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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 ON INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHT			
	Six months ended		
	30 June		
	2023	2022	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	512,308	649,166	-21.1%
Gross profit	284,463	419,478	-32.2%
Profit attributable to the owners of the Company	16,117	28,460	-43.4%
	<i>HK cents</i>	<i>HK cents</i>	
Earnings per share			
Basic	2.74	4.83	-43.3%
Diluted	2.74	4.83	-43.3%
Interim dividend per share	0.80	1.00	-20.0%

* For identification purpose only

INTERIM FINANCIAL STATEMENTS

The directors (the “**Directors**”) of Lee’s Pharmaceutical Holdings Limited (the “**Company**”) present herewith the unaudited consolidated interim financial results (the “**Interim Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022. The Interim Results are unaudited, but have been reviewed by the Company’s auditor, Confucius International CPA Limited (the “**Auditor**”) in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The audit committee of the Company has also reviewed with the management and the Auditor the Interim Results before recommending it to the board of Directors (the “**Board**”) for approval.

BUSINESS REVIEW

Revenue and Profit

During the first-half 2023, the Group has faced diverse challenges, including price and margin pressure resulting from the lowered price of certain products in exchange for being included in the national reimbursement scheme, the lowered margin of the product under national volume-based procurement program and the depreciation of the Renminbi during the period under review, which encompass its operations. Nevertheless, having products included in the national reimbursement scheme and national volume-based procurement program presents both risks and opportunities, as it has opened up the potential for increased market access and volume. In addition, the Group has made significant strides in improving its operational efficiency and to reduce costs. As a result of the diligent efforts, the Group has successfully maintained profitability during this period under review.

First-half 2023 revenue of the Group totalled HK\$512,308,000 (First-half 2022: HK\$649,166,000), a decrease of 21.1% compared to the same period last year which is mainly attributable to the impact of the expiration of product license and the declining products, and the depreciation of the Renminbi. Nevertheless, the Group has effectively showcased sales growth across its available product range. Ferplex[®], Bredinin[™], Sancuso[®] and Trittico[®] have shown significant growth during the first-half 2023, with impressive growth rates of 39.6%, 43.4%, 197.4% and 176.3%, respectively. In addition, two other newer generic products, namely Fondaparinux Sodium Injection and Sodium Phenylbutyrate Granules, recorded smaller sales amounts but have shown high growth potential in the market and grew 584.1% and 83.5%, respectively.

Sales of licensed-in products were predominant in the past, but there has been a shift towards increased sales of proprietary and generic products starting from the beginning of 2023. Sales of licensed-in products in the first-half 2023 accounted for 46.9% (First-half 2022: 61.2%) of the Group’s revenue while sales of proprietary and generic products in the first-half 2023 contributed 53.1% (First-half 2022: 38.8%) of the Group’s revenue.

First-half 2023 gross profit of the Group was HK\$284,463,000 (First-half 2022: HK\$419,478,000), a decrease of 32.2% compared to the same period last year. The Group's overall gross profit margin was 55.5%, decreased by 9.1 percentage points as to 64.6% achieved in the first-half 2022. The Group has shifted towards offering a broader range of products, including lower-margin generic products under national reimbursement scheme and national volume-based procurement program, which caused a decrease in the overall gross profit margin.

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. During the first-half 2023, the Group continues to optimise the resources allocation among prioritised R&D projects and to persist in cost-saving efforts. An aggregate of HK\$113,634,000 has been spent in the first-half 2023 (First-half 2022: HK\$206,517,000), decreased by 45.0% compared to the same period last year and represented 22.2% to the corresponding revenue for the period (First-half 2022: 31.8%). Among which HK\$48,798,000 (First-half 2022: HK\$116,590,000) has been recognised as expenses and HK\$64,836,000 (First-half 2022: HK\$89,927,000) has been capitalised as intangible assets. As expected, the Group strategically selects new initiatives when previous R&D projects over time reach completion, there is a reduction in the R&D expenditure incurred during the period under review.

The Group's selling and distribution expenses was HK\$146,931,000 in the first-half 2023, representing a decrease of HK\$29,284,000 or 16.6% compared to HK\$176,215,000 in the same period last year. Overall, the selling expenses to revenue ratio during the first-half 2023 was 28.7%, increased by 1.6 percentage points as to 27.1% same period last year. The Group maintains its dedication to allocating appropriate resources to bolster distribution channels and prepare for the introduction of new products.

