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 2011

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2011

	Notes	For the three months ended 31 March 2011 HK$'000	2010 HK$'000
Turnover	(2)	**73,679**	44,609
Cost of sales		**(19,355)**	(12,121)
Gross profit		**54,324**	32,488
Other revenue		**1,203**	1,011
Gain on deemed disposal of a subsidiary		**–**	234
Gain on deemed disposal of associates	(3)	**6,441**	–
Selling and distribution expenses		**(31,153)**	(12,888)
Research and development expenses		**(3,617)**	(1,421)
Administrative expenses		**(7,856)**	(6,257)
Profit from operations		**19,342**	13,167
Finance costs		**(259)**	(217)
Share of results of associates	(4)	**(273)**	(228)
Profit before taxation		**18,810**	12,722
Taxation	(5)	**(1,834)**	(2,013)
Profit for the period		**16,976**	10,709
Attributable to:			
Shareholders of the Company		**16,894**	10,709
Non-controlling interests		**82**	–
		16,976	10,709
		HK cents	*HK cents*
Earnings per share			
Basic	(6)	**3.62**	2.38
Diluted	(6)	**3.52**	2.32

* *For identification purposes only*

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2011

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**16,976**	10,709
Other comprehensive income:		
Exchange differences on translation of:		
– Financial statements of overseas subsidiary	**783**	–
– Revaluation of overseas buildings	**33**	–
Release of share of other reserves of associates	**(5,855)**	–
Other comprehensive expenses for the period, net of tax	**(5,039)**	–
Total comprehensive income for the period	**11,937**	10,709
Total comprehensive income attributable to:		
Shareholders of the Company	**11,853**	10,709
Non-controlling interests	**84**	–
	11,937	10,709

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 2010 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)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 7 and HKAS 1[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKAS 24 (as revised in 2009)	Related Party Disclosures[3]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
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 July 2010 or 1 January 2011, as appropriate
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 February 2010

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 amendments to HKFRS 7 *titled Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 *titled Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and difference between the carrying amount of financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

HKFRS 1 (Amendments)	Severe hyperinflation and fixed dates for first-time adopters[1]
HKFRS 9 (Revised)	Financial Instruments[3]
HKAS 12 (Amendments)	Income Taxes-Amendments[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measurement at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

The consolidated results for the three months ended 31 March 2011 have not been audited by the Group's auditors, but have been reviewed by the Group'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	
	2011	2010
	HK$'000	*HK$'000*
Proprietary products	**38,956**	24,752
License-in products	**34,723**	19,857
	73,679	44,609

Geographical segments

During the period ended 31 March 2011 and 2010, 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 ASSOCIATES

	For the three months ended 31 March 2011 *HK$'000*
Fair value at the date of deemed disposal of associates	**8,849**
Carrying amount of investment on the date of deemed disposal of associates	**(8,263)**
Release of share of other reserves of associates	**5,855**
Gain on deemed disposal of associates	**6,441**

On 2 March 2011, Powder Pharmaceuticals Incorporated ("Powder") issued 30,000 shares to new shareholders and the Group's equity interests in Powder reduced from 25.36% to 15.85%. Hence, investment in Powder became available- for-sales financial asset as the Group has lost the significant influence over Powder.

4. SHARE OF RESULTS OF ASSOCIATES

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

	HK$'000
Total loss for the period to the date of disposal	1,077
Group's share of loss of associates	273

5. TAXATION

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**325**	469
Deferred tax		
Provision of current period	**1,509**	1,544
Taxation attributable to the Group	**1,834**	2,013

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	
	2011	2010
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	**HK$16,894,317**	HK$10,709,260
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**466,255,548**	450,293,770
Effect of dilutive potential ordinary shares: options	**13,025,653**	12,013,468
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**479,281,201**	462,307,238

7. SHARE CAPITAL AND RESERVES

	Attributable to the shareholders of the Company										
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Merger difference** *HK$'000*	**Share-based compensation reserve** *HK$'000*	**Other reserves** *HK$'000*	**Revaluation reserve** *HK$'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 2011	23,292	103,143	9,200	1,969	5,855	3,818	5,774	88,013	241,064	284	241,348
Employee share option benefits	–	–	–	309	–	–	–	–	309	–	309
Exercise of share options	22	475	–	(40)	–	–	–	–	457	–	457
Profit for the period	–	–	–	–	–	–	–	16,894	16,894	82	16,976
Other comprehensive expenses for the period	–	–	–	–	(5,855)	33	781	–	(5,041)	2	(5,039)
Total comprehensive income for the period	–	–	–	–	(5,855)	33	781	16,894	11,853	84	11,937
At 31 March 2011	23,314	103,618	9,200	2,238	–	3,851	6,555	104,907	253,683	368	254,051
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	–	–	–	189	–	–	–	–	189	–	189
Exercise of share options	13	135	–	(37)	–	–	–	–	111	–	111
Total comprehensive income for the period	–	–	–	–	–	–	–	10,709	10,709	–	10,709
At 31 March 2010	22,519	63,626	9,200	1,342	–	3,689	2,950	52,413	155,739	–	155,739

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2011 (2010: Ni1).

