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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 2022

FINANCIAL HIGHLIGHT			
	For the year ended		
	31 December		
	2022	2021	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	1,233,148	1,266,157	-2.6%
Gross profit	770,755	806,284	-4.4%
Profit attributable to the owners of the Company	51,284	1,987,176	-97.4%
	<i>HK cents</i>	<i>HK cents</i>	
Earnings per share			
Basic	8.71	337.58	-97.4%
Diluted	8.71	337.35	-97.4%

The Board recommends the payment of final dividend of HK1.0 cent (2021: HK3.1 cents) per ordinary share for the year ended 31 December 2022.

* 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 2022 and the comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Revenue	2	1,233,148	1,266,157
Cost of sales		(462,393)	(459,873)
Gross profit		770,755	806,284
Other income	3	73,734	102,323
Other gains and losses, net	4	(54,427)	2,067,799
Selling and distribution expenses		(346,467)	(366,439)
Administrative expenses		(198,413)	(297,265)
Net reversal of/(provision for) expected credit losses on financial assets		263	(90,284)
Research and development expenses		(168,885)	(243,835)
Profit from operations		76,560	1,978,583
Finance costs		(7,595)	(5,722)
Share of results of associates		(1,104)	(3,495)
Profit before taxation		67,861	1,969,366
Taxation	5	(22,026)	(9,482)
Profit for the year		45,835	1,959,884
Attributable to:			
Owners of the Company		51,284	1,987,176
Non-controlling interests		(5,449)	(27,292)
		45,835	1,959,884
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
Basic		8.71	337.58
Diluted		8.71	337.35

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	45,835	1,959,884
Other comprehensive (expense)/income:		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries	(95,690)	37,920
– Share of other comprehensive income of associates	–	46
Item that will not be reclassified subsequently to profit or loss:		
– Fair value changes of financial assets at fair value through other comprehensive income	(486,750)	(1,706,606)
	<u>(582,440)</u>	<u>(1,668,640)</u>
Other comprehensive expense for the year, net of tax		
	(582,440)	(1,668,640)
Total comprehensive (expense)/income for the year	(536,605)	291,244
	<u>(536,605)</u>	<u>291,244</u>
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	(528,438)	330,243
Non-controlling interests	(8,167)	(38,999)
	<u>(536,605)</u>	<u>291,244</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		540,665	688,265
Intangible assets		1,023,494	922,525
Goodwill		3,900	3,900
Interests in associates		5,163	6,267
Financial assets at fair value through profit or loss		13,136	30,480
Financial assets at fair value through other comprehensive income		536,452	1,006,717
Deferred tax assets		7,584	15,424
		2,130,394	2,673,578
Current assets			
Inventories		249,222	331,394
Trade receivables	8	111,278	168,323
Other receivables, deposits and prepayments		101,833	162,736
Advance to associates		–	–
Tax recoverable		–	23,338
Cash and bank balances		189,301	277,529
		651,634	963,320
Current liabilities			
Trade payables	9	101,301	62,599
Other payables and accruals		462,182	684,670
Bank borrowings		76,727	162,540
Lease liabilities		6,831	12,639
Tax payables		3,063	132
		650,104	922,580
Net current assets		1,530	40,740
Total assets less current liabilities		2,131,924	2,714,318

