licensed-in products		Consolidated	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	517,022	538,765	749,135	677,951	1,266,157	1,216,716
Segment operating results	220,706	241,651	95,065	194,475	315,771	436,126
Research and development expenses	(82,932)	(57,093)	(160,903)	(146,201)	(243,835)	(203,294)
Impairment of intangible assets	(43,523)	–	(186,986)	(3,840)	(230,509)	(3,840)
Impairment of goodwill	–	–	–	(2,342)	–	(2,342)
Write-off of intangible assets	(357)	–	–	–	(357)	–
Segment results	93,894	184,558	(252,824)	42,092	(158,930)	226,650
Gain on disposal of subsidiaries, net (Note 10)					–	155,625
Gain (loss) on deemed disposal of interest in associates (Note 11)					2,321,626	(180,923)
Unallocated income					14,326	12,717
Unallocated expenses					(198,439)	(62,146)
Profit from operations					1,978,583	151,923
Finance costs					(5,722)	(6,472)
Profit before share of results of associates					1,972,861	145,451
Share of results of associates					(3,495)	(11,414)
Profit before taxation					1,969,366	134,037
Taxation					(9,482)	(55,503)
Profit for the year					1,959,884	78,534

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2020: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the profit earned by/loss from each segment without allocation of central administration costs including directors' emoluments, certain transactions with associates, gain or loss on disposal/deem disposal of subsidiaries/associates, fair value changes of certain financial instruments at fair value through profit or loss, foreign exchange gain/loss, 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 resources 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 and generic products		Licensed-in products		Consolidated	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	884,279	875,134	1,509,248	1,704,544	2,393,527	2,579,678
Unallocated assets					1,243,371	673,243
Total assets					<u>3,636,898</u>	<u>3,252,921</u>
Segment liabilities	233,565	263,839	574,211	516,420	807,776	780,259
Unallocated liabilities					437,960	357,284
Total liabilities					<u>1,245,736</u>	<u>1,137,543</u>

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

- all assets are allocated to operating segments other than interests in associates, deferred tax assets, certain right-of-use assets and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, balances with associates, tax recoverable, pledged deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary and generic products; and
- all liabilities are allocated to operating segments other than bank borrowings, tax payables, deferred tax liabilities and retirement benefits.

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

	Proprietary and generic products		Licensed-in products		Consolidated	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment (including right-of-use assets)	61,079	49,247	56,735	60,054	117,814	109,301
Amortisation of intangible assets	20,533	2,898	8,520	15,305	29,053	18,203
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	104,152	256,164	282,227	182,079	386,379	438,243
Impairment of intangible assets	43,523	–	186,986	3,840	230,509	3,840
Write-off of intangible assets	357	–	–	–	357	–

Geographical information

During the years ended 31 December 2021 and 2020, 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 following is an analysis of the Group's assets and liabilities by geographical markets:

	The PRC		Hong Kong and others		Total	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	2,002,754	2,060,059	1,634,144	1,192,862	3,636,898	3,252,921
Total liabilities	532,981	560,912	712,755	576,631	1,245,736	1,137,543

3. OTHER INCOME

	2021	2020
	HK\$'000	HK\$'000
Interest income on:		
Bank and pledged bank deposits	2,461	6,624
Financial assets at fair value through profit or loss	117	–
Advance to associates	3,334	2,448
Total interest income	5,912	9,072
Compensation income	–	41,208
Government and development grants	18,156	30,958
Licensing income	3,443	–
Rental and utilities income	11,798	3,431
Incentives from vendor	–	2,860
Research and development service income	60,274	56,387
Sundry income	2,740	6,671
	102,323	150,587

The Group received the development grants from the local government as recognition of the Group's performance and development of high-technology pharmaceutical products.

During the year 2020, the Group recognised government grants of approximately HK\$6,344,000 in respect of COVID-19-related subsidies, of which approximately HK\$2,607,000 related to Employment Support Scheme provided by Hong Kong government.