Overall, net profit attributable to the owners of the Company in the first-half 2023 was HK\$16,117,000, decreased by 43.4% over the same period in 2022.

Manufacturing Facilities and Production Capability

Over time, there have been considerable changes and upgrades in the Group's manufacturing and production capability.

In Hefei site, the enhancements included the completion of the production capacity expansion and process scale up facility upgrades of Yallaferon[®], same line production facility upgrades for new pre-filled syringe injection products before introduction to the market, and the making of registration batch of new product in the form of oral lyophilised 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 the process will undergo a pilot run at an expanded scale soon, the production process upgrades for oral dose antihypertension drug is in good progress and has already completed three batches of pilot testing.

Presently, the Group's foremost objective centers around enhancing production yield while concurrently pursuing cost-saving measures, which is driven by the need to adapt the evolving market environment.

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, 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) the NDA for Cetraxal[®] Plus for acute otitis externa (AOE) and acute otitis media with tympanostomy tubes (AOMT), which concluded its Phase III clinical trial stage in 2022, was successfully submitted to and accepted by the CDE in January 2023; (2) Intrarosa[®] in the treatment of vulvovaginal atrophy (VVA) is currently in Phase III clinical trial stage. To date, all data cleaning and data review meetings have been completed. The clinical database has been locked and unblinded, and the release of the data is imminent; and (3) Phase IIa clinical trial of a fentanyl aerosol for inhalation has successfully achieved its anticipated endpoints in August 2023, and the findings will be utilised to accelerate the review and approval process for NDA.

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 the patient enrollment was completed; (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 period under review and up to date, the Group obtained 2 registration certificate approvals from National Medical Products Administration (“NMPA”).

INOmax DS_{IR} Plus

On 25 May 2023, the Medical Device Registration Certificate for INOmax DS_{IR} Plus Delivery System™ (“**INOmax DS_{IR} Plus**”) was 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. The Group is currently in negotiations with the supplier regarding the product’s launch date.

Apremilast Tablet

On 14 June 2023, the registration certificate of a type of Apremilast tablet (阿普米司特片) (specifications: 10 mg, 20 mg and 30 mg) was obtained from the NMPA. Apremilast tablet is an oral small molecule inhibitor of phosphodiesterase-4 (PDE4) specific for cyclic adenosine monophosphate (cAMP). The inhibiting effect of PDE4 increases the level of cAMP in cells. This product is approved for the treatment of adults with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy. In addition, on 3 July 2023, a successful application was made to change the shelf life of this product from 12 months to 36 months. The anticipated market launch for this product is scheduled for the fourth quarter of 2023.

Sales and Marketing

In response to the increasingly competitive business landscape, the Group has dedicated significant effort in recent years to bolstering its sales and marketing capabilities. 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.

On January 2023, 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 has been implemented from 1 March 2023.

To date, a total of 9 products of the Group have been included in the updated NRDL.

PROSPECTS

The challenges posed by the Covid pandemic have subsided at the beginning of the year, allowing the Group to resume its activities without the constraints and disruptions that were previously experienced. Looking ahead to the second-half 2023, it is essential to acknowledge the challenging market environment the Group is currently facing. Increased competition and evolving market dynamics have presented the Group with several hurdles. One significant concern is the lowered margin products which are included in the national reimbursement scheme or national volume-based procurement program, which requires the Group to approach its operations with utmost diligence. In addition, elevated operating costs, compounded by the impact of inflation, pose a consistent challenge that demands the Group's attention and strategic management.

The Group's remarkable accomplishment lies in the incorporation of its rare disease drugs, including Treprostinil Injection and Teglutik[®], into the recently updated NRDL. This achievement holds immense value as it enables a greater number of patients to avail themselves of these transformative treatments. Not only does this enhance patient well-being, but it also opens up expanded avenues for the Group to flourish and establish a stronger presence in this therapeutic domain.

The Group has 2 newly approved products to date in 2023, and 2 more NDA approvals are expected to be received in the year ending 2023. Coupled with 7 products approved in 2022, these developments shall provide fresh revenue streams for the Group soon.