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Capital and reserves		
Share capital	29,442	29,442
Reserves	1,894,665	2,435,136
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Equity attributable to the owners of the Company	1,924,107	2,464,578
Non-controlling interests	(81,583)	(73,416)
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Total equity	1,842,524	2,391,162
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Non-current liabilities		
Other payables and accruals	39,337	40,000
Bank borrowings	77,363	84,090
Lease liabilities	2,573	7,869
Retirement benefits	96,230	111,970
Deferred tax liabilities	73,897	79,227
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	289,400	323,156
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	2,131,924	2,714,318
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	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			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2022	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
Employee share option benefits	-	-	-	12,109	-	-	-	-	12,109	-	12,109
Share options lapsed	-	-	-	(6,281)	-	-	-	6,281	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	51,284	51,284	(5,449)	45,835
Other comprehensive expense for the year											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	(95,223)	-	(95,223)	(467)	(95,690)
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	(484,499)	-	-	(484,499)	(2,251)	(486,750)
Total comprehensive expense for the year	-	-	-	-	-	(484,499)	(95,223)	51,284	(528,438)	(8,167)	(536,605)
2021 final dividend paid	-	-	-	-	-	-	-	(18,254)	(18,254)	-	(18,254)
2022 interim dividend paid	-	-	-	-	-	-	-	(5,888)	(5,888)	-	(5,888)
At 31 December 2022	<u>29,442</u>	<u>720,091</u>	<u>9,200</u>	<u>61,792</u>	<u>65,302</u>	<u>(2,433,314)</u>	<u>(72,385)</u>	<u>3,543,979</u>	<u>1,924,107</u>	<u>(81,583)</u>	<u>1,842,524</u>
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	<u>29,442</u>	<u>720,091</u>	<u>9,200</u>	<u>55,964</u>	<u>65,302</u>	<u>(1,948,815)</u>	<u>22,838</u>	<u>3,510,556</u>	<u>2,464,578</u>	<u>(73,416)</u>	<u>2,391,162</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 Group’s annual periods beginning on 1 January 2022 for the preparation of the consolidated financial statements. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“HKASs”); and Hong Kong (IFRIC) Interpretations, Hong Kong Interpretations and Hong Kong (SIC) Interpretations (collectively referred to as “**Interpretations**”).

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Segment revenue	499,811	517,022	733,337	749,135	1,233,148	1,266,157
Segment operating results	167,329	220,706	91,319	95,065	258,648	315,771
Research and development expenses	(65,174)	(82,932)	(103,711)	(160,903)	(168,885)	(243,835)
Impairment of intangible assets	–	(43,523)	(2,022)	(186,986)	(2,022)	(230,509)
Write-off of intangible assets	–	(357)	–	–	–	(357)
Segment results	102,155	93,894	(14,414)	(252,824)	87,741	(158,930)
Gain on deemed disposal of interest in associates (<i>Note 10</i>)					–	2,321,626
Unallocated income					17,398	14,326
Unallocated expenses					(28,579)	(198,439)
Profit from operations					76,560	1,978,583
Finance costs					(7,595)	(5,722)
Profit before share of results of associates					68,965	1,972,861
Share of results of associates					(1,104)	(3,495)
Profit before taxation					67,861	1,969,366
Taxation					(22,026)	(9,482)
Profit for the year					45,835	1,959,884

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2021: 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 on deem disposal of 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	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	726,742	884,279	1,311,699	1,509,248	2,038,441	2,393,527
Unallocated assets					743,587	1,243,371
Total assets					<u>2,782,028</u>	<u>3,636,898</u>
Segment liabilities	176,617	233,565	398,145	574,211	574,762	807,776
Unallocated liabilities					364,742	437,960
Total liabilities					<u>939,504</u>	<u>1,245,736</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 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	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Depreciation of property, plant and equipment (including right-of-use assets)	56,941	61,079	56,701	56,735	113,642	117,814
Amortisation of intangible assets	26,144	20,533	12,713	8,520	38,857	29,053
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	61,012	104,152	155,238	282,227	216,250	386,379
Impairment of intangible assets	-	43,523	2,022	186,986	2,022	230,509
Write-off of intangible assets	-	357	-	-	-	357

Geographical information

During the years ended 31 December 2022 and 2021, more than 90% of the Group's revenue was derived from activities conducted in the People's Republic of China (the "PRC"), therefore 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	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Total assets	1,696,915	2,002,754	1,085,113	1,634,144	2,782,028	3,636,898
Total liabilities	406,734	532,981	532,770	712,755	939,504	1,245,736

3. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income on:		
Bank and pledged bank deposits	2,393	2,461
Financial assets at fair value through profit or loss	–	117
Advance to associates	–	3,334
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Total interest income	2,393	5,912
Government and development grants	19,276	18,156
Licensing income	3,922	3,443
Rental and utilities income	14,376	11,798
Research and development service income	29,481	60,274
Sundry income	4,286	2,740
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	73,734	102,323
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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 2022, the Group recognised government grants of approximately HK\$1,152,000 from Employment Support Scheme provided by Hong Kong government in respect of COVID-19-related subsidies.