4. OTHER GAINS AND LOSSES, NET

	2021 HK\$'000	2020 HK\$'000
Fair value loss in respect of		
– Financial assets at fair value through profit or loss, net	(21,827)	(17,963)
– Derivate financial liabilities	–	(3,502)
Gain (loss) on deemed disposal of interests in associates (<i>Note 11</i>)	2,321,626	(180,923)
Gain on disposal of plant and equipment, net	35	30
Gain on disposal of subsidiaries, net (<i>Note 10</i>)	–	155,625
Gain on early termination of lease	–	2
Impairment loss recognised in respect of		
– Intangible assets	(230,509)	(3,840)
– Goodwill	–	(2,342)
Loss on derecognition of financial assets at fair value through profit or loss at expiration	–	(4,584)
Write-off of property, plant and equipment	(4,220)	(305)
Write-off of intangible assets	(357)	–
Foreign exchange gain, net	3,051	214
	2,067,799	(57,588)

5. TAXATION

	2021 HK\$'000	2020 HK\$'000
Current tax		
Hong Kong Profits Tax	11,177	34,176
PRC Enterprise Income Tax	–	163
	11,177	34,339
(Over) under provision in prior years		
Hong Kong Profits Tax	161	(19)
PRC Enterprise Income Tax	(284)	190
	(123)	171
Deferred tax		
Origination and reversal of temporary differences	(1,572)	20,993
	9,482	55,503

For a qualified entity, Hong Kong Profits Tax for the years ended 31 December 2021 and 2020 is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million according to the two-tiered profits tax rates regime. Hong Kong Profits Tax is calculated at 16.5% for both years ended 31 December 2021 and 2020 for all other entities.

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 range from 15% to 25% (2020: 15% to 25%).

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

6. DIVIDENDS

	2021 HK\$'000	2020 HK\$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 interim – HK\$0.030 (2020: 2020 interim dividend HK\$0.027) per share	17,665	15,879
2020 final – HK\$0.031 (2020: 2019 final dividend HK\$0.038) per share	<u>18,254</u>	<u>22,349</u>
	<u>35,919</u>	<u>38,228</u>

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2021 of HK3.1 cents per share (2020: final dividend in respect of the year ended 31 December 2020 of HK3.1 cents per share), in an aggregate amount of HK\$18,254,000 (2020: HK\$18,232,000) has been proposed by the directors and is subject to approval by 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 2021.

7. EARNINGS PER SHARE

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

	2021 HK\$'000	2020 HK\$'000
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	<u>1,987,176</u>	<u>129,316</u>
	2021	2020
	Share(s) '000	Share(s) '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	588,649	588,120
Effect of dilutive potential ordinary shares:		
Options	<u>398</u>	<u>43</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>589,047</u>	<u>588,163</u>

8. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	169,369	161,282
Less: Allowances for expected credit losses ("ECL")	<u>(1,046)</u>	<u>(1,708)</u>
	<u>168,323</u>	<u>159,574</u>

The credit period on sales of goods is 30–120 days. The Group has recognised an allowance for ECL 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 ECL 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 ECL at the end of the reporting period:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	83,225	72,314
31–120 days	79,836	68,058
121–180 days	5,022	2,790
181–365 days	225	16,412
Over 365 days and under 3 years	<u>15</u>	<u>–</u>
	<u>168,323</u>	<u>159,574</u>

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 ECL 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.

Aging analysis of receivables that are past due but no allowance for ECL provided

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Overdue by:		
1–180 days	71,648	84,125
181–365 days	<u>164</u>	<u>858</u>
	<u>71,812</u>	<u>84,983</u>

Movement in allowance for ECL

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Balance at beginning of the year	1,708	440
Exchange rate adjustments	38	98
Write-off	(146)	(10)
(Credit) charge to profit or loss for the year	(554)	1,180
	<u>1,046</u>	<u>1,708</u>
Balance at end of the year	<u><u>1,046</u></u>	<u><u>1,708</u></u>

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.