BUSINESS REVIEW

Given some uncertainties in pharmaceutical market in China in the last six months, the Group was extremely encouraged by its accelerated pace in growth momentum achieved in the first quarter of 2011. Both turnover and net profit registered significant increase over the same period in 2010 with sales and net profit up 65.2% and 57.8% respectively to reach the level of HK$73,679,000 and HK$16,894,000 respectively.

The acceleration in sales growth was catalyzed by strong performance of both *Slounase*® and *Carnitene*® with a growth rate of 77% and 60% respectively. Both products are the newly entrant of new national pharmaceutical reimbursement list that has been coming into effect on province-by-province base since fourth quarter of last year. Other existing products also saw increasing demand with *Livaracine*® and *Ferplex*® achieving growth of 51% and 47% respectively for the first quarter 2011 compared with same period last year.

Gross profit margin kept improving in the quarter under review to reach 73.7% and surpassed the highest level of 72.8% achieved in the first quarter of 2010. It was a more than 5% sequential increase to the level achieved in the fourth quarter of 2010. The decrease in raw material cost and the increase in productivity contributed to the improvement in the gross profit margin.

During the period, the Group earned a gain of HK$ 6,441,000 on deemed disposal of associates Powder Pharmaceuticals Incorporated which was resulted upon further issuance of its capital to third parties. The equity interest of Powder Pharmaceuticals Incorporated held by the Group changed from 25.36% to 15.85%.

The Group maintained its intensity in building the direct sales force and continued to investing in new product launch and medical marketing for existing products. As a result, selling expenses to turnover ratio increased from 29% for the first quarter last year to 42% for the first quarter this year. However, it is expected that the current level will start to decrease in the coming quarter as revenue generated by the direct sales force becomes more substantial to the overall turnover. Today, the Group's "hybrid engine" model for marketing and sales in which the well established distributor network is combined with the well coverage direct sales force, allows the Group to fully leverage its resources and positions the Group to become more efficient in the market place.

Important milestones have also been reached in research and development during the first quarter of 2011. *Declotana*®, the Group's proprietary, first-in-class platelet 1b antagonist, has completed its phase I clinical study. The results show that *Declotana*® possesses excellent safety profile with strong anti-platelet activity. The planning for the phase II study is ongoing and the trial will be started in the early second half of 2011.

Enrollment target for the registration clinical study in China on Apogepha's original product, *Mictonorm*® XL, to evaluate the effectiveness and safety for treatment in Chinese patients with urinary incontinence was reached in the first quarter of 2011. Study report will be ready by June this year for applying Import Drug License from China SFDA.

In addition, clinical study applications for both ZK007 for dry eye and ZK008 for acne have been submitted to China SFDA in the first quarter of 2011. Both drugs have proprietary formulation and are originated from the Group's in-house research and development programs. Several other submissions aimed at better life cycle management of the existing products have also been made in the first quarter and are now under review by China SFDA. Those efforts could yield significant long term benefit to the existing products and enhance greatly their competitiveness in the market place.

PROSPECT

With strong results in the first quarter, the Group is confident to maintain the growth momentum in the remaining quarters and beyond.

The existing products will continue to benefit from the healthcare reform in China that has significantly improved the affordability of pharmaceuticals to Chinese patients. The rising consciousness in personal health and an aging population also fuel the demand for effective service and products.

The direct sales force is starting to perform which will drive the sales of newer products such as *Zanidip*®. It will result in the broader market penetration for the Group's products and the wider revenue base for the Group.

The expected launch of *Brio*® PTCA Balloon Catheters licensed from Carbostent & Implantable Devices S.r.l. for the treatment of acute coronary syndrome and Gaslon *N*® licensed from Nippon Shinyaku for the treatment of gastric ulcer in the second quarter this year will certainly create new avenue for revenue growth. The expected approval and subsequent launch of one or two additional new products later this year will together generate significant market activities, enhancing the brand awareness of all the Group's products in the market place.

Last but not least, two of the most important development programs of the Group are expected to enter into phase II clinical study in the second quarter. *Declotana*®, the first in class anti-platelet product discovered and developed in house will be tested for efficacy in ST elevated myocardial infarction patients who undergo emergency PTCA procedure. JX-594, a second generation oncolytic virus licensed from Jenerex will be studied for survival benefit in patients with sorafenib-refactory hepatocellular carcinoma. If the efficacy of both drugs is confirmed in large randomized trials, they could represent major new treatment options for both diseases. The Group believes the commitment that it is making in development of products for significant unmet medical need will be the key to deliver sustained growth for the Group in future.

The Group will speed up its efforts in expanding the market penetration of its products and in product development in the coming quarter, paving the way for faster growth and better return to its shareholders.

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 three months ended 31 March 2011.

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 Listing Rules, or has any other conflict of interests with the Group during the period ended 31 March 2011.

AUDIT COMMITTEE

An audit committee was set up with written terms of reference in compliance with Rules 3.21 of the 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 2011 before recommending it to the Board for approval.

By order of the Board
Lee Siu Fong
Chairman

Hong Kong, 23 May 2011

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.