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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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2014

BUSINESS REVIEW

The Group had started the year 2014 with the same vigor as in 2013 that resulted in another quarter of consistent performance and strong growth momentum, breaking new ground in a slew of areas.

The growth trend in revenue edged higher during the first quarter of the year, overtaking the pace of year 2013 with turnover for the first quarter of 2014 surged by 39% compared with same quarter last year and reached new height of HK\$206,214,000. The sales of the Group's major products continued to perform well, with sales of newer product Zanidip® continued to take the pole position with a leap of 93% compared with same quarter last year. Sales of older products also grew significantly with sales of Livaracine®, Carnitene®, Ferplex® and Yallaferon® increased by 46%, 42%, 38% and 27% respectively over the same period last year.

Net profit attributable to shareholders also attained historical height in the first quarter of 2014, reaching the level of HK\$42,100,000 despite 122% increasing investment in drug research and development. The slight decrease in gross profit margin by 0.4 percentage point and in net profit margin by 1.4 percentage point did not dent the upward trajectory of net profit growth as it increased by 30.3% over the same quarter last year.

Regarding production and facility, preparation was continued during the quarter to make the Group more adapt to the market change. Hefei facility has been in full operation since the Chinese New Year and the transition from old facility to the new one had been smooth and successful. The highly automatic production process substantially enhances the Group's production capacity while significantly reduces quality risk for the product.

* *For identification purposes only*

The construction works of the Nansha facility have been completed. It is now ready for installation of production modules for manufacturing of a variety of dosage forms, such as solid dose, pre-filled syringe and oral solution. Upon completion, the Group will be in a position to offer a complete range of formulations to the market, greatly augmenting its competitiveness as a specialty pharmaceutical company in China.

The Group's commitment to research and development had been intensified in the quarter, illustrated by 122% spending jump in this realm over same period last year. A total of six Investigative New Drug (IND) applications have been actively under review by CFDA. One of the six IND applications was approved by CFDA in February of 2014. Adapalene and Clindamycin combination hydrochloride Gel is a proprietary product (China Patent No. 200810004156.1) developed by the Group's in-house R&D team. It is indicated for moderate to severe acne in which there is still unmet medical need. The combination formulation could bring out the synergic effect and improve patient compliance for the treatment. The Group has started the preparation for clinical study upon the approval and first patient enrollment is expected in earlier third quarter.

As up to additional five clinical studies are anticipated to start for the remaining of the year, the Group is gearing up its preparation by aggressively expanding its clinical development team. Seasoning managers were brought in and system is upgraded to improve the team's capacity and capability. A computerized clinical trial managing system CTMS has been installed to strengthen operation effectiveness and efficiency.

The sales and marketing efforts in the quarter under review mainly focused on the preparation for the launch of both oral carnitine and Remodulin®. Given the growth momentum of the Group's direct sales force, the available of oral carnitine will further boost the confidence of the team, providing new catalyst to propel it to a new level. The contribution of the Group's direct sales force to the total revenue is expected to continue to climb.

Having considered that niche nature of Remodulin®, the Group, operating through its JV subsidiary CVie Therapeutics, has set up a sales and marketing team dedicated to the product only. The recruitment phase had completed and training is underway. The highly specialized team is small in number but big in knowledge of pulmonary hypertension to provide the best service to patients.

In the partnership arena, the Group remained committed to co-development model in order to leverage on both partners' strength in development. In February this year, the Group entered into a license agreement with Dilafor AB, a Swedish drug development company, to manufacture, develop and commercialize tafoxiparin for obstetrics and gynecological indications in China, Hong Kong, Macau and Taiwan. Pursuant to the terms of the agreement, the Group and Dilafor will jointly develop tafoxiparin for obstetrical and gynecological indications. The joint clinical development program of tafoxiparin will initially be focused on reducing labor times for patients who do not start labor spontaneously and are induced into labor, an indication where both the Group and Dilafor see a major medical need for the product in terms of improving outcomes for both mother and baby.

PROSPECT

The growth momentum of existing major products should carry the Group further along the trajectory of last seven years and deliver consistent results in the near future.