Aging analysis of receivables that are past due and allowance for ECL provided

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Overdue by:		
181–365 days	163	858
Over 365 days and under 3 years	883	850
	<u>1,046</u>	<u>1,708</u>
	<u><u>1,046</u></u>	<u><u>1,708</u></u>

9. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on due date, at 31 December 2021 and 2020:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–90 days	56,884	73,060
91–180 days	–	420
181–365 days	5,403	72
Over 365 days	312	181
	<u>62,599</u>	<u>73,733</u>
	<u><u>62,599</u></u>	<u><u>73,733</u></u>

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.

10. DISPOSAL OF SUBSIDIARIES

In April 2020, the Group fully disposed of its 60% interest in Inner Mongolia Zhaoke Livestock Development Limited (“**Zhaoke Livestock**”) to an independent third party at a cash consideration of RMB1,012,000 (equivalent to approximately HK\$1,097,000), and recorded a loss on disposal of approximately HK\$1,720,000.

In October 2020, the Group entered into a licensing agreement with Zhaoke Ophthalmology Limited (“**ZKO**”) and Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Co., Ltd., an indirect wholly-owned subsidiary of ZKO (together, the “**Licensors**”), pursuant to which an exclusive license right in relation to a licensed product has been granted by the Licensors to the Group. The Group settled the upfront payment for the licensing agreement by way of the repurchase of ZKO shares held by the Group by ZKO. Details of which were set out in the Company’s announcement dated 2 October 2020. Upon completion of the abovementioned share repurchase, the Group’s indirect interest in ZKO was reduced from 50.117% to 48.539% and the Group ceased to control ZKO and its subsidiaries (“**ZKO Group**”). The Group recorded a gain on disposal of ZKO Group of approximately HK\$157,345,000.

In aggregate, the Group recognised a net gain on disposal of subsidiaries of approximately HK\$155,625,000 in profit or loss which was included in “other gains and losses, net” in 2020.

Consideration received:

	ZKO Group <i>HK\$’000</i>	Zhaoke Livestock <i>HK\$’000</i>
Cash	–	1,097
Intangible assets acquired	77,500	–
	<u>77,500</u>	<u>1,097</u>

Analysis of assets and liabilities over which control was lost:

	ZKO Group <i>HK\$’000</i>	Zhaoke Livestock <i>HK\$’000</i>
Property, plant and equipment (including right-of-use assets)	148,365	1,725
Intangible assets	164,066	–
Other receivables, deposits and prepayments	62,085	2,168
Pledged deposits	13,198	–
Time deposits	74,414	–
Cash and bank balances	77,055	873
Other payables and accruals	(42,107)	(39)
Bank borrowings	(11,490)	–
Deferred tax liabilities	(20,005)	–
Derivative financial liabilities	(83,587)	–
	<u>(83,587)</u>	<u>–</u>
Net assets disposed of	<u>381,994</u>	<u>4,727</u>

Gain (loss) on disposal of subsidiaries:

	ZKO Group <i>HK\$'000</i>	Zhaoke Livestock <i>HK\$'000</i>
Consideration received	77,500	1,097
Investment retained in the former subsidiaries at fair value	180,641	–
Net assets disposed of	(381,994)	(4,727)
Non-controlling interests	185,212	1,891
Reclassification of cumulative balances upon disposal of subsidiaries from equity to profit or loss		
– Exchange reserve	3,441	19
– Other reserves	92,545	–
	<u>157,345</u>	<u>(1,720)</u>

Net cash (outflow) inflow arising on disposal:

	ZKO Group <i>HK\$'000</i>	Zhaoke Livestock <i>HK\$'000</i>
Cash consideration received	–	1,097
Less:		
Pledged deposits	(13,198)	–
Time deposits	(74,414)	–
Cash and bank balances	(77,055)	(873)
	<u>(164,667)</u>	<u>224</u>