4. OTHER GAINS AND LOSSES, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Fair value loss in respect of financial assets at fair value through profit or loss, net	(46,360)	(21,827)
Gain on deemed disposal of interests in associates (<i>Note 10</i>)	–	2,321,626
Gain on disposal of plant and equipment, net	242	35
Impairment loss recognised in respect of intangible assets	(2,022)	(230,509)
Write-off of property, plant and equipment	(662)	(4,220)
Write-off of intangible assets	–	(357)
Foreign exchange (loss)/gain, net	(5,625)	3,051
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	(54,427)	2,067,799
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5. TAXATION

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax	13,443	11,177
PRC Enterprise Income Tax	—	—
	<u>13,443</u>	<u>11,177</u>
(Over)/under provision in prior years		
Hong Kong Profits Tax	(58)	161
PRC Enterprise Income Tax	—	(284)
	<u>(58)</u>	<u>(123)</u>
Deferred tax		
Origination/(reversal) of temporary differences	8,641	(1,572)
	<u>22,026</u>	<u>9,482</u>

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK\$2 million will be taxed at 16.5%. Profits of other group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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% (2021: 15% to 25%).

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

6. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2022 interim – HK\$0.010 (2021: 2021 interim dividend HK\$0.030) per share	5,888	17,665
2021 final – HK\$0.031 (2021: 2020 final dividend HK\$0.031) per share	18,254	18,254
	<u>24,142</u>	<u>35,919</u>

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2022 of HK1.0 cent per share (2021: final dividend in respect of the year ended 31 December 2021 of HK3.1 cents per share), in an aggregate amount of HK\$5,888,000 (2021: HK\$18,254,000) 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 2022.

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	<u>51,284</u>	<u>1,987,176</u>
	2022 <i>Share(s) '000</i>	2021 <i>Share(s) '000</i>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	588,835	588,649
Effect of dilutive potential ordinary shares:		
Options	<u>–</u>	<u>398</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>588,835</u>	<u>589,047</u>

8. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	111,984	169,369
Less: Allowances for expected credit losses (“ECL”)	<u>(706)</u>	<u>(1,046)</u>
	<u>111,278</u>	<u>168,323</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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 30 days	55,268	83,225
31 – 120 days	39,643	79,836
121 – 180 days	9,057	5,022
181 – 365 days	7,282	225
Over 365 days and under 3 years	28	15
	<u>111,278</u>	<u>168,323</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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Overdue by:		
1 – 180 days	46,741	71,648
181 – 365 days	281	164
	<u>47,022</u>	<u>71,812</u>

Movement in allowance for ECL

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance at beginning of the year	1,046	1,708
Exchange rate adjustments	(77)	38
Write-off	–	(146)
Credit to profit or loss for the year	(263)	(554)
Balance at end of the year	<u>706</u>	<u>1,046</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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Overdue by:		
181 – 365 days	281	163
Over 365 days and under 3 years	425	883
	<u>706</u>	<u>1,046</u>

9. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on due date, at 31 December 2022 and 2021:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 90 days	75,204	56,884
91 – 180 days	25,230	–
181 – 365 days	807	5,403
Over 365 days	60	312
	<u>101,301</u>	<u>62,599</u>

The average credit period on purchases of 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 INTERESTS IN ASSOCIATES

For the year ended 31 December 2021

On 29 April 2021, Zhaoke Ophthalmology Limited (“ZKO”) was listed on the Main Board of The Stock Exchange of Hong Kong Limited (“ZKO Listing”) by issuing new shares. Immediate before ZKO Listing, the Company, through a wholly-owned subsidiary, indirectly controlled 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 controlled 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 was accounted for as financial assets at fair value through other comprehensive income thereafter. This transaction 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>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue and Profit

The Group recorded revenue of HK\$1,233,148,000 for the year ended 31 December 2022 (the “**Reporting Year**”), representing a decrease of 2.6% from the previous year’s revenue of HK\$1,266,157,000. Sales of licensed-in products was HK\$733,337,000 (2021: HK\$749,135,000) and accounted for 59.5% (2021: 59.2%) of the Group’s revenue while sales of proprietary and generic products was HK\$499,811,000 (2021: 517,022,000) and contributed 40.5% (2021: 40.8%) of the Group’s revenue.

