LEE'S PHARM.
李 氏 大 藥 廠

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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2010

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.

This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

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 2010, together with the comparative unaudited consolidated figures for the corresponding period in 2009 as follows:

		For the three months ended 31 March	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
Turnover	(2)	**44,609**	33,035
Cost of sales		**(12,121)**	(9,433)
Gross profit		**32,488**	23,602
Other revenue		**1,011**	388
Gain on deemed disposal of a subsidiary	(3)	**234**	–
Selling and distribution expenses		**(12,888)**	(10,028)
Research and development expenses		**(1,421)**	(601)
Administrative expenses		**(6,257)**	(4,735)
Profit from operations		**13,167**	8,626
Finance costs		**(217)**	(52)
Share of results of an associate	(4)	**(228)**	–
Profit before taxation		**12,722**	8,574
Taxation	(5)	**(2,013)**	(772)
Profit attributable to shareholders		**10,709**	7,802
Dividends		**–**	–
		HK cents	*HK cents*
Earnings per share			
Basic	(6)	**2.38**	1.88
Diluted	(6)	**2.32**	1.85

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended 31 March	
	2010	2009
	HK$'000	*HK$'000*
Profit attributable to shareholders	**10,709**	7,802
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiary	**–**	–
– revaluation of overseas buildings	**–**	–
Other comprehensive income attributable to shareholders, net of tax	**–**	–
Total comprehensive income attributable to shareholders	**10,709**	7,802

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 2009 except as described below.

In the current year, the Group 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.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKAS 28 (Revised)	Investments in Associates
HKAS 39 (Amendments)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers

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

HKFRS 9	Financial Instruments [4]
HKAS 24 (Revised)	Related Party Disclosures [3]
HKAS 32 (Amendments)	Classification of Rights Issues [1]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of Minimum Funding Requirement [3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 January 2013

As part of *Improvement to HKFRSs (2009)*, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 Group.

The consolidated results for the three months ended 31 March 2010 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	
	2010	2009
	HK$'000	*HK$'000*
Proprietary products	**24,752**	19,535
License-in products	**19,857**	13,500
	44,609	33,035

Geographical segments

During the period ended 31 March 2010 and 2009, 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. **Gain on deemed disposal of a subsidiary**

	For the three months ended 31 March 2010
	HK$'000
Fair value of investment retained (25.36%)	**3,839**
Carrying amount of the 100% investment on the date of loss of control	**(3,605)**
Gain recognised	**234**

In January 2010, Powder Pharmaceuticals Incorporated (the "Powder") has issued 49,999 ordinary shares, which triggered a deemed disposal of the equity interest held by the Group. Accordingly, the equity interest in Powder held by the Group was diluted from 100% to 25.36% after the issue of the shares. Powder then became an associate of the Group. After sharing the loss of Powder in this quarter, the interests in associate would be HK$3.61 million.

4. **Share of results of an associate**

Summarised financial information in respect of the Group's associate is set out below:

	For the three months ended 31 March 2010
	HK$'000
Total loss for the period	**898**
Group's share of loss of an associate	**228**

5. **Taxation**

	For the three months ended 31 March	
	2010	2009
	HK$'000	*HK$'000*
Current tax		
The PRC	**469**	645
Deferred tax		
Provision of current period	**1,544**	127
Taxation attributable to the Group	**2,013**	772

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.

6. **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 **2010**	2009
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	**HK$10,709,000**	HK$7,802,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**450,293,770**	415,275,000
Effect of dilutive potential ordinary shares: options	**12,013,468**	5,689,670
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**462,307,238**	420,964,670

7. **Share capital and reserves**

	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other comprehensive income: Revaluation reserve	Other comprehensive income: Exchange reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	22,506	63,491	9,200	1,190	3,689	2,950	41,704	144,730
Exercise of share options	13	135	–	(37)	–	–	–	111
Employee share option benefits	–	–	–	189	–	–	–	189
Total comprehensive income attributable to shareholders	–	–	–	–	–	–	10,709	10,709
At 31 March 2010	22,519	63,626	9,200	1,342	3,689	2,950	52,413	155,739
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

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Ni1).