11. DISPOSAL OF INTERESTS IN ASSOCIATES

For the year ended 31 December 2021

On 29 April 2021, ZKO is listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**ZKO Listing**”) by issuing new shares. Immediately before ZKO Listing, the Company, through a wholly-owned subsidiary, indirectly controls approximately 33.575% of the total issued share capital of ZKO. Upon the completion of ZKO Listing, the Company, through a wholly-owned subsidiary, indirectly controls approximately 25.823% of the total issued share capital of ZKO. Since the Group will not exercise significant influence over the operation of ZKO, ZKO ceased to be an associate of the Company and is accounted for as financial assets at fair value through other comprehensive income thereafter. This transaction has resulted in the Group recognising a gain of HK\$2.3 billion in profit or loss grouped under the line “other gains and losses, net”, calculated as follows:

	<i>HK\$'000</i>
Fair value of investment retained	2,321,626
Less: Carrying amount of the investment on the date of loss of significant influence of ZKO	<u>–</u>
Gain recognised in profit or loss	<u>2,321,626</u>

For the year ended 31 December 2020

RIT Biotech (Holding) Company Limited (“**RIT**”) issued certain ordinary shares to key staff in February 2020 and the Group subscribed certain new shares from RIT in September 2020, and the Group’s equity interest in RIT is effectively diluted from 24.12% to 24.08%, and recognised a loss on deemed disposal of interest of approximately HK\$282,000.

Following the reduction of equity interest in ZKO from 50.117% to 48.539% in October 2020 as disclosed in note 10, the Group’s equity interest in ZKO was further diluted to 33.575% after the issue of series B preferred shares by ZKO, and the Group recognised a loss on deemed disposal of interest of approximately HK\$180,641,000 in November 2020.

In aggregate, the Group recognised a total loss on deemed disposal of interests in associates of approximately HK\$180,923,000 in profit or loss which was included in “other gains and losses, net” in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue and Profit

During the year ended 31 December 2021 (the “**Reporting Year**”), the Group recorded revenue of HK\$1,266,157,000 (2020: HK\$1,216,716,000), representing a year-on-year increase of 4.1%. Sales of licensed-in products was HK\$749,135,000 (2020: HK\$677,951,000) and accounted for 59.2% (2020: 55.7%) of the Group’s revenue while sales of proprietary and generic products was HK\$517,022,000 (2020: HK\$538,765,000) and contributed 40.8% (2020: 44.3%) of the Group’s revenue.

For the sales of licensed-in products, Carnitene® recorded a decent growth of 15.0% as the demand for chronic disease medications remains intact; Ferplex® achieved a robust growth of 29.1% through brand transformation and expansion into the OTC category; other products such as Gaslon N® and Sancuso® also made contribution to the revenue growth during the Reporting Year; and Bredinin™, newly launched in third-quarter 2021, also contributed approximately 2.8% to the revenue. As a result, despite the revenue loss from the termination of distribution right of Zanidip® in China, sales of licensed-in products still managed to achieve a growth of 10.5% as compared to last year.

The Group’s first generic product, Treprostinil Injection, registered a remarkable growth of 87.3% as compared to last year. Another two generic products, namely Fondaparinux Sodium Injection and Sodium Phenylbutyrate Granule, have started making contribution to the revenue during the Reporting Year. For the sales of proprietary products, Yallaferon® achieved a robust growth of 51.2% through brand transformation and expansion into the OTC category; and Slounase® recorded a mild growth of 5.5%. However, these sales growth can only helped partially offset the revenue loss of Livaracine® due to the market disruption caused by the hospital relisting process as Nadroparin Calcium for Injection. Sales of proprietary and generic products in total dropped 4.0% as compared to last year.

The Group achieved a gross profit of HK\$806,284,000 (2020: HK\$781,066,000), an increase of 3.2% compared to last year. Gross profit margin was 63.7% in 2021, slightly decreased by 0.5 percentage point from 64.2% in 2020 which was mainly due to higher proportion of revenue generated from the sales of licensed-in products.

The Group’s research and development (“**R&D**”) expenses during the Reporting Year represented new drugs development in major therapeutic areas such as cardiovascular, woman health, paediatrics, rare diseases, dermatology and obstetrics, as well as in the area of oncology under a separate R&D arm within the Group.