The expiration of the licensing agreement of Carnitene® which was used to be the flagship product for over a decade at the beginning of the fourth quarter 2022, together with lower sales of out-patient drugs such as Ferplex® and surgical drugs such as Livaracine® and Slounase®, had a significant impact on the Group’s revenue during the Reporting Year. However, The Group was able to compensate for the loss by focusing on sales of other products. During the Reporting Year, two of the Group’s newer products have reached close to the HK\$100 million mark. The sales of newly launched licensed-in Bredinin™ since third-quarter 2021 recorded HK\$90.4 million, grew by 150.7%, and the sales of generic Treprostinil Injection recorded HK\$99.8 million, grew by 24.3%. In addition, two other newer generic products, namely Fondaparinux Sodium Injection and Sodium Phenylbutyrate Granule, recorded smaller sales amounts but have shown high growth potential in the market and grew 257.1% and 168.0%, respectively. Through targeted marketing and sales efforts, the Group was able to increase sales of its available products and mitigate the impact of the lost product and declining products.

The Group achieved a gross profit of HK\$770,755,000 (2021: HK\$806,284,000), decreased by 4.4% compared to previous year. Gross profit margin was 62.5% in 2022, decreased by 1.2 percentage points from 63.7% in 2021 which was mainly attributable to the increased supply price of certain imported products and higher proportion of revenue generated from the sales of licensed-in products during the Reporting Year.

Research and development (“**R&D**”) expenses represented new drugs development in major therapeutic areas such as cardiovascular, woman health, paediatrics, rare diseases, dermatology, and obstetrics, as well as in oncology under a separate R&D arm within the Group.

The Group continued to invest its R&D efforts in new drugs development in view of its importance. However, the Group also believes that this is necessary to ensure the financial stability in the short term. As a result, the Group made the decision to optimise the resources allocation among prioritised R&D projects to preserve cash. During the Reporting Year, HK\$351,602,000 (2021: HK\$463,147,000) was spent in R&D activities, significantly reduced by 24.1% as compared to last year and represented 28.5% (2021: 36.6%) to the corresponding yearly revenue. Among which HK\$168,885,000 (2021: HK\$243,835,000) was recognised as expenses and HK\$182,717,000 (2021: HK\$219,312,000) was capitalised as intangible assets. In additions, HK\$13,650,000 (2021: HK\$100,717,000) license fees for development, marketing and commercialisation rights of certain licensed-in products such as Renazorb[®] were recognised as intangible assets during the Reporting Year.

The Group's selling and distribution expenses was HK\$346,467,000 during the Reporting Year, representing a decrease of HK\$19,972,000 or 5.5% compared to HK\$366,439,000 in the same period last year. Overall, the selling expenses to revenue ratio during the Reporting Year was 28.1%, decreased by 0.8 percentage point as compared to 28.9% same period last year. In March 2022, the Group launched its own flagship online stores on e-commerce platform of Alibaba.com and JD.com to strengthen its brand awareness and expand its sales channels. The Group continued to deploy adequate resources to support the works for strengthening the distribution channels, to prepare for the roll-out of new and upcoming products, as well as to transform the brand of selected products of the Group.

The Group's administrative expenses was HK\$198,413,000 during the Reporting Year, representing a decrease of HK\$98,852,000 or 33.3% compared to HK\$297,265,000 in the same period last year. The Group continued to operate its business in an efficient and effective way and implemented cost-saving measures to improve efficiency and profitability.

Net profit attributable to the owners of the Company in 2022 was HK\$51,086,000, decreased by 97.4% over the same period in 2021. Saved for the above, the decrease thereof was also attributable to the net effect of (i) the fair value loss of certain unlisted investments of approximately HK\$44.3 million due to the negative impacts from the changes in market conditions which affect the fair value thereof assessed at the end of the Reporting Year; (ii) the absence of one-off gain of approximately HK\$2.32 billion attributable to the derecognition of the investment in Zhaoke Ophthalmology Limited as an associate of the Company in April 2021; (iii) the absence of an aggregate one-time loss of approximately HK\$190.7 million attributable to the estimated impairment of intangible assets due to the optimisation of R&D portfolio in the second-quarter 2021; (iv) the absence of one-time loss of approximately HK\$40.2 million attributable to the full impairment for the licensing fee and development cost for a launched oral antihypertensive product previously capitalised, in the second-quarter 2021; and (v) the absence of net provision for expected credit losses on financial assets of HK\$90.3 million, being the impairment on the advances made to an associated company in the fourth-quarter 2021.

