

FIRST QUARTERLY REPORT  
2009



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: 8221)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of LEE’S PHARMACEUTICAL HOLDINGS LIMITED (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2009, together with the comparative unaudited consolidated figures for the corresponding period in 2008 as follows:

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	(2)	<b>33,035</b>	22,513
Cost of sales		<b>(9,433)</b>	(6,595)
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Gross profit		<b>23,602</b>	15,918
Other revenue		<b>388</b>	559
Selling and distribution expenses		<b>(10,028)</b>	(6,935)
Research and development expenses		<b>(601)</b>	(317)
Administrative expenses		<b>(4,735)</b>	(4,304)
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Profit from operations		<b>8,626</b>	4,921
Finance costs		<b>(52)</b>	(108)
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Profit before taxation		<b>8,574</b>	4,813
Taxation	(3)	<b>(772)</b>	(620)
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Profit attributable to shareholders		<b>7,802</b>	4,193
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Dividends		–	–
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		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	(4)	<b>1.88</b>	1.01
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Diluted	(4)	<b>1.85</b>	1.00
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## Unaudited condensed consolidated statement of comprehensive income

	For the three months ended 31 March	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Profit attributable to shareholders	7,802	4,193
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiary	–	577
– revaluation of overseas buildings	–	130
Other comprehensive income attributable to shareholders, net of tax	–	707
Total comprehensive income attributable to shareholders	7,802	4,900

## NOTES:

**1. Basis of preparation and principal accounting policies**

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Accounting Standards and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings.

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2008 except as described below.

In the current year, the Company has applied the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are or have become effective.

HKFRS 1 and HKAS 27 (Amendments)	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)- Int 15	Agreements for the Construction of Real Estate
HK (IFRIC)- Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKAS 39 (Amendments)	Eligible Hedged Items <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HK(IFRIC)- Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC)- Int 18	Transfers of Assets from Customers <sup>1</sup>

Apart from the above, the HKICPA has also issued Improvements to HKFRSs\* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

\* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC)-Int 2.

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Company.

The consolidated results for the three months ended 31 March 2009 have not been audited by the Company's auditors, but have been reviewed by the Company's auditors and the audit committee.

## 2. Turnover

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products. During the period, turnover represents the net amount received and receivable for goods sold by the Group to outside customers and recognised as follows:

### Business segments

	For the three months ended 31 March	
	2009 HK\$'000	2008 HK\$'000
Proprietary products	19,535	13,714
License-in products	13,500	8,799
	<b>33,035</b>	<b>22,513</b>

### Geographical segments

During the period ended 31 March 2009 and 2008, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical segmental information is presented.

### 3. Taxation

	For the three months ended 31 March	
	2009 HK\$'000	2008 HK\$'000
Current tax		
The PRC	645	540
Deferred tax		
Provision of current period	127	80
<b>Taxation attributable to the Group</b>	<b>772</b>	<b>620</b>

Hong Kong Profits Tax has not been provided as the Group had no assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

### 4. Earnings per share

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

	For the three months ended 31 March	
	2009	2008
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK\$7,802,000	HK\$4,193,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	415,275,000	414,209,615
Effect of dilutive potential ordinary shares: options	5,689,670	6,737,669
Weighted average number of ordinary shares for the purpose of diluted earnings per share	420,964,670	420,947,284



## 5. Share capital and reserves

	Share capital <i>HKS'000</i>	Share premium <i>HKS'000</i>	Merger difference <i>HKS'000</i>	Share-based compensation reserve <i>HKS'000</i>	Other comprehensive income		Retained profits (Accumulated losses) <i>HKS'000</i>	Total <i>HKS'000</i>
					Revaluation reserve <i>HKS'000</i>	Exchange reserve <i>HKS'000</i>		
At 1 January 2009	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335
Employee share option benefits	-	-	-	79	-	-	-	79
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	7,802	7,802
At 31 March 2009	20,764	44,533	9,200	1,167	3,657	2,604	11,291	93,216
At 1 January 2008	20,656	44,154	9,200	851	3,463	1,679	(19,178)	60,825
Employee share option benefits	-	-	-	80	-	-	-	80
Exercise of share options	75	278	-	(56)	-	-	-	297
Total comprehensive income attributable to shareholders	-	-	-	-	130	577	4,193	4,900
At 31 March 2008	20,731	44,432	9,200	875	3,593	2,256	(14,985)	66,102

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

## BUSINESS REVIEW

Despite the global financial crisis and severe economic conditions faced by business, the Group had achieved yet another solid result in the first quarter of 2009, keeping pace with the growth momentum of 2008. Both turnover and net profit registered increase of 46.7% and 86% compared with the results of same period last year, reaching the level of HK\$33 million and 7.8 million respectively. The results represented the nine consecutive quarters of high double digit growth in turnover of the Group.

The growth in turnover was contributed by increase in sales of all products, with the second year product Iron Proteinsuccinylate Oral Solution achieving the highest increment of 288%, followed by 75% sales increment of *Slounase*<sup>®</sup>, and 45% sales increment of *Yallaferon*<sup>®</sup>.

Net profit after tax for the current period was HK\$7.8 million. Gross profit margin for the first quarter of 2009 also improved to 71.4% from 70.7% for the same period in 2008. Improvement was mainly due to decrease in cost of *Carnitene*<sup>®</sup>.

Selling and distribution expenses to turnover ratio for the current period was 30.4% which was similar to the ratio of 30.8% for first quarter of 2008 as the Group have continued to invest in new product launch, marketing and promotion.

