



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)



\* For identification purpose only

## QUARTERLY FINANCIAL STATEMENTS

The directors (the “Directors”) of Lee’s Pharmaceutical Holdings Limited (the “Company”) present herewith the unaudited consolidated quarterly financial results (the “Quarterly Results”) of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2015, together with the comparative figures for the corresponding period in 2014.

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited report of the Company for the three months ended 31 March 2015 before recommending it to the Board for approval.

## BUSINESS REVIEW

Year 2015 has proven to be a challenging year for the Group as variation in tender policies of different provinces has unsettled the market. The uncertainty has created strong headwind, somewhat slowing down the growth momentum of the Group. Nevertheless, the Group continued to make progress in other areas of development during the quarter, preparing itself to regain its tracking in a difficult environment.

For the three months ended 31 March 2015, the revenue of the Group recorded a mild growth of 11.7% to HK\$230,323,000 in the current quarter from HK\$206,214,000 recorded in the first quarter 2014. Despite some of the Group’s flagship products such as Zanidip<sup>®</sup>, Yallaferon<sup>®</sup> and Livaracine<sup>®</sup> either kept or accelerated its sales growth of 56.3%, 46.5% and 23.9%, respectively, compared with same quarter last year, the growth momentum was dragged down by the underperformance of both Carnitene<sup>®</sup> and Ferplex<sup>®</sup>. The sales of Carnitene<sup>®</sup> decreased slightly compared to corresponding period of last year as a result of unexpected bigger interruption of Chinese New Year holiday on the demand of the product. The sales of Ferplex<sup>®</sup> had dropped more sharply by 21.7% as compared to the corresponding quarter in 2014 which was mainly due to the unexpected interruption in the supply of products. The supply has since returned to normal and no further impact is expected.

During the period under review, the growth profit margin held steady at 71%, maintaining the similar level as to the 71.6% achieved in the same quarter of 2014. Excluding non-recurrent items such as exchange loss and expenses incurred for the restructuring of CVie Therapeutics Company Limited, a non-wholly owned indirect subsidiary of the Company, for the starting up of research and development (“R&D”) work in Taiwan as well as the exploring of the feasibility of potential spin-off and separate listing in the future, the growth of the underlying operational profit during the quarter was at the similar level of revenue growth. However, those non-recurrent expenses and increase in selling and marketing spending on new products such as Remodulin<sup>®</sup> resulted in reduction of net profit margin from 20.4% of last year to the level of 17.6% in the first quarter of 2015. The net profit attributable to shareholders therefore decreased slightly by 3.9% compared to the same period of 2014 to a level of HK\$40,446,000. The Group is confident that such reverse is temporary in nature and positive net profit growth will return as expense is expected be back to normalcy in the future quarters.

During the period under review, the sales of licensed-in products and proprietary products contributed 57% and 43%, respectively, to the revenue.

With respect to manufacturing facility, the Group continued to expand its capability to cope with its increasing product development effort. The design of a solid dose production facility, together with a state of art solid dose drug development centre and a central quality control laboratory has been completed recently. The construction of the facility will start in June. Upon completion, the new facility not only enables the Group's expansion into solid dose products, but also augments the Group's product development capability and capacity. In addition, working with partner in China, the Group is in the process of setting up a production line for cytotoxic product that is expected in operation by October 2015. The available of such facility will help to unlock the tremendous value pertained to the Group's oncolytic assets such as Gimatecan. Gimatecan is a phase III enabling oncology product for ovarian cancer that has shown good in-vitro efficacy against China prevalent cancers such as esophagus and liver cancer.

The Group's commitment to R&D had been intensified in the quarter. During the quarter under review, the investment in R&D expenses has been increased 25.1% to HK\$12,413,000 from HK\$9,919,000 of the same period last year. Three IND of new chemical entity (NCE) targeting chemo-induced alopecia, dry eye syndrome and vaginal infection have been actively under review by the China Food and Drug Administration ("CFDA"). In addition, the Group continued to speed up the development of Anfibatide by initiating a Phase Ib clinical study for STEMI patients. The preparation for the Phase Ib study has been completed and the approval from the ethics committee to start the clinical trial has been obtained. The first patient enrollment is targeted by June of 2015.

In March, first patient was enrolled in the Group's phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris. This proprietary formulation was originated from the Group's internal R&D program and is the Group's priority. The enrollment for the aforementioned study expects to be completed by the end of 2015.

The first quarter was an exciting quarter as the Group starts to reap the benefit of its relentless efforts. Three clinical study approvals were received during the quarter for the Group's three licensed-in products. Propionyl-L-Carnitine, after many years' development, has finally received a conditional approval for registration. The requested additional pharmacokinetic study is already underway and registration approval is expected in 2016. In additional, Natulan® received approval for registration study and discussion is ongoing with CFDA to finalise the protocol. It is the Group's first cancer treatment study and it is an important first step for the Group's entrance into cancer therapy. The approval for phase Ib study for Istaroxime had been obtained and first cohort of the tolerability study has completed its enrollment. The phase Ib study is remained on track to start in August.

