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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: 950)

### THIRD QUARTERLY RESULTS ANNOUNCEMENT

#### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2010

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 and nine months ended 30 September 2010 together with the comparative unaudited consolidated figures for the corresponding period in 2009 as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	(2)	66,190	46,277	171,477	122,890
Cost of sales		(21,886)	(12,252)	(51,822)	(33,420)
Gross Profit		44,304	34,025	119,655	89,470
Other revenue		2,035	1,049	4,352	1,428
Gain on deemed disposal of a subsidiary		-	-	234	-
Selling and distribution expenses		(19,201)	(12,437)	(48,286)	(34,524)
Research and development expenses		(841)	(1,315)	(3,834)	(2,964)
Administrative expenses		(7,809)	(5,637)	(21,598)	(15,341)
Profit from operations		18,488	15,685	50,523	38,069
Finance costs		(273)	(211)	(794)	(436)
Share of results of an associate		(297)	-	(760)	-
Profit before taxation		17,918	15,474	48,969	37,633
Taxation	(3)	(2,576)	(2,088)	(7,347)	(4,161)
Profit for the period		<u>15,342</u>	<u>13,386</u>	<u>41,622</u>	<u>33,472</u>
Attributable to:					
Equity holders of the Company		15,402	13,386	41,682	33,472
Non-controlling interests		(60)	-	(60)	-
		<u>15,342</u>	<u>13,386</u>	<u>41,622</u>	<u>33,472</u>
Dividends	(4)	-	-	4,508	3,325
		<u>HK cents</u>	<u>HK cents</u>	<u>HK cents</u>	<u>HK cents</u>
Earnings per share					
Basic	(5)	<u>3.42</u>	<u>3.12</u>	<u>9.25</u>	<u>7.97</u>
Diluted	(5)	<u>3.32</u>	<u>3.05</u>	<u>8.99</u>	<u>7.83</u>

\* For identification purposes only

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the nine months ended 30 September 2010*

	<b>For the nine months ended 30 September</b>	
	<b>2010</b>	2009
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit for the period	<b>41,622</b>	33,472
Other comprehensive income:		
Exchange differences on translation of:		
– Financial statements of overseas subsidiary	<b>1,315</b>	348
– Revaluation of overseas buildings	<b>65</b>	32
	<hr/>	<hr/>
Other comprehensive income for the period	<b>1,380</b>	380
	<hr/>	<hr/>
Total comprehensive income for the period	<b>43,002</b>	33,852
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Equity holders of the Company	<b>43,059</b>	33,852
Non-controlling interests	<b>(57)</b>	–
	<hr/>	<hr/>
	<b>43,002</b>	33,852
	<hr/> <hr/>	<hr/> <hr/>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to equity holders of the Company

	Share-based							Non-controlling interests	Total equity	
	Share capital	Share premium	Merger difference	compensation reserve	Revaluation reserve	Exchange reserve	Retained profits			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
At 1 January 2010	22,506	63,491	9,200	1,190	3,689	2,950	41,704	144,730	–	144,730
Employee share option benefits	–	–	–	605	–	–	–	605	–	605
Exercise of share option	36	237	–	(71)	–	–	–	202	–	202
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	379	379
Total comprehensive income for the period	–	–	–	–	65	1,312	41,682	43,059	(57)	43,002
2009 final dividend	–	–	–	–	–	–	(7,209)	(7,209)	–	(7,209)
2010 interim dividend	–	–	–	–	–	–	(4,508)	(4,508)	–	(4,508)
At 30 September 2010	<u>22,542</u>	<u>63,728</u>	<u>9,200</u>	<u>1,724</u>	<u>3,754</u>	<u>4,262</u>	<u>71,669</u>	<u>176,879</u>	<u>322</u>	<u>177,201</u>
At 1 January 2009	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335	–	85,335
Employee share option benefits	–	–	–	240	–	–	–	240	–	240
Exercise of share options	147	776	–	(113)	–	–	–	810	–	810
Issue of ordinary shares	1,514	17,723	–	–	–	–	–	19,237	–	19,237
Total comprehensive income attributable to shareholders	–	–	–	–	32	348	33,472	33,852	–	33,852
2008 final dividend paid	–	–	–	–	–	–	(4,568)	(4,568)	–	(4,568)
2009 interim dividend paid	–	–	–	–	–	–	(3,586)	(3,586)	–	(3,586)
At 30 September 2009	<u>22,425</u>	<u>63,032</u>	<u>9,200</u>	<u>1,215</u>	<u>3,689</u>	<u>2,952</u>	<u>28,807</u>	<u>131,320</u>	<u>–</u>	<u>131,320</u>

Notes:

## 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS 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 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 period, 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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
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
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)- Int 18	Transfers of Assets from Customers
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>3</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>1</sup>
HKFRS 1 (Amendment)	Limited Exceptions from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HK(IFRIC)-Int14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Company's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial performance and financial position of the Group.