Given the obstacles at hand, the Group remains steadfast in its dedication to implementing cost-saving measures across all operational aspects. The Group will persist in prioritising efficiency and resource optimisation to secure sustainable profitability. Through unwavering commitment to operating efficiently, the Group strives to maximise returns for its esteemed shareholders.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	For the six months ended 30 June	
		2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Revenue	3	512,308	649,166
Cost of sales		<u>(227,845)</u>	<u>(229,688)</u>
Gross profit		284,463	419,478
Other income	4	40,949	45,702
Other gains and losses, net		(5,736)	(5,227)
Selling and distribution expenses		(146,931)	(176,215)
Administrative expenses		(90,584)	(111,075)
Provision for expected credit losses on financial assets		(296)	(253)
Research and development expenses		<u>(48,798)</u>	<u>(116,590)</u>
Profit from operations		33,067	55,820
Finance costs		(5,439)	(3,499)
Share of results of associates		<u>(440)</u>	<u>(526)</u>
Profit before taxation	5	27,188	51,795
Taxation	6	<u>(6,279)</u>	<u>(24,713)</u>
Profit for the period		<u><u>20,909</u></u>	<u><u>27,082</u></u>
Attributable to:			
Owners of the Company		16,117	28,460
Non-controlling interests		<u>4,792</u>	<u>(1,378)</u>
		<u><u>20,909</u></u>	<u><u>27,082</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	8	<u><u>2.74</u></u>	<u><u>4.83</u></u>
Diluted	8	<u><u>2.74</u></u>	<u><u>4.83</u></u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit for the period	20,909	27,082
Other comprehensive (expense)/income:		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries	(48,217)	(49,811)
Item that will not be reclassified subsequently to profit or loss:		
– Fair value changes of financial assets at fair value through other comprehensive income	86,690	(291,865)
	<hr/>	<hr/>
Other comprehensive income/(expense) for the period, net of tax	38,473	(341,676)
	<hr/>	<hr/>
Total comprehensive income/(expense) for the period	59,382	(314,594)
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income/(expense) for the period attributable to:		
Owners of the Company	55,214	(310,998)
Non-controlling interests	4,168	(3,596)
	<hr/>	<hr/>
	59,382	(314,594)
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		At 30 June 2023	At 31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	9	495,148	540,665
Intangible assets	9	1,035,691	1,023,494
Goodwill		3,900	3,900
Interests in associates	10	5,328	5,163
Financial assets at fair value through profit or loss		13,287	13,136
Financial assets at fair value through other comprehensive income		625,208	536,452
Deferred tax assets		12,316	7,584
		2,190,878	2,130,394
Current assets			
Inventories		325,092	249,222
Trade receivables	11	120,072	111,278
Other receivables, deposits and prepayment		99,661	101,833
Advance to associates		–	–
Tax recoverable		524	–
Cash and bank balances		161,519	189,301
		706,868	651,634
Current liabilities			
Trade payables	12	115,269	101,301
Other payables and accruals		457,148	462,182
Bank and other borrowings	13	108,883	76,727
Lease liabilities		9,549	6,831
Tax payables		13,917	3,063
		704,766	650,104
Net current assets		2,102	1,530
Total assets less current liabilities		2,192,980	2,131,924

		At 30 June 2023	At 31 December 2022
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Capital and reserves			
Share capital	14	29,442	29,442
Reserves		1,944,586	1,894,665
Equity attributable to the owners of the Company			
Non-controlling interests		1,974,028	1,924,107
		(77,415)	(81,583)
Total equity		1,896,613	1,842,524
Non-current liabilities			
Other payables and accruals		42,340	39,337
Bank and other borrowings	13	77,363	77,363
Lease liabilities		6,397	2,573
Retirement benefits		99,255	96,230
Deferred tax liabilities		71,012	73,897
		296,367	289,400
		2,192,980	2,131,924