To accelerate its drug development, the Group has acquired two products during the review period and registration study for both products has started in earnest. Both products are for hypertension and glaucoma respectively, complementing well with the Group's current cardiovascular and ophthalmology product lines.

The Group continued to invest in innovative knowledge-based marketing and promotion that may in short time cause an spike in sales and marketing expenses and a reduction in net profit margin. However, the Group is convinced that the benefit of such effort to sustain sales growth will be evidenced in the near future. As a matter of fact, the Sino-Europe Echocardiography Training Program sponsored by the Group has received good review from the cardiologist community in China. Only six months into the program, there are already 4,000 medical practitioners/physicians registered with the program.

In the corporate development front, the Group has also reached an important milestone. On 14 April 2015, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and the placing of 30,000,000 new shares of the Company pursuant to the placing agreement was completed on 22 April 2015. Net proceeds of approximately HK\$383,849,400 are intended to be used for manufacturing facilities expansion, R&D and general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group.

## PROSPECT

While the pharmaceutical market is still full of uncertainty for the remaining of the year and the challenge facing the Group during the first quarter that tamed the growth will likely to persist, the Group remains cautiously optimistic about the prospect in 2015 and beyond. The positive outlook is based on the facts that the fundamental of the Group remains strong and the spending on healthcare continues to outpace GDP growth in China.

The Group believes that the results of the first quarter were negatively affected by several unexpected events. However, some of the investments that may impact profitability in short term could have long lasting effect on the Group's future growth. It is the Group's intention to continue its investment in future while being more conscious on cost containment.

In May 2015, National Development and Reform Commission has officially announced that pricing controls governing the majority of drugs will be removed starting from 1 June 2015, so as to improve the purchasing mechanisms for drugs and give the market more power to control pharmaceutical costs. On one hand this could fuel further drug price pressure but this could also improve affordability which will keep driving up the drug demand as well. The short term effect of such drastic policy change is market uncertainty that may negatively impact the industry. However, in the long run, the flexibility in pricing will allow the company with competitive edge in its products to better serve the market and gain market shares. The Group will continue to be vigilant on the change and related risk and to stay focus on its growth strategy in order to seize opportunity.

The operation and management team will continue to make its unremitting efforts to attain additional uplift on the performance in the upcoming period.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS***For the three months ended 31 March 2015*

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2014</b> <i>HK\$'000</i> <b>(unaudited)</b>
Turnover	(2)	<b>230,323</b>	206,214
Cost of sales		<b>(66,710)</b>	(58,601)
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Gross profit		<b>163,613</b>	147,613
Other revenue		<b>2,269</b>	5,595
Decrease in fair value of derivative financial instruments		<b>(1,054)</b>	–
Selling and distribution expenses		<b>(72,424)</b>	(67,494)
Research and development expenses		<b>(12,413)</b>	(9,919)
Administrative expenses		<b>(35,171)</b>	(22,949)
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Profit from operations		<b>44,820</b>	52,846
Share of results of an associate		<b>(2,244)</b>	(1,626)
Finance costs		<b>(754)</b>	(786)
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Profit before taxation		<b>41,822</b>	50,434
Taxation	(3)	<b>(5,660)</b>	(9,689)
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Profit for the period		<b>36,162</b>	40,745
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Attributable to:			
Shareholders of the Company		<b>40,446</b>	42,100
Non-controlling interests		<b>(4,284)</b>	(1,355)
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		<b>36,162</b>	40,745
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		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	(4)	<b>7.32</b>	7.79
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Diluted	(4)	<b>7.20</b>	7.51
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## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

	For the three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Profit for the period	36,162	40,745
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	3,768	(10,379)
Fair value changes of available-for-sale financial assets	4,621	–
Other comprehensive income (expense) for the period, net of tax	8,389	(10,379)
Total comprehensive income for the period	44,551	30,366
Total comprehensive income (expense) for the period attributable to:		
Shareholders of the Company	47,032	31,708
Non-controlling interests	(2,481)	(1,342)
	44,551	30,366

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2015

	Attributable to the shareholders of the Company								Attributable to non-controlling interests		Total
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Investments revaluation reserve	Exchange reserve	Retained profits	Sub-total		
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 January 2015 (audited)	27,236	301,196	9,200	7,782	59,344	3,319	7,793	518,471	934,341	64,526	998,867
Employee share option benefits	-	-	-	963	-	-	-	-	963	-	963
Exercise of share options	140	12,523	-	(1,548)	-	-	-	-	11,115	-	11,115
Share of share-based compensation reserve of a subsidiary	-	-	-	6	-	-	-	-	6	4	10
Issue of shares pursuant to Shareholders' Agreement	345	12,035	-	-	-	-	-	-	12,380	-	12,380
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	391	391
Profit (loss) for the period	-	-	-	-	-	-	-	40,446	40,446	(4,204)	36,162
Other comprehensive income for the period	-	-	-	-	-	4,621	1,965	-	6,586	1,803	8,389
<b>Total comprehensive income (expense) for the period</b>	-	-	-	-	-	4,621	1,965	40,446	47,032	(2,481)	44,551
At 31 March 2015 (unaudited)	27,721	325,754	9,200	7,203	59,344	7,940	9,758	558,917	1,005,837	62,440	1,068,277
At 1 January 2014 (audited)	26,912	292,326	9,200	5,392	60,312	-	23,294	368,579	786,005	66,053	852,058
Employee share option benefits	-	-	-	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 (expense) income for the period	-	-	-	-	-	-	(10,392)	-	(10,392)	13	(10,379)
<b>Total comprehensive income (expense) for the period</b>	-	-	-	-	-	-	(10,392)	42,100	31,708	(1,342)	30,366
At 31 March 2014 (unaudited)	27,107	293,453	9,200	5,956	60,312	-	12,892	410,679	819,599	64,715	884,314