Manufacturing Facilities and Production Capability

Over the years, there have been considerable changes and upgrades in the Group's manufacturing and production capability. During the Reporting Year and up to date, the Group's Hefei site has completed the production capacity expansion and process scale up facility upgrades of Yallaferon[®], same line production facility upgrades for new prefilled syringe injection products before introduction to the market, and the making of registration batch of new product in the form of oral lyophilized powder used as sensitiser in surgery for tumor. In Nansha site, the process scale up equipment installation and commission for the manufacturing of inhaled pharmaceutical aerosols has been completed and will have the process scale up pilot run soon, the production process upgrades for oral dose antihypertension drug is in progress, and the making of three pivotal registration batches of the oral cytotoxic drugs in the special workshop have been completed.

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 New Drug Application (“NDA”) of Adasuve[®], and for Abbreviated New Drug Application (“ANDA”), namely Epinastine Hydrochloride tablet and Apremilast tablet (阿普米司特片), are under review by the Centre for Drug Evaluation (the “CDE”).

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) which has completed its Phase III clinical trial stage during the Reporting Year and its NDA has been successfully submitted and accepted by the CDE in January 2023; and (2) Intrarosa[®] in the treatment of vulvovaginal atrophy (VVA) which is currently in Phase III clinical trial stage and has completed the patient enrolment in October 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 and has completed the patient enrollment in May 2022; (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.

New Products Approval

During the Reporting Year and up to date, the Group obtained 7 ANDA and Import Drug License (“IDL”) approvals from the China’s National Medical Products Administration (“NMPA”).

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.

Natulan[®]

On 21 April 2022, the Drug Registration Certificate for Natulan[®] (Procarbazine Hydrochloride Capsules) has been obtained from the NMPA. Natulan[®] has been approved for combining with chemotherapy to treat Hodgkin’s lymphoma (HL) in adult.

Teglutik®

On 31 May 2022, the Drug Registration Certificate for Teglutik® (Riluzole Oral Suspension) has been obtained from the NMPA. Teglutik® has been approved to prolong life or delay the institution of mechanical ventilation in patients with amyotrophic lateral sclerosis (ALS).

Nadroparin Calcium Injection

On 31 May 2022, the Drug Registration Certificate for Nadroparin Calcium Injection has been obtained from the NMPA.

Azilsartan Tablets

On 20 September 2022, the Drug Registration Certificate for generics of Azilsartan Tablets has been obtained from the NMPA. Azilsartan Tablets has been approved to treat hypertension.

In addition, on 26 October 2022, AU409, an investigational first-in-class compound with oral active in models of hepatocellular carcinoma developed by Auransa Inc. and manufactured by Zhaoke Pharmaceutical (Guangzhou) Limited, a wholly-owned subsidiary of the Company, has been approved by the United States Food and Drug Administration to conduct clinical trial in patients with advanced primary liver cancers or advanced solid tumor with liver predominant metastatic disease in the United States.

Sales and Marketing

In recent years, the Group has been paying a lot of effort to develop its sales and marketing function in order to succeed in today's competitive business environment. Among others, market access has become a very important aspect and the Group has taken steps to ensure that the market access team is well-equipped to navigate the complex healthcare landscape in mainland China, and the Group believes that these efforts have already begun to pay off.

In July 2022, the Group's Fondaparinux Sodium has been successfully selected in the seventh-round volume-based procurement ("VBP") program. Through the selection in this VBP program, Fondaparinux Sodium can be able to reach a broader patient population and make contribution to the Group.