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to the owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Share-based compensation reserve HK\$'000	Other reserves HK\$'000	Investments revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Attributable to non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2023 (audited)	29,442	720,091	9,200	61,792	65,302	(2,433,314)	(72,385)	3,543,979	1,924,107	(81,583)	1,842,524
Employee share option benefits	-	-	-	595	-	-	-	-	595	-	595
Share options lapsed	-	-	-	(897)	-	-	-	897	-	-	-
Profit for the period	-	-	-	-	-	-	-	16,117	16,117	4,792	20,909
Other comprehensive (expenses)/income for the period											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	(47,820)	-	(47,820)	(397)	(48,217)
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	86,917	-	-	86,917	(227)	86,690
Total comprehensive income/(expense) for the period	-	-	-	-	-	86,917	(47,820)	16,117	55,214	4,168	59,382
2022 final dividend paid	-	-	-	-	-	-	-	(5,888)	(5,888)	-	(5,888)
At 30 June 2023 (unaudited)	<u>29,442</u>	<u>720,091</u>	<u>9,200</u>	<u>61,490</u>	<u>65,302</u>	<u>(2,346,397)</u>	<u>(120,205)</u>	<u>3,555,105</u>	<u>1,974,028</u>	<u>(77,415)</u>	<u>1,896,613</u>
At 1 January 2022 (audited)	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	-	-	-	6,349	-	-	-	-	6,349	-	6,349
Profit/(loss) for the period	-	-	-	-	-	-	-	28,460	28,460	(1,378)	27,082
Other comprehensive expense for the period											
- Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	(49,453)	-	(49,453)	(358)	(49,811)
- Fair value changes of financial assets at fair value through other comprehensive income	-	-	-	-	-	(290,005)	-	-	(290,005)	(1,860)	(291,865)
Total comprehensive (expense)/income for the period	-	-	-	-	-	(290,005)	(49,453)	28,460	(310,998)	(3,596)	(314,594)
2021 final dividend paid	-	-	-	-	-	-	-	(18,254)	(18,254)	-	(18,254)
At 30 June 2022 (unaudited)	<u>29,442</u>	<u>720,091</u>	<u>9,200</u>	<u>62,313</u>	<u>65,302</u>	<u>(2,238,820)</u>	<u>(26,615)</u>	<u>3,520,762</u>	<u>2,141,675</u>	<u>(77,012)</u>	<u>2,064,663</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Operating activities		
Cash generated from operations	44,205	254,731
Interest paid	(4,560)	(2,513)
Income tax paid	(582)	–
Net cash generated from operating activities	39,063	252,218
Investing activities		
Purchase of property, plant and equipment	(13,518)	(5,937)
Payment for construction in progress	(1,069)	(1,161)
Additions to development cost and license fees	(72,071)	(89,927)
Other cash flows arising from investing activities	(1,929)	(19,450)
Net cash used in investing activities	(88,587)	(116,475)
Financing activities		
Dividends paid	(5,888)	(18,254)
Other cash flows arising from financing activities	26,630	(32,295)
Net cash generated from/(used in) financing activities	20,742	(50,549)
Net (decrease)/increase in cash and cash equivalents	(28,782)	85,194
Cash and cash equivalents at 1 January	189,301	277,529
Effect of foreign exchange rate changes	1,000	5,324
Cash and cash equivalents at 30 June	161,519	368,047
Analysis of cash and cash equivalents:		
Cash and bank balances	161,519	368,047

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as appropriate.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2022.

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2023 are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2022 except as described below.

In the current reporting period, the Group has applied the following amendments to HKFRS issued by the HKICPA for the first time which are mandatorily effective for the annual periods beginning on or after 1 January 2023 for the preparation of the Group’s unaudited condensed consolidated financial statements. HKFRS comprise Hong Kong Financial Reporting Standards; HKASs; and HK(IFRIC) Interpretations, HK Interpretations and HK(SIC) Interpretations.

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and the related Amendments
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax reform – Pillar Two Model Rules

The application of these amendments to HKFRS has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

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

Amendments to HKAS 1	Presentation of Financial Statements ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements 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 ¹

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

² Effective date to be determined

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

3. SEGMENT INFORMATION

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

Proprietary and generic products	–	Manufacturing and sales of self-development and generic pharmaceutical products
Licensed-in products	–	Trading of licensed-in pharmaceutical products

Revenue including manufacturing and trading of pharmaceutical products are recognised at point in time.

Segment revenue and results

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

Six months ended 30 June

	Proprietary and generic products		Licensed-in products		Consolidated	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Segment revenue	272,091	252,087	240,217	397,079	512,308	649,166
Segment operating results	58,978	85,948	35,889	105,795	94,867	191,743
Research and development expenses	(16,713)	(30,915)	(32,085)	(85,675)	(48,798)	(116,590)
Segment results	42,265	55,033	3,804	20,120	46,069	75,153
Unallocated income					8,655	8,033
Unallocated expenses					(21,657)	(27,366)
Profit from operations					33,067	55,820
Finance costs					(5,439)	(3,499)
Profit before share of results of associates					27,628	52,321
Share of results of associates					(440)	(526)
Profit before taxation					27,188	51,795
Taxation					(6,279)	(24,713)
Profit for the period					20,909	27,082

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current interim period (six months ended 30 June 2022: Nil).