The Chinese government continued to implement a series of major reforms to its drug pricing regulatory mechanisms. In particular, the Volume-Based Procurement (“VBP”) program has continued to rollout across the country and cover more products which brought down prices to public hospitals with volume commitments. It is inevitable that such regulatory change of this scale and scope creates uncertainty to the Group’s R&D portfolio. After a review of the R&D portfolio, the Group decided to postpone 14 drug development programs and a one-time loss of approximately HK\$190.7 million attributable to the full impairment made in respect of the licensing fee and development cost previously capitalised therefor was recognised. In addition, a one-time loss of approximately HK\$40.2 million attributable to the full impairment for the licensing fee and development cost previously capitalised for a launched oral antihypertensive product, namely Rasilez®, was recognised due to the concern about its future market and revenue potential in view of the lowered prices of competing antihypertensive products after the completion of the fifth round of VBP program.

Saved for the above, the Group continued to invest its R&D efforts in new drugs development and HK\$463,147,000 was spent in R&D activities during 2021 (2020: HK\$389,399,000), represented 36.6% (2020: 32.0%) to the corresponding yearly revenue. Among which HK\$243,835,000 (2020: HK\$203,294,000) has been recognised as expenses and HK\$219,312,000 (2020: HK\$186,105,000) has been capitalised as intangible assets. In additions, HK\$100,717,000 (2020: HK\$111,139,000) license fees for licensed-in products has been recognised as intangible assets during 2021.

The Group implemented various measures to strengthen the existing and exploring new distribution channels and preparing for the rollout of new and upcoming products, and adequate resources have been deployed thereto during the Reporting Year. Overall, the selling expenses to revenue ratio was 28.9% in 2021, increased by 5.9 percentage points as compared to 23.0% same period last year. As an example of such efforts, the Group has achieved a speedy take-over of the Bredinin™ sales since July 2021 and realised the revenue of approximately HK\$36.1 million in 2021.

During the Reporting Year, the Group recorded a net provision for expected credit losses on financial assets of HK\$90,284,000 (2020: HK\$1,180,000) which was mainly attributable to the full provision for impairment on the advances of HK\$90,838,000 (2020: Nil) made to Powder Pharmaceuticals Incorporated (“PPI”), an associated company of the Group. The financial assistance provided were used to support PPI’s business operation which included the production, development and promotion of a powder intra-dermal injection system and the development of a continuous glucose monitoring system. In view of the recent sharp downturn in biotech capital market which leads to a less certain path to new funding on developing stage projects, the Group decided not to extend the advances thereto upon the expiry. Meanwhile, the Group will continue to monitor the progress of PPI product developments and to seek a settlement on the amount which had fallen due but remained unpaid.

Together with a one-time gain of approximately HK\$2.3 billion attributable to the derecognition of investment in Zhaoke Ophthalmology Limited (“**ZKO**”, stock code: 6622.HK) as an associate of the Company immediately after the separate listing of ZKO on 29 April 2021, net profit attributable the owners of the Company in 2021 was HK\$1,987,176,000, increased by approximately 14.4 times as compared to last year.

Manufacturing Facilities and Production Capability

During the Reporting Year, the Group achieved good progress in production capacity expansions and manufacturing facility upgrades of Yallaferon® and Livaracine® as well as the technology transfer of certain new products in the form of oral lyophilised powder and liposome in Hefei site. In Nansha site, the GMP production lines of Tecarfarin tablet and Nokxaban tablet have been completed and the making of clinical samples have been done. The equipment installation and commission for the manufacturing of inhaled pharmaceutical aerosols has been completed and the making of clinical samples has also been done. The equipment installation and commission for the productions of oral cytotoxic drugs and continuous glucose monitor were completed, and both facilities are ready for making clinical samples and/or registration batch.

Drug Development

To date, the Group has over 40 projects in its pipeline from early- to late-stage development. The applications made in the prior year for Import Drug License (“**IDL**”), such as Natulan®, and Teglutik®, and for Abbreviated New Drug Application (“**ANDA**”), namely Azilsartan, and Apremilast tablet (阿普米司特片), are under review by the Centre for Drug Evaluation (the “**CDE**”). The New Drug Application (“**NDA**”) for Adasuve® made in the prior year has been officially accepted by the China’s National Medical Products Administration (“**NMPA**”).