Subsequent to the end of the Reporting Year, the Group's commercialised products, namely Treprostinil Injection, Teglutik® and Trittico® have been included for the first time into the updated National Reimbursement Drug List (the "NRDL") issued by the China National Healthcare Security Administration on 18 January 2023 and will be officially implemented from 1 March 2023.

Together with the other 6 products in the list, a total of 9 products of the Group have been included in the updated NRDL.

Business Partnership

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.

On 18 July 2022, the Group has entered into a license agreement with Unicycive Therapeutics, Inc., a NASDAQ listed company, pursuant to which the Group has been granted exclusive rights to develop, market and commercialise Renazorb[®] (lanthanum dioxycarbonate) in Mainland China, Hong Kong, and certain other Asian markets. Renazorb[®] is a novel phosphate binding agent being developed for the treatment of hyperphosphatemia in chronic kidney disease (CKD) patients.

On 26 October 2022, the Group has entered into an amendment to the license agreement with BioQ Pharma Incorporated ("BioQ") to expand the licensing portfolio by including two new products, namely BioQ's second generation ropivacaine product and the 5FU pre-filled dispenser, to the existing development, supply and commercialisation agreement therewith.

Corporate Development

On 22 September 2022, the Group has entered into the Equity Transfer Agreement with the purchaser to dispose 100% equity interest in the Guangzhou Zhaokang Hospital Company Limited* (廣州兆康醫院有限公司), an indirect wholly-owned subsidiary of the Company which owns the land use right in the land parcel located at Huangge Da Dao West, Huangge Zhen, Nansha District, Guangzhou, the People's Republic of China specifically for medical and sanitary use, at the consideration of RMB200,000,000 (approximately HK\$226,000,000), details of which has been set out in the announcement of the Company dated 22 September 2022. To date, the transaction is yet to be completed pending fulfillment of the conditions including, among others, the completion of due diligence investigation.

PROSPECT

While the industry faces challenges such as regulatory reforms and keen competitions, it plays a critical role in improving patient outcomes and driving innovation in healthcare. Therefore, the Group would like to take this opportunity to reaffirm our belief in the positive long-term outlook.

VBP program is becoming increasingly popular in the pharmaceutical industry in China. While VBP has resulted in lower prices for drugs, it also presents an opportunity for the Group to deliver greater value to patients and to drive growth. The bidding for the eighth round of VBP included a total of 40 drugs which covered heparin for the first time has just completed in Hainan, and the Group's Nadroparin Calcium Injection has been successfully selected therein and become another potential growth driver in the near future.

The inclusion of the Group's rare disease drugs such as Treprostinil Injection and Teglutik® into the updated NRDL is a significant achievement of the Group as it means that more patients will now have access to these life-changing treatments. This not only benefits patients, but also creates more opportunities for the Group to grow and succeed in this therapeutic area.

In addition, the Group will continue to implement a series of cost control measures and to emphasis efficiency at every step of the value chain, particularly in key areas such as sales and R&D, to improve profitability and long-term sustainability. The Group firmly believes that all these works to be done will eventually create more value to reward its shareholders for their support.

FINAL DIVIDEND

The Board recommended a final dividend of HK\$0.010 (2021: HK\$0.031) per share to shareholders registered in the Company's register of members as at the close of business on Wednesday, 31 May 2023.

ANNUAL GENERAL MEETING

The annual general meeting of the Company was scheduled to be held on Wednesday, 17 May 2023 ("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 Friday, 12 May 2023 to Wednesday, 17 May 2023 (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 Thursday, 11 May 2023.

(b) Payment of the proposed final dividend

The register of members of the Company will be closed from Tuesday, 30 May 2023 to Wednesday, 31 May 2023 (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 2022.

In order to qualify for the proposed final dividend for the year ended 31 December 2022, 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, 29 May 2023.

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 Wednesday, 31 May 2023. The final dividend will be paid on Thursday, 15 June 2023.

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 2022.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

During the year ended 31 December 2022, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**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 the Model Code and required standard of dealing throughout the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

A new Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules 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 and is chaired by the chairman of the Board. Since then, the Company has complied with code provision B.3.1 of the CG Code.