Segment assets and liabilities

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

	Proprietary and generic products		Licensed-in products		Consolidated	
	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Segment assets	779,089	726,742	1,311,250	1,311,699	2,090,339	2,038,441
Unallocated assets					807,407	743,587
Total assets					<u>2,897,746</u>	<u>2,782,028</u>
Segment liabilities	226,069	176,617	370,580	398,145	596,649	574,762
Unallocated liabilities					404,484	364,742
Total liabilities					<u>1,001,133</u>	<u>939,504</u>

Geographical information

During the six months ended 30 June 2023 and 2022, 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 market for the period/year:

	The PRC		Hong Kong and others		Total	
	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Total assets	1,708,843	1,696,915	1,188,903	1,085,113	2,897,746	2,782,028
Total liabilities	<u>444,703</u>	<u>406,734</u>	<u>556,430</u>	<u>532,770</u>	<u>1,001,133</u>	<u>939,504</u>

4. OTHER INCOME

	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest income on bank deposits	662	1,183
Development and government grants	26,179	17,094
Rental and utilities income	7,525	5,997
Research and development service income	4,067	19,220
Sundry income	2,516	2,208
	<u>40,949</u>	<u>45,702</u>

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

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging the following items:

	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment (including right-of-use assets)	49,601	60,606
Amortisation of intangible assets	28,146	17,930
	<u>77,747</u>	<u>78,536</u>
Total depreciation and amortisation		
Interest expenses on borrowings	4,594	2,513
Interest expenses on lease liabilities	361	226
Share-based payments	595	6,349
– Directors	186	4,441
– Employees	409	1,908
	<u>409</u>	<u>1,908</u>

6. TAXATION

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	10,895	12,436
PRC Enterprise Income Tax	–	362
	<u>10,895</u>	<u>12,798</u>
Under provision in prior years		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax	17	–
	<u>17</u>	<u>–</u>
Deferred tax (Reversal)/Origination of temporary difference	<u>(4,633)</u>	<u>11,915</u>
	<u><u>6,279</u></u>	<u><u>24,713</u></u>

Hong Kong Profits Tax for the six months ended 30 June 2023 is calculated at 8.25% (six months ended 30 June 2022: 8.25%) on the first HK\$2 million of the estimated assessable profits and at 16.5% (six months ended 30 June 2022: 16.5%) on the estimated assessable profits above HK\$2 million according to the two-tiered profits tax rates regime.

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

7. DIVIDENDS

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interim dividend declared – HK\$0.008 (2022: HK\$0.010) per ordinary share based on issued share capital at the end of the reporting period	<u><u>4,711</u></u>	<u><u>5,888</u></u>

Interim dividend will be paid on 4 October 2023 to shareholders registered in the Company's register of members as at the close of business on 15 September 2023. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position. 2022 final dividend of HK\$0.010 per share, totalling HK\$5,888,000 was paid on 15 June 2023.

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Net profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	16,117	28,460
	588,835	588,835
	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	588,835	588,835

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Right-of-use assets

During the six months ended 30 June 2023, the Group entered into a number of lease agreements and therefore recognised the additions to right-of-use assets of approximately HK\$13 million (six months ended 30 June 2022: approximately HK\$2 million).

(b) Owned property, plant and equipment

During the six months ended 30 June 2023, additions to owned property, plant and equipment amount to approximately HK\$15 million (six months ended 30 June 2022: approximately HK\$7 million).

(c) Intangible assets

During the six months ended 30 June 2023, additions to intangible assets amount to approximately HK\$72 million (six months ended 30 June 2022: approximately HK\$90 million), which consist of both license fees and development cost.

During both the six months ended 30 June 2022 and 2023, there is no provision for impairment on, or write-off of, intangible assets recognised in profit or loss.

10. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
At beginning of the period/year	5,163	6,267
Additions	605	–
Share of post-acquisition loss	(440)	(1,104)
At end of the period/year	<u>5,328</u>	<u>5,163</u>

Details of the Group's associates at the end of the reporting period/year are as follows:

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		30 June 2023	31 December 2022	30 June 2023	31 December 2022	
Powder Pharmaceuticals Incorporated	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Development, manufacturing and sale of pharmaceutical products
ZERO Biotech Company Limited	Hong Kong/Hong Kong	37.69%	36.32%	37.69%	36.32%	Investment holding and operate a central pharmacy for compounding radiopharmaceuticals

11. TRADE RECEIVABLES

The Group allows an average credit period of 30–120 days to its trade customers.