During the Reporting Year and up to date, measurable progress has been made in various clinical programs.

Major Therapeutic Areas

The Group is currently developing several assets in major therapeutic areas, such as cardiovascular, woman health, paediatrics, rare diseases, dermatology and obstetrics, which includes late-stage programs such as (1) Cetraxal® Plus for acute otitis externa (AOE) and acute otitis media with tympanostomy tubes (AOMT); and (2) Intrarosa® in the treatment of vulvovaginal atrophy (VVA), both of which are already in Phase III clinical trial stage. On the other hand, the ANDA of High Concentration Treprostinil Injection (20ml:50mg) has been accepted for review by NMPA in February 2021 and subsequently approved on 9 March 2022.

Oncology Pipeline

China Oncology Focus Limited (“COF”), a 65% owned subsidiary of the Group, is a clinical development stage company and the Group’s R&D arm focused on oncology with emphasis in immuno-oncology. To date, COF has built a pipeline of 10 oncology assets, including 6 innovative and 4 generics, through internal development and in-licensing, and is currently developing several assets, including (1) Socazolimab (an anti-PD-L1 antibody) in recurrent or metastatic cervical cancer in new drug application stage in China; (2) Socazolimab in osteosarcoma in Phase III clinical trial; (3) Socazolimab combined with chemotherapy in small cell lung cancer in Phase III clinical trial; (4) Zotiraciclib, an oral multi-kinase inhibitor in Phase I clinical trial for glioblastoma; (5) Gimatecan, a topoisomerase I inhibitor in Phase II clinical trial for ovarian cancer and in Phase Ib/II clinical trial for small cell lung cancer and a Phase I clinical trial for pancreatic cancer in China; and (6) Socazolimab combined with Pexa-vec (oncolytic virus) which is in Phase Ib clinical trial for melanoma.

During the Reporting Year and up to date, the Group obtained 5 ANDA and IDL approvals from NMPA.

Fondaparinux Sodium Injection

On 2 February 2021, Fondaparinux Sodium Injection (0.5 ml: 2.5 mg), a drug indicated to prevent deep vein thrombosis (DVT; a blood clot, usually in the leg), which can lead to pulmonary embolism (PE; a blood clot in the lung) , in people who are having hip surgery, hip or knee replacement, or abdominal surgery, obtained approval for manufacturing and marketing from the NMPA. Fondaparinux sodium is a synthetic and specific inhibitor of coagulation activated factor X (factor Xa) with high bioavailability, fast acting and longer half-life. It has no effect on factor IIa, and has low bleeding adverse event. It inhibits only free factor Xa but not factor Xa bound to the prothrombinase. Use of fondaparinux does not require monitoring of PT (prothrombin time) and aPTT (activated partial thromboplastin time). The short chain length of fondaparinux sodium results in devoid of immunogenicity. It does not interact with platelet and does not induce thrombocytopenia. It has no hepatotoxicity and has less allergic reactions.

Sodium Phenylbutyrate Granules

On 13 May 2021, the Drug Registration Certificate for Sodium Phenylbutyrate Granules (specification: 150g/bottle, containing 0.94g Sodium Phenylbutyrate for every 1g) developed and manufactured by Zhaoke Pharmaceutical (Guangzhou) Company Limited (“**Zhaoke Guangzhou**”), a wholly-owned subsidiary of the Company, has been obtained from the NMPA. Sodium Phenylbutyrate is used as an adjuvant treatment for long-term treatment on urea cycle disorders patients resulting from carbamoyl phosphate synthetase deficiency, ornithine transcarbamylase deficiency or argininosuccinate synthetase deficiency. It is applicable to new-born babies (born less than 28 days) with profound biotinidase deficiency and to patients with a history of late onset hyperammonemia brain dysfunction (partial biotinidase deficiency, born for more than one month). The Sodium Phenylbutyrate Granules

developed and manufactured by Zhaoke Guangzhou is the first generic version in China. As there is no original Sodium Phenylbutyrate available for sale in China, the Group's Sodium Phenylbutyrate Granules would address the unmet medical needs in China.