BUSINESS REVIEW

The Group maintained its high double digit growth momentum in the first quarter of 2010 in turnover, operation profit and profit attributable to shareholders. Turnover increased 35% to HK$44,609,000 whereas operating profit increased 52.6% to HK$13,167,000. Net profit attributable to shareholders also grew 37% to HK$10,709,000 over the same period of last year.

The revenue growth in the first quarter was propelled by across board increase in sales of existing products, highlighted by 55% increase in sales of Iron Proteinsuccinylate Oral Solution and 42% increase in sales of *Carnitene*® compared with first quarter of previous year.

In anticipation of launch of several new products in second quarter of 2010, the Group had invested in expanding its sales and marketing network. In particular, efforts have been made in building up the Group's detailing sales team by hiring significant numbers of medical representatives. As a result, selling and distribution expenses to turnover ratio for the first quarter of 2010 was 28.9%, lower than 30.4% for same period last year but higher than 27.5% achieved for the whole year of 2009.

Although administrative expenses increased by HK$1.5 million compared with same period last year due to the increase in staff cost and other operating expenses to cope with increase in transaction volume, the administrative expenses to turnover ratio was kept rather steady at 14%.

The Group has also intensified its research and development activities in the first quarter, reflected in a 136.4% increase in research and development expenses compared to same period last year. Two new clinical studies were initiated during the quarter, including the phase I study for the Group's proprietary first-in-class anti-platelet product *Declotana*.

Despite the net increases in administrative expenses, sales and marketing expenses and research and development expenses, the Group had managed to achieve a 52.6% jump in operating profit compared to first quarter last year. The significant growth of operating profit was made possible by continuing improvement in gross profit margin. For the first quarter of 2010, gross margin was 72.8%, higher than 71.4% recorded for the first quarter of 2009 and 71.7% recorded for the whole year of 2009 respectively.

During the period under review, the Group concluded two licensing agreements with Polichem of Switzerland and Recordati of Ireland for *Defnegin*® and *Zanidip*® respectively. Both products have already been registered in China and readily available for marketing. Both products fit very well into the Group's focused areas of gynecology and cardiology. In addition, the Group gained registration approval for two of its license-in medical device, namely *Challenger*® balloon and *Veloderm*®.

As at 31 March 2010, the Group had cash and bank balances and pledged bank deposits of approximately HK$68 million. The Group had bank and other borrowing of approximately HK$16 million as at 31 March 2010.

In January 2010, the wholly owned subsidiary Powder Pharmaceuticals Incorporated has become an associate of the Company upon the issuance of its new shares to Lee's Pharmaceutical International Limited and other subscribers.

PROSPECT

The strong performances of the Group's existing products are expected to continue, which could be boosted further by inclusion of three of the Group's existing products into the national drug reimbursement list.

Also, four new products, namely *Defnegin*®, *Zanidip*®, *Challenger*® balloon and *Veloderm*® are now ready for sales and marketing by the Group. The substantial increase in product portfolio could broaden the revenue base, driving the Group onto a new level of growth.

Last, but not least, on 10 March 2010, the Company made an application to the Stock Exchange for the transfer of listing of the shares from the GEM to the Main Board. On 4 May 2010, the Stock Exchange granted its approval in principle for the transfer of listing. The last day of dealings in the Shares on GEM will be 13 May 2010. Dealings in the Shares on the Main Board will commence at 9:30 a.m. on 14 May 2010. The shares will be traded on the Main Board under the new stock code 950. The directors expect that listing on the Main Board will enhance the profile of the Group and provide broader growth opportunity to the Group.

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 2010.

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

Executive directors:
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee
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, 13 May 2010