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

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0–30 days	73,519	55,268
31–120 days	44,173	39,643
121–180 days	1,619	9,057
181–365 days	742	7,282
Over 365 days and under 3 years	19	28
	<u>120,072</u>	<u>111,278</u>

12. TRADE PAYABLES

The average credit period on purchases of certain goods is 90 days.

The following is an analysis of trade payables by age, presented based on invoice date, at the end of the reporting period:

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0–90 days	64,300	75,204
91–180 days	26,383	–
181–365 days	107	26,037
Over 365 days	24,479	60
	<u>115,269</u>	<u>101,301</u>

13. BANK AND OTHER BORROWINGS

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Secured bank borrowings classified as current liabilities (Note a)	106,727	76,727
Unsecured other borrowings classified as current liabilities	2,156	–
	<u>108,883</u>	76,727
Secured bank borrowings classified as non-current liabilities	77,363	77,363
	<u>186,246</u>	<u>154,090</u>
Carrying amount of the bank and other borrowings are repayable (Note b):		
Within one year	108,883	76,727
More than one year but not exceeding two years	6,727	6,727
More than two years but not exceeding five years	70,636	70,636
	<u>186,246</u>	<u>154,090</u>

Notes:

- a. As the bank borrowings include a clause that gives the lenders the unconditional right to call the borrowings at any time (“**Repayment on Demand Clause**”), according to Hong Kong Interpretation 5 which requires the classification of whole borrowings containing the Repayment on Demand Clause as current liabilities, the bank borrowings were classified as current liabilities.
- b. The table is based on the agreed repayment schedule provided by banks.

As at 30 June 2023, bank borrowings carry floating interest rates which is adjusted with reference to Hong Kong Interbank Offered Rate (31 December 2022: Hong Kong Interbank Offered Rate) and other borrowings carry fixed interest rate (31 December 2022: not applicable). As at 30 June 2023, the effective interest rates of Group's bank and other borrowings ranged from 6.00% to 7.03% (31 December 2022: 6.42% to 6.75%) per annum.

The Group's bank and other borrowings are denominated in the following currencies:

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Hong Kong Dollars	184,090	154,090
Renminbi	2,156	–
	186,246	154,090

14. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2023 (unaudited)	31 December 2022 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Authorised:				
Ordinary shares of HK\$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning and end of the period/year	588,835,343	588,835,343	29,442	29,442

15. RELATED PARTY TRANSACTIONS

During the reporting period, the Group entered into the following transactions with related parties. In the opinion of the directors of the Company, the following transactions arose in the ordinary course of the Group's business.

(a) **Compensation of key management personnel**

The remuneration of directors of the Company and other members of key management during the reporting period was as follows:

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term employee benefits	9,382	8,541
Share-based payments	186	4,441
Retirement and other post-employment benefits	3,034	2,609
– Defined contribution plan	9	9
– Retirement benefits	3,025	2,600
	12,602	15,591

(b) **Donation to Lee's Pharmaceutical – Kanya Lee Scholarship Limited (“Kanya Lee Scholarship”)**

During the six months ended 30 June 2023, total HK\$200,000 (six months ended 30 June 2022: HK\$1,900,000) was donated to Kanya Lee Scholarship. Ms. Leelalertsuphakun Wanee and Ms. Lee Siu Fong, directors of the Company, are also members of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

16. CAPITAL COMMITMENTS

	30 June 2023	31 December 2022
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Capital commitments contracted for:		
Investment in financial assets at fair value through other comprehensive income	20,588	22,654
Intangible assets – license fee and development cost	114,809	129,770
Property, plant and equipment	25,744	79,295
	161,141	231,719

17. PLEDGE OF ASSETS

No assets were pledged as at both 30 June 2023 and 31 December 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 six months ended 30 June 2023.

INTERIM DIVIDEND

The Board recommended an interim dividend of HK\$0.008 (2022: HK\$0.010) per share to shareholders registered in the Company's register of members as at the close of business on Friday, 15 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 14 September 2023 to Friday, 15 September 2023 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 13 September 2023. Interim dividend will be paid on Wednesday, 4 October 2023 to shareholders registered in the Company's register of members as at the close of business on Friday, 15 September 2023.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2023.

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.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2023 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://www.leespharm.com>) in due course.

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

Hong Kong, 30 August 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, Ms. Cheang Yee Wah, Eva and Dr. Tsim Wah Keung, Karl, are independent non-executive Directors.