With many provincial tenders opening up during the remaining of the year, the newer products will have the chance to realize their potential in the market place. The activity could generate new growth momentum for the Group.

The launch of both oral carnitine and Remodulin® adds new dimension to the Group's growth path. Intensified efforts on brand building and medical promotion will create excitement in field and medical community, making a ripple effect to the sales of existing products.

The possible initiation of seven clinical studies in 2014 not only ascertains the Group's relentless pursuit of excellence in drug development, but also places it in an advantageous position to reap benefit of China's continuing growth in the healthcare industry.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2014

		For the three months ended 31 March	
		2014	2013
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	(2)	206,214	148,447
Cost of sales		(58,601)	(41,618)
		<hr/>	<hr/>
Gross profit		147,613	106,829
Other revenue		5,595	1,791
Selling and distribution expenses		(67,494)	(46,939)
Research and development expenses		(9,919)	(4,464)
Administrative expenses		(22,949)	(19,131)
		<hr/>	<hr/>
Profit from operations		52,846	38,086
Finance costs		(786)	(291)
Share of results of associate		(1,626)	–
		<hr/>	<hr/>
Profit before taxation		50,434	37,795
Taxation	(3)	(9,689)	(5,676)
		<hr/>	<hr/>
Profit for the period		40,745	32,119
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Shareholders of the Company		42,100	32,310
Non-controlling interests		(1,355)	(191)
		<hr/>	<hr/>
		40,745	32,119
		<hr/> <hr/>	<hr/> <hr/>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basis	(4)	7.79	6.20
		<hr/> <hr/>	<hr/> <hr/>
Diluted	(4)	7.51	5.84
		<hr/> <hr/>	<hr/> <hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	For the three months ended 31 March	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	40,745	32,119
Other comprehensive income:		
Items that may not be reclassified subsequently to profit or loss:		
Exchange differences on translation of revaluation of overseas buildings	–	10
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(10,379)	731
Other comprehensive (expense) income for the period, net of tax	(10,379)	741
Total comprehensive income for the period	<u>30,366</u>	<u>32,860</u>
Total comprehensive income (expense) for the period attributable to:		
Shareholders of the Company	31,708	33,051
Non-controlling interests	(1,342)	(191)
	<u>30,366</u>	<u>32,860</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2014

	Attributable to the shareholders of the Company							Attributable to non-controlling interests		Total HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Share-based compensation reserve HK\$'000	Other reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		Attributable to non-controlling interests HK\$'000
At 1 January 2014	26,912	292,326	9,200	5,392	60,312	-	23,284	368,579	786,005	66,053	852,058
Employee share option benefit	-	-	-	962	-	-	-	-	962	-	962
Exercise of share options	195	1,127	-	(404)	-	-	-	-	918	-	918
Share of share-based compensation reserve of a subsidiary	-	-	-	6	-	-	-	-	6	4	10
Profit (loss) for the period	-	-	-	-	-	-	-	42,100	42,100	(1,355)	40,745
Other comprehensive income (expense) for the period	-	-	-	-	-	-	(10,392)	-	(10,392)	13	(10,379)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(10,392)	42,100	31,708	(1,342)	30,366
At 31 March 2014	<u>27,107</u>	<u>293,453</u>	<u>9,200</u>	<u>5,956</u>	<u>60,312</u>	<u>-</u>	<u>12,892</u>	<u>410,679</u>	<u>819,599</u>	<u>64,715</u>	<u>884,314</u>
At 1 January 2013	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279
Employee share option benefit	-	-	-	701	-	-	-	-	701	-	701
Exercise of share options	22	547	-	(109)	-	-	-	-	460	-	460
Share of share-based compensation reserve of a subsidiary	-	-	-	8	-	-	-	-	8	2	10
Deemed partial disposal of interest in a subsidiary	-	-	-	-	11,592	-	-	-	11,592	11,670	23,262
Profit (loss) for the period	-	-	-	-	-	-	-	32,310	32,310	(191)	32,119
Other comprehensive income for the period	-	-	-	-	-	10	731	-	741	-	741
Total comprehensive income (expense) for the period	-	-	-	-	-	10	731	32,310	33,051	(191)	32,860
At 31 March 2013	<u>26,077</u>	<u>261,203</u>	<u>9,200</u>	<u>3,892</u>	<u>28,630</u>	<u>4,046</u>	<u>15,367</u>	<u>279,553</u>	<u>627,968</u>	<u>22,604</u>	<u>650,572</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

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, Hong Kong Accounting Standards (“HKAS”) and Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared on the historical cost basis.