Zingo®

On 1 March 2022, the Drug Registration Certificate for Zingo® (Lidocaine Hydrochloride Powder Intradermal Injection System) has been obtained from the NMPA. Zingo® is an amide local anesthetic indicated for use on intact skin to provide local analgesia prior to venipuncture or peripheral intravenous cannulation in children 3–18 years of age and to provide topical local analgesia prior to venipuncture in adults. The rapid onset of analgesia in 1–3 minutes provides care givers and patients the opportunity for a pain-free and needle-free access procedure.

INOmax®

On 8 March 2022, the Drug Registration Certificate for INOmax® (nitric oxide gas for inhalation) has been obtained from the NMPA. INOmax® is a therapy for the treatment of hypoxic respiratory failure (“**HRF**”) associated with pulmonary hypertension (“**PPHN**”) in term and near-term infants greater than 34 weeks gestational age. PPHN is a serious condition in which blood vessels in the lungs constrict, making it difficult to oxygenate blood, often resulting in HRF. INOmax® is a vasodilator which selectively relaxes pulmonary blood vessels and, in conjunction with ventilatory support and other appropriate agents, improves oxygenation in this fragile newborn population.

High Concentration Treprostinil Injection

On 9 March 2022, the Drug Registration Certificate for High Concentration Treprostinil Injection (specification: 20ml:50mg) developed and manufactured by Zhaoke Pharmaceutical (Hefei) Company Limited, a wholly-owned subsidiary of the Company, has been obtained from the NMPA.

Business Partnership

The in-licensing approach is the Group's preferred mode of business development strategy. Nevertheless, the Group has remained selective in entering new in-licensing deals. Only 1 licensing deal has been entered into during the Reporting Year. On 15 June 2021, the Group successfully entered into a license agreement with Asahi Kasei Pharma Corporation, a Japan-based company, pursuant to which the Group was awarded the exclusive license to commercialise Bredinin™ (generic name: mizoribine) for the indication of suppression of rejection reaction in renal transplantation in Mainland China. Bredinin™ was first launch in China in 1999 and has already established a decent market presence within the patient population. In addition, supplemental new drug application (sNDA) for the additional indications such as lupus nephritis (LN) and nephrotic syndrome (NS) were submitted to NMPA in June 2020.

Corporate Development

On 29 April 2021, the Group's investment in ZKO has been successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**HKEx**”) at HK\$16.80 per ZKO share and raised approximately HK\$1,932.3 million. Upon the listing of ZKO, ZKO ceased to be an associate of the Company since the Group will not exercise significant influence over the operations thereof and is accounted for as financial assets at fair value through other comprehensive income for financial reporting purposes. The Group has recorded a one-time gain of approximately HK\$2.3 billion in the Company's consolidated statement of profit or loss on this derecognition of investment in ZKO as an associate of the Company in the second quarter of 2021.

PROSPECT

The Group remains of the view that the long-term prospect for the China pharmaceutical market is promising in terms of the growth of total health spending in the region, but the tough business environment due to regulatory changes will be persisted in 2022.

It is expected that the Chinese government will continue to promote medical pricing reform to increase the coverage of the National Reimbursement Drug List (NRDL) and VBP program to eventually achieve “the domestics to replace the imports” goal, to control price rises in drugs and medical consumables, and to increase the efficiency of medical insurance fund usage in 2022, which has been particularly evident by the annual meetings of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) commenced in March 2022. As stated in the Government Work Report, it is expected that the VBP program will continue and may cover over 300 drugs by the end of 2022. And in fact, the National Centralised Procurement Office has already issued a Notice to Report Information of the seventh round of VBP in February 2022 for another 58 drugs.

While it is believed that the Group will be eventually benefited from these new laws and regulations in the long run, nevertheless, the Group will implement a series of measures to adapt to the “new normal” and to emphasis efficiency at every step of the value chain, particularly in key areas such as sales and R&D, after taking the present conditions into consideration.