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2015

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results have been prepared in accordance with Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and applicable 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 condensed consolidated results are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2014 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to HKAS and HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKAS 19 (2011)	Defined Benefit Plan: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRS 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRS 2011-2013 Cycle

The application of the above amendments to HKAS and HKFRSs in the current period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments <sup>4</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>2</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>2</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>2</sup>
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>



Amendment to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exemption <sup>2</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>2</sup>

- <sup>1</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application is permitted
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

The Group is in the process of making an assessment of what the impact of these new and revised HKASs and HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the unaudited condensed consolidated financial statements of the Group.

## 2. TURNOVER

The principal activities of the Group are the development of, manufacturing of and sales and marketing 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	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Proprietary products	98,289	80,273
Licensed-in products	132,034	125,941
	<b>230,323</b>	<b>206,214</b>

### Geographical segments

During the period ended 31 March 2015 and 2014, 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	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Current tax		
Hong Kong Profits Tax	3,988	6,320
PRC Enterprise Income Tax	3,617	2,710
Under provision in prior years	–	978
	<b>7,605</b>	10,008
Deferred tax		
Origination and reversal of temporary differences	(1,945)	(319)
	<b>5,660</b>	9,689

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	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
<i>Earnings:</i>		
Net profit attributable to the shareholders of the Company for the purpose of basic earnings per share	40,446	42,100
Effect of dilutive potential ordinary shares: Adjustment in relation to contingent share arrangement	–	(403)
Net profit attributable to the shareholders of the Company for the purpose of diluted earnings per share	<b>40,446</b>	41,697

	For the three months ended 31 March	
	2015 <i>Share(s)'000</i> (unaudited)	2014 <i>Share(s)'000</i> (unaudited)
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per shares	552,365	540,499
Effect of dilutive potential ordinary shares:		
Options	9,151	9,864
Contingent share arrangement	–	4,996
Weighted average number of ordinary shares for the purpose of diluted earnings per share	561,516	555,359

## 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	
			2015 <i>HKS'000</i> (unaudited)	2014 <i>HKS'000</i> (unaudited)
Sigma-Tau Group	(1)	Purchase of pharmaceutical products	27,202	3,791
Sigma-Tau Group	(1)	Purchase of experimental products for use in research and development	2,899	803
			30,101	4,594

*Note:*

1. Sigma Tau Finanziaria 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 Pharmaceuticals Incorporated (“PPI”)**

During the three months ended 31 March 2015, the Group received approximate HK\$89,000 (three months ended 31 March 2014: HK\$121,000) 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 managements during the period was as follow:–

	For the three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Short-term employee benefits	3,382	3,996
Share-based payments	214	295
Retirement and other post-employment benefits	2,182	3,348
	<b>5,778</b>	<b>7,639</b>

**6. CAPITAL AND OTHER COMMITMENTS**

	31 March 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Capital commitments in respect of:–		
Investment in available-for-sale financial asset	15,060	14,793
Intangible assets – license fee and development cost	40,707	40,862
Property, plant and equipment	8,054	10,178
Construction contract	17,411	25,334
	<b>81,232</b>	<b>91,167</b>

At 31 March 2015, the Group carried outstanding foreign currency forward contracts with commitment (estimated with reference to the current market conditions at the reporting date) to buy total EUR6,000,000 (At 31 December 2014: EUR12,000,000).

## 7. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 April 2015, the Company entered into a placing agreement with Morgan Stanley & Co. International plc (the "Placing Agent"), pursuant to which the Company has appointed the Placing Agent as the placing agent, and the Placing Agent agreed to act as the placing agent for the Company to procure the professional, institutional and other investors to subscribe 30,000,000 newly issued Shares at the price of HK\$13.02 per Share. The placing of 30,000,000 new Shares pursuant to the placing agreement was completed on 22 April 2015 and the net proceeds of approximately HK\$383,849,400 are intended to be used for manufacturing facilities expansion, research and development and general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group. Details of the placing were disclosed in the Company's announcements dated 14 April 2015 and 22 April 2015.

## DIVIDEND

The Board does not recommend payment of dividend for the three months ended 31 March 2015 (For the three months ended 31 March 2014: 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 three months ended 31 March 2015.

By order of the Board  
**Lee's Pharmaceutical Holdings Limited**  
**Lee Siu Fong**  
Chairman

Hong Kong, 28 May 2015

*As at the date of this announcement, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive directors of the Company, Dr. Marco Maria Brughera is a non-executive director of the Company, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive directors of the Company.*