Administrative expenses increased by HK\$0.4 million compared with the first quarter of 2008 mainly due to increase in staff cost and other operating expenses to cope with the increase in transaction volume, evidenced by the increase of more than 27% in the Group's headcount in comparison with the same period last year.

During the period under review, the Group concluded a license agreement with Nippon Shinyaku Co. Ltd., a listed pharmaceutical company in Japan, for the pharmaceutical product containing antibacterial agent "Prulifloxacin" for the treatment of urinary tract infections and respiratory tract infections.

## PROSPECTS

As the Group continues to expand its sales and marketing organization, it is confident that the sales of all existing products will sustain the current rapid growth trend, helping to drive the Group's development to a new level.

The registration of both *Veloderm*<sup>®</sup> and *Challenger* balloon is entering the final stage and granting of the import license could be expected in the coming quarters. The launch of these new products will offer new growth opportunity to the Group and enhance its sustainability.

Last but not the least, the license agreement with Nippon Shinyaku, a prestige, research-based pharmaceutical company in Japan signifies a breakthrough in the Group's corporate development. It boosts the Group's status as a preferred partner in China for the worldwide research-based pharmaceutical companies, making it possible for the Group to further strengthen its pipeline and to maintain its future growth.

## SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the Prospectus.

Movements of the share option during the period ended 31 March 2009 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2009	Number of share options			Outstanding at 31.3.2009
			Granted	Exercised	Lapsed	
<b>Directors</b>						
Lee Siu Fong	26.06.2002	1,600,000	-	-	-	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	-	-	-	289,000
Li Xiaoyi	13.01.2003	2,890,000	-	-	-	2,890,000
Mauro Bove	11.07.2005	500,000	-	-	-	500,000
	02.06.2006	500,000	-	-	-	500,000
Lam Yat Cheong	11.07.2005	300,000	-	-	-	300,000
Sub-total of Directors		6,079,000	-	-	-	6,079,000

Grantees	Date of Grant	Outstanding at 1.1.2009	Number of share options			Outstanding at 31.3.2009
			Granted	Exercised	Lapsed	
Employees	13.01.2003	300,000	-	-	-	300,000
	25.06.2004	4,800,000	-	-	-	4,800,000
	11.07.2005	2,550,000	-	-	-	2,550,000
Consultant	02.01.2008	1,285,000	-	-	-	1,285,000
	02.06.2006	500,000	-	-	-	500,000
	02.01.2008	2,000,000	-	-	-	2,000,000
	26.11.2008	500,000	-	-	-	500,000
Sub-total of employees and consultant		11,935,000	-	-	-	11,935,000
Grand total		18,014,000	-	-	-	18,014,000

Notes:

1. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK\$
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218

Date of Grant	Exercise period	Exercise price per share <i>HK\$</i>
11.07.2005	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006- 01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008- 01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	0.492
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009- 25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	0.383

Save as disclosed above, as at 31 March 2009, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 March 2009, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

### 1. Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity and nature	Notes	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,004,375		
	Interest of corporation	(i)	128,290,625	130,295,000	31.38
Leelertsuphakun Wanee	Beneficial owner		2,740,000		
	Interest of corporation	(i)	128,290,625	131,030,625	31.55
Li Xiaoyi	Beneficial owner		35,110,000		
	Interest of spouse	(ii)	16,000,000	51,110,000	12.31
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.29
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.07

Notes:

- (i) 128,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelertsuphakun Wanee.
- (ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

*(b) Share options*

<b>Name</b>	<b>Capacity and nature</b>	<b>Number of options held</b>	<b>Number of underlying Shares</b>
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
		6,079,000	6,079,000

*(c) Aggregate long positions in the Shares and the underlying Shares*

<b>Name</b>	<b>Number of Shares</b>	<b>Number of underlying Shares</b>	<b>Aggregate in number</b>
Lee Siu Fong	130,295,000	1,600,000	131,895,000
Leelalertsuphakun Wanee	131,030,625	289,000	131,319,625
Li Xiaoyi	51,110,000	2,890,000	54,000,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Mauro Bove	–	1,000,000	1,000,000
Lam Yat Cheong	–	300,000	300,000

**2. Short positions**

No short positions of Directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the period ended 31 March 2009 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2009, the following persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

### 1. Long positions

#### (a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity and nature	Notes	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		120,290,625	28.97
Defiante Farmaceutica, S.A.	Beneficial owner		123,850,000	29.82
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.85
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.85
	Interest of spouse	(ii)	35,110,000	8.45

#### (b) Underlying shares

Name	Capacity and nature	Notes	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	2,890,000



*(c) Aggregate long positions in the Shares and the underlying Shares*

<b>Name</b>	<b>Number of Shares</b>	<b>Number of underlying Shares</b>	<b>Aggregate in number</b>
Huby Technology Limited	120,290,625	–	120,290,625
Defiante Farmaceutica, S.A.	123,850,000	–	123,850,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,110,000	2,890,000	54,000,000

*Notes:*

- (i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (ii) The Shares and share option are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

**2. Short positions**

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 March 2009, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company listed securities during the three months ended 31 March 2009.

## **COMPETING INTERESTS**

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the three months ended 31 March 2009.

## **AUDIT COMMITTEE**

An audit committee was set up with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

The audit committee has reviewed with the management and auditors this unaudited quarterly report for the three months ended 31 March 2009 before recommending it to the Board for approval.

As at the date of this report, the Board comprises the following directors:

**Executive directors:**

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wancee

Dr. Li Xiaoyi

**Non-executive director:**

Mr. Mauro Bove

**Independent non-executive directors:**

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

By order of the Board

**Lee Siu Fong**

*Chairman*

Hong Kong, 14 May 2009