Currently, the Group have six business units: (1) CardioRenal; (2) Gynecology, Paediatric and Dermatology; (3) Rare Disease; (4) Oncology; (5) Retail Sales; and (6) General Products, and are managed by the Group Commercial Operations Centre, and the Group will continue to enhance the existing sales business unit responsibility scheme in order to reflect contemporary needs and to achieve highly effective sales force.

In view of the trend of the ongoing VBP program in China, it is expected that sales of standard drugs will remain the Group's bread and butter, and the sales of specialty drugs which focus on specific unmet medical needs and with better bargaining power over its pricing could become the Group's new growth drivers. From the launch of Treprostinil Injection for pulmonary arterial hypertension in March 2020, Sodium Phenylbutyrate Granules for urea cycle disorders in May 2021, and Bredinin™ for immunosuppression in renal transplantation in June 2021, and the recent approval of High Concentration Treprostinil Injection in March 2022, the Group has gradually expanded its product portfolio from the standard drugs towards specialty drugs. In addition, the NDA approvals of Teglutik® (Riluzole Oral Suspension) for the treatment of Amyotrophic Lateral Sclerosis (ALS) and Natulan® (Procabazine Hydrochloride Capsule) for the treatment of cancer are expected to be obtained soon. With more new products coming in 2022 and beyond, the Group aims at advancing its product portfolio to create growth opportunities.

To maximise the value of our existing products will be another way to create growth opportunities. Selected products such as Ferplex® and Yallaferon® have been undergoing brand transformation and expanding into the OTC category and have already yielded some impressive initial results in 2021. The Group will continue to carry out these processes and look forward to the further success in 2022.

In connection with R&D, the Group is envisaged that more focus will be placed on prioritised projects, and the allocation of resources among various R&D projects will be optimised and the expenditures will be kept within the limits of revenues.

The Group is financially stable with strong governance. It is believed that the above-mentioned measures can bring the Group back to a growth trajectory and can create value for the shareholders over the long run.

FINAL DIVIDEND

The Board recommended a final dividend of HK\$0.031 (2020: HK\$0.031) per share to shareholders registered in the Company's register of members as at the close of business on Tuesday, 31 May 2022.

ANNUAL GENERAL MEETING

The annual general meeting of the Company was scheduled to be held on Thursday, 19 May 2022 ("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 Tuesday, 17 May 2022 to Thursday, 19 May 2022 (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 Monday, 16 May 2022.

(b) Payment of the proposed final dividend

The register of members of the Company will be closed from Monday, 30 May 2022 to Tuesday, 31 May 2022 (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 2021.

In order to qualify for the proposed final dividend for the year ended 31 December 2021, 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 Friday, 27 May 2022.

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 Tuesday, 31 May 2022. The final dividend will be paid on Wednesday, 15 June 2022.

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 2021.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

During the year ended 31 December 2021, 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 2021.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance to protect the interest of the shareholders of the Company. The Company has complied with all the then-applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2021, with deviation from provision A.5 of the CG 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 CG Code will be stated in the annual report of the Company for the year ended 31 December 2021.

A new CG Code came into effect on 1 January 2022. A nomination committee of the Company comprising Ms. Lee Siu Fong as the chairman, Dr. Chan Yau Ching, Bob and Dr. Tsim Wah Keung, Karl as the members has been established by the Board with written terms of reference with effect from 2 January 2022, in which majority of the committee members are independent non-executive Directors. Since then, the Company has complied with code provision A.5 of the CG Code (which has been renumbered as code provision B.3 with effect from 1 January 2022).

REVIEW OF ANNUAL RESULTS

The Group’s annual results (including the audited consolidated financial statements) for the year ended 31 December 2021 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 2021 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 2021 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, 29 March 2022

As at the date of this announcement, Ms. Lee Siu Fong (Chairman) and Ms. Leelalertsuphakun Wanee are executive Directors; Dr. Li Xiaoyi and Mr. James Charles Gale are non-executive Directors; Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, are independent non-executive Directors.