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 2013 except as described below.

In the current period, the Group has applied the following new and revised HKFRSs issued by the HKICPA, which are or have become effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investments Entities
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The application of the new and revised HKFRSs in the current period has had no material impact on the Group’s financial performance and position for the current and prior period and/or the disclosure set out in these unaudited condensed consolidated financial statements.

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	
	2014 HK\$’000	2013 HK\$’000
Proprietary products	80,273	62,495
Licensed-in products	125,941	85,952
	<u>206,214</u>	<u>148,447</u>

Geographical segments

During the period ended 31 March 2014 and 2013, 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	
	2014	2013
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	6,320	3,963
PRC Enterprise Income Tax	2,710	1,343
Under (over) provision in prior years	978	(139)
	<hr/>	<hr/>
	10,008	5,167
Deferred tax		
Origination and reversal of temporary differences	(319)	509
	<hr/>	<hr/>
	9,689	5,676
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

4. EARNINGS PER SHARE

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

	For the three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
<i>Earnings:</i>		
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	42,100	32,310
Effect of dilutive potential ordinary shares: Adjustment in relation to contingent share agreement	(403)	–
	<hr/>	<hr/>
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	41,697	32,310
	<hr/> <hr/>	<hr/> <hr/>

	2014 <i>Share(s)</i>	2013 <i>Share(s)</i>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	540,499,048	521,371,104
Effect of dilutive potential ordinary shares:		
Options	9,864,584	11,747,018
Contingent share arrangement	4,995,724	20,162,391
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	555,359,356	553,280,513
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5. RELATED PARTY TRANSACTIONS

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

(a) Purchase from Sigma-Tau Group

Name of related party	Note	Nature of transaction	For the three months ended 31 March	
			2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	3,791	20,281
Simga-Tau Group	(1)	Purchase of experimental products for use in R&D	803	1,768
			<hr/>	<hr/>
			4,594	22,049
			<hr/> <hr/>	<hr/> <hr/>

Note:

- Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. is a shareholder of the Company which is also a member of Sigma-Tau Group.

(b) Interest income from shareholder loans to Powder Pharmaceutical Incorporated ("PPI")

During the three months ended 31 March 2014, the Group received HK\$121,000 (31 March 2013: HK\$116,000) interest income from loans to PPI. PPI is an associate to the Group.

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

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

	For the three months ended 31 March	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	3,996	4,312
Share-based payments	295	198
Retirement and other post-employment benefits	3,348	2,723
	<hr/>	<hr/>
	7,639	7,233
	<hr/> <hr/>	<hr/> <hr/>

6. CAPITAL COMMITMENTS

	31 March 2014	31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments in respect of:		
Intangible assets – license fee and development cost	12,238	15,049
Property, plant and equipment	13,377	15,308
Construction contract	18,560	28,096
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	44,175	58,453
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7. EVENTS AFTER THE END OF THE INTERIM PERIOD

On 2 May 2014, the Group signed a Deed of Guarantee for providing guarantee in amount of HK\$6,000,000 to Bank in respect of the Facility given by Bank to Powder Pharmaceutical Incorporated. Further detail of this transaction is set out in the announcement of the Company dated 2 May 2014.

DIVIDEND

The Board does not recommend payment of dividend for the three months ended 31 March 2014. (2013: Nil)

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 period ended 31 March 2014.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The results for the three months ended 31 March 2014 are unaudited, but have been reviewed by auditors 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.

The audit committee of the Company has reviewed with the management and auditors this unaudited report for the three months ended 31 March 2014 before recommending it to the Board for approval.

On behalf of the Board
Lee Siu Fong
Chairman

Hong Kong, 26 May 2014

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.