Pursuant to code provision B.3.4 of the CG Code, the Board should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the general meeting when the Board proposes a resolution to elect an individual as an independent non-executive Directors at the relevant general meeting. The Company had not set out the explanatory statement in the circular published on 21 April 2022 relating to the re-election of independent non-executive Director. Mr. Lam Yat Cheong (“**Mr. Lam**”) has given confirmation of independence to the Company pursuant to rule 3.13 of the Listing Rules. The nomination committee assessed and reviewed the independence of Mr. Lam. In view of the diversified knowledge, experience and skills of Mr. Lam in finance, operation, financial accounting, corporate governance and compliance, the nomination committee believes that his expertise will enable him to fulfil his roles as independent non-executive Director effectively and can provide useful and constructive opinion and make contribution to the Board and future development of the Company. Based on the background of Mr. Lam including but not limited to gender, cultural and educational background, ethnicity, professional experience, skills and knowledge, it is believed that Mr. Lam can contribute to diversity of the Board. The nomination committee and the Board are of the view that Mr. Lam has satisfied all the criteria for independence set out in rule 3.13 of the Listing Rules.

Pursuant to code provision B.2.3 of the CG Code, if an independent non-executive director has served more than nine years, such director’s further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should state why the Board (or the nomination committee) believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the board (or the nomination committee) in arriving at such determination. Mr. Lam has served the board for more than nine years and the Company had not set out in the circular published on 21 April 2022 relating to the re-election of Mr. Lam the reasons why the Board (or the nomination committee) believes that the director is still independent and should be re-elected independent non-executive Director.

Mr. Lam is an independent non-executive Director serving the Company since 2004. The Board believes that Mr. Lam is considered as independent and continues to be independent because he has the required elements, character, integrity and experience to continue fulfilling the role of an independent non-executive Director by taking into account the factors set out in rule 3.13 of the Listing Rules. Notwithstanding that Mr. Lam has served on the Board for more than nine years, the nomination committee and the Board are of the view that this does not and would not affect the exercise of his independent judgement as he has been providing objective views and independent opinions to the Company over the years. Mr. Lam has not engaged in the daily or executive management of the Group nor in any relationships or circumstances which would interfere with the exercise of his independent judgement. In addition, the Company has received from Mr. Lam a confirmation of independence pursuant to rule 3.13 of the Listing Rules. Taking into consideration of Mr. Lam’s independent scope of work and valuable contributions given to the Company in the past years, the Board considers Mr. Lam is able to provide independent, balanced and objective views to the Company’s affairs and continue to independently fulfill his role as an independent non-executive Director despite the fact that he has served the Company for more than nine years. The nomination committee also

considers that Mr. Lam could continue to contribute to the diversity of the Board with his past experience as independent non-executive director in other listed companies in Hong Kong and his professional experience in the auditing and accounting profession. Accordingly, the Board and the nomination committee recommended him for re-election as independent non-executive Director at the annual general meeting. A separate resolution has been proposed for Mr. Lam's re-election and he was re-elected as an independent non-executive Director in the annual general meeting held on 19 May 2022.

Pursuant to code provision B.2.4 of the CG Code, the Company should disclose the length of tenure of each existing independent non-executive Directors on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting where all of the independent non-executive Directors have served more than nine years on the Board. The Company has not set out such information in the circular published on 21 April 2022. The length of tenure of Dr. Chan Yau Ching, Bob, Mr. Lam and Dr. Tsim Wah Keung, Karl (each being an existing independent non-executive Director and all of them have been serving more than 9 years on the Board) as at the date of the circular was more than 20 years, 18 years and 18 years respectively.

Pursuant to code provision C.1.6 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Our non-executive Directors and independent non-executive Directors had not attended the annual general meeting held on 19 May 2022 as they had other important prior engagement at the same time.

Save as disclosed above, the Company has complied with the CG Code to the Listing Rules throughout the year ended 31 December 2022.

Looking forward, the Board will continue to conduct reviews on the Company's corporate governance practices from time to time to ensure compliance with the CG Code.

Detailed corporate governance practices will be stated in the annual report of the Company for the year ended 31 December 2022.

REVIEW OF ANNUAL RESULTS

The Group's annual results (including the audited consolidated financial statements) for the year ended 31 December 2022 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 2022 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 2022 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, 30 March 2023

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.