## 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.

### Business segments

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Proprietary products	36,813	28,034	97,860	74,180
License-in products	29,377	18,243	73,617	48,710
	<u>66,190</u>	<u>46,277</u>	<u>171,477</u>	<u>122,890</u>

### Geographical segments

During the period ended 30 September 2010 and 2009, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

## 3. TAXATION

	(Unaudited) For the three months ended 30 September		(Unaudited) For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Current tax				
PRC Enterprise Income Tax	746	1,011	2,396	2,796
Overprovision in prior year	–	–	(14)	–
	<u>746</u>	<u>1,011</u>	<u>2,382</u>	<u>2,796</u>
Deferred tax				
Provision of current period	1,830	1,077	4,965	1,365
Taxation attributable to the Group	<u>2,576</u>	<u>2,088</u>	<u>7,347</u>	<u>4,161</u>

Hong Kong Profits Tax has not been provided as the Group had no estimated 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. DIVIDENDS

An interim dividend of HK\$0.01 per share, totalling HK\$4,508,000 for the six months ended 30 June 2010 was declared on 19 August 2010 and paid on 29 September 2010.

The Board does not recommend the payment of other interim dividend for the third quarter of 2010.

#### 5. EARNINGS PER SHARE

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

	(Unaudited) For the three months ended 30 September		(Unaudited) For the nine months ended 30 September	
	2010	2009	2010	2009
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	<b><u>HK\$15,402,000</u></b>	HK\$13,386,000	<b><u>HK\$41,682,000</u></b>	HK\$33,472,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>450,832,437</b>	429,222,582	<b>450,596,796</b>	420,000,559
Effect of dilutive potential ordinary shares: Options	<b>13,085,959</b>	9,568,690	<b>13,001,066</b>	7,465,812
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>463,918,396</u></b>	438,791,272	<b><u>463,597,862</u></b>	427,466,371

#### 6. CAPITAL COMMITMENTS

As at 30 September 2010, the Group had capital commitments in respect of the acquisition of intangible assets, which represents the acquired license fee, amounting to HK\$35.7 million and property, plant and equipment amounting to HK\$2.7 million (2009: nil).

## BUSINESS REVIEW AND PROSPECTS

### Business Review

During the third quarter, the Group had seen picking up of pace in sales growth over the previous quarter, driven primarily by the strong performance of existing products. The turnover of HK\$66,190,000 for the third quarter of this year represented a sequential increase of 9% over second quarter this year and an increase of 43% over the third quarter of 2009. For the nine months ended 30 September 2010, the Group achieved a turnover of HK\$ 171,477,000, a 40% growth over the same period last year.

The acceleration of sales growth in the third quarter was led by an increase of 70% in sales of *Livaracine*<sup>®</sup> over the same period of last year. Other existing products had also shared the same growth momentum, registering increase in sales of *Iron Proteinsuccinylate Oral Solution*, *Carnitene*<sup>®</sup> and *Yallaferon*<sup>®</sup> by 64%, 42%, and 26% respectively over the third quarter of 2009.

Profit attributable to shareholders for the nine months ended 30 September 2010 amounted to HK\$41,682,000, representing an increase of 24.5% as compared to same period last year. The net profit of HK\$15,402,000 for the third quarter of 2010 represented an increase of 15% over the third quarter of 2009. The slower profit growth in the third quarter is expected and is transient in nature. The significant inflation of Heparin price at the end of 2009 had put a squeeze on the gross margin of *Livaracine*<sup>®</sup>, resulting a decrease of 6.6 percentage points (66.9% vs. 73.5%) in overall gross margin in the third quarter compared with the same period last year. However, the price of Heparin has since leveled off and started a downward trend in the third quarter this year. Consequently, it is expected that the gross margin of *Livaracine*<sup>®</sup> as well as the overall gross margin will improve in the coming quarters.

The continual investment in building up the Group's direct sales force and intensified marketing efforts for the launch of new products *Zanidip*<sup>®</sup>, *Defnegin*<sup>®</sup> and *Veloderm*<sup>®</sup> also contributed to the slower growth of net profit in the third quarter. Selling expense to turnover ratio for the third quarter of 2010 was 29%, slightly increased compared to the ratio of 26.9% for the same period last year.

To cope with the fast expansion, the Group has made significant investment in human resource. Administrative expenses increased by 40.8% for the nine months period over same period last year mainly due to increase in staff cost and one-off expenses in relation to transfer to main board while the administrative expense to sales ratio for the nine months period remained relatively constant compared with same period last year (12.6% vs. 12.5%).

The Group had also step up its research and development efforts during the third quarter. In addition to the four ongoing clinical studies, the Group has initiated a new clinical study for *Yallaferon*<sup>®</sup> in treatment of cervicitis with HPV infection. The Group will seek to expand the indications of *Yallaferon*<sup>®</sup> if the intended clinical end point of the study is reached. The expansion of the indications could provide new growth momentum for *Yallaferon*<sup>®</sup>. During the period under review, the Group completed a licensing agreement with US National Institute of Health under which the Group has secured the right to develop a peptide drug for topical treatment of Psoriasis in the territories of China and certain southeast Asia countries. New submission for clinical approval was also made to China SFDA in September for an in-house developed product ZK006 for the treatment of liver fibrosis. Other filings are expected in the fourth quarter for dermatological indication and ophthalmological indication.

In the corporate development front, the Group has placed 15 million shares to a strategic investor Fidelity in October this year. The exercise allows the Group to increase substantially its cash balance so that it could be more ready for possible opportunity. The further expansion of shareholders base could also enhance the profile of the Group in the investor community.

### **Prospects**

As the new national reimbursement list for pharmaceuticals has started coming into effected in most provinces during the fourth quarter of 2010, the Group expects to see accelerated sales growth for the newly admitted products *Carnitene*<sup>®</sup>, *Slounase*<sup>®</sup> and *Eyprotor*<sup>®</sup>.

Additionally, more than half of China's provinces and municipal cities had carried out and completed their tender process for pharmaceuticals in the third quarters. The Group's products have been quite successful in participation of those tender processes. As a result, solid foundation has been laid to sustain the future growth of product sales.

In order to better position the Group in China's ever changing pharmaceutical industry environment, the Group has recently invested in a company licensed for distribution of pharmaceutical products in China. The Group has 67% stake in the subsidiary and the company had just passed the required GSP inspection. The directors expect that the subsidiary will allow the Group to handle the importation, warehousing and distribution of its licensed in products with greater flexibility and better efficiency. As the sales of licensed in products are expected to increase significantly in the future, the cost saving aspect could also be significant for the Group.

The plant of Powder Pharmaceuticals Incorporated (“Powder”), an associate of the Group, which is located in Hong Kong Science Park, has achieved an important milestone – starting of operation in October. Powder is engaged in the development, manufacturing and sales of *Zingo*<sup>®</sup>, a novel pharmaceutical product for pain management. It could become the first US FDA approved manufacturing facility in Hong Kong for production of US FDA approved products. The directors expect that *Zingo*<sup>®</sup> will contribute revenue to the Group in year 2012.

The Group will continue to allocate more resources in research and development in order to speed up the launch of new products and maintain the growth in revenue and profit of the Group.

With the growth in sales of existing products and newly launched products, the directors are confident that the Group will continue to deliver satisfactory return to its shareholders in the future.

#### **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 nine months ended 30 September 2010.

#### **AUDIT COMMITTEE**

An audit committee was set up with written terms of reference in compliance with Rules 3.21 of the Main Board 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 has reviewed with the management and auditors this unaudited quarterly results for the nine months ended 30 September 2010 before recommending it to the Board for approval.

By order of the Board  
**Lee Siu Fong**  
*Chairman*

Hong Kong, 18 November 2010

*As at the date thereof, Ms. Lee Siu Fong (Chairman of the Company), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Mr. Mauro Bove is non-executive Director, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.*