

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:950)

Third Quarterly Report 2010

* For identification purpose only

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:

| | <i>Notes</i> | 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 | | 15,342 | 13,386 | 41,622 | 33,472 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 15,402 | 13,386 | 41,682 | 33,472 |
| Non-controlling interests | | (60) | – | (60) | – |
| | | 15,342 | 13,386 | 41,622 | 33,472 |
| Dividends | (4) | – | – | 4,508 | 3,325 |
| | | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share | | | | | |
| Basic | (5) | 3.42 | 3.12 | 9.25 | 7.97 |
| Diluted | (5) | 3.32 | 3.05 | 8.99 | 7.83 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2010

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity attributable to equity holders of the Company | | | | | | | | | |
|---|--|----------------|-------------------|----------------------------------|---------------------|------------------|------------------|----------------|---------------------------|----------------|
| | Share capital | Share premium | Merger difference | Share-based compensation reserve | Revaluation reserve | Exchange reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'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 | 22,542 | 63,728 | 9,200 | 1,724 | 3,754 | 4,262 | 71,669 | 176,879 | 322 | 177,201 |
| 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 | 22,425 | 63,032 | 9,200 | 1,215 | 3,689 | 2,952 | 28,807 | 131,320 | - | 131,320 |

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 ³ |
| HKAS 24 (Revised) | Related Party Disclosures ³ |
| HKAS 32 (Amendment) | Classification of Rights Issues ¹ |
| HKFRS 1 (Amendment) | Limited Exceptions from Comparative HKFRS 7 Disclosures for First-time Adopters ² |
| HKFRS 9 | Financial Instruments ⁴ |
| HK(IFRIC)-Int14 (Amendment) | Prepayments of a 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

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 <i>HK\$'000</i> | 2009 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> | 2009 <i>HK\$'000</i> |
| Proprietary products | 36,813 | 28,034 | 97,860 | 74,180 |
| License-in products | 29,377 | 18,243 | 73,617 | 48,710 |
| | 66,190 | 46,277 | 171,477 | 122,890 |

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

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 | HK\$15,402,000 | HK\$13,386,000 | HK\$41,682,000 | HK\$33,472,000 |
| Number of shares: | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 450,832,437 | 429,222,582 | 450,596,796 | 420,000,559 |
| Effect of dilutive potential ordinary shares: Options | 13,085,959 | 9,568,690 | 13,001,066 | 7,465,812 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 463,918,396 | 438,791,272 | 463,597,862 | 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*[®] 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*[®] and *Yallaferon*[®] 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*[®], 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*[®] 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*[®], *Defnegin*[®] and *Veloderm*[®] 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*[®] in treatment of cervicitis with HPV infection. The Group will seek to expand the indications of *Yallaferon*[®] if the intended clinical end point of the study is reached. The expansion of the indications could provide new growth momentum for *Yallaferon*[®]. 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 effect in most provinces during the fourth quarter of 2010, the Group expects to see accelerated sales growth for the newly admitted products *Carnitene*[®], *Slounase*[®] and *Eyprotor*[®].

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 operation in October. Powder is engaged in the development, manufacturing and sales of *Zingo*[®], 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*[®] 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.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the Prospectus.

Movements of the share option during the period ended 30 September 2010 were as follows:

| Grantees | Date of Grant | Number of share options | | | | Outstanding at 30.9.2010 |
|---|---------------|-------------------------|-----------|-----------|--------|--------------------------|
| | | Outstanding at 1.1.2010 | Granted | Exercised | Lapsed | |
| Directors | | | | | | |
| Lee Siu Fong | 25.09.2009 | 448,000 | – | – | – | 448,000 |
| Leelalertsuphakun | 27.08.2009 | 448,057 | – | – | – | 448,057 |
| Wanee | 06.09.2010 | – | 450,000 | – | – | 450,000 |
| Li Xiaoyi | 13.01.2003 | 2,890,000 | – | – | – | 2,890,000 |
| | 25.09.2009 | 448,000 | – | – | – | 448,000 |
| Mauro Bove | 11.07.2005 | 500,000 | – | – | – | 500,000 |
| | 02.06.2006 | 500,000 | – | – | – | 500,000 |
| Lam Yat Cheong | 11.07.2005 | 300,000 | – | – | – | 300,000 |
| Sub-total of Directors | | 5,534,057 | 450,000 | – | – | 5,984,057 |
| Employees | | | | | | |
| | 13.01.2003 | 300,000 | – | (150,000) | – | 150,000 |
| | 25.06.2004 | 2,690,000 | – | (450,000) | – | 2,240,000 |
| | 11.07.2005 | 2,350,000 | – | – | – | 2,350,000 |
| | 02.01.2008 | 820,000 | – | (120,000) | – | 700,000 |
| | 12.01.2010 | – | 4,210,000 | – | – | 4,210,000 |
| Consultants | | | | | | |
| | 02.06.2006 | 500,000 | – | – | – | 500,000 |
| | 02.01.2008 | 2,000,000 | – | – | – | 2,000,000 |
| | 26.11.2008 | 500,000 | – | – | – | 500,000 |
| Sub-total of employees and consultants | | 9,160,000 | 4,210,000 | (720,000) | – | 12,650,000 |
| Grand total | | 14,694,057 | 4,660,000 | (720,000) | – | 18,634,057 |

Notes:

1. Particulars of share options:

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|--|--|
| 13.01.2003 | 13.07.2003-12.01.2013 | 0.405 |
| 25.06.2004 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014 | 0.218 |
| 11.07.2005 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015 | 0.159 |
| 02.06.2006 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006- 01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016 | 0.175 |
| 02.01.2008 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008- 01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018 | 0.492 |

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|--|--|
| 26.11.2008 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009- 25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010- 25.11.2018 | 0.383 |
| 27.08.2009 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 27.02.2010 - 26.08.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 27.11.2010- 26.08.2019 | 1.03 |
| 25.09.2009 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.03.2010- 24.09.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.12.2010- 24.09.2019 | 1.076 |
| 12.01.2010 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 13.07.2010- 11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 13.04.2011 – 11.01.2020 | 2.20 |
| 06.09.2010 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 6.03.2011- 5.09.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 6.12.2011 – 5.09.2020 | 2.99 |

Save as disclosed above, as at 30 September 2010, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 September 2010, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

| Name | Capacity and nature | Notes | Number of | | % of issued share capital |
|-------------------------|-------------------------|-------|-------------|-------------|------------------------------|
| | | | shares | Total | |
| Lee Siu Fong | Beneficial owner | | 2,504,375 | | |
| | Interest of corporation | (i) | 124,690,625 | 127,195,000 | 28.21 |
| Leelalertsuphakun Wanee | Beneficial owner | | 1,009,000 | | |
| | Interest of corporation | (i) | 124,690,625 | 125,699,625 | 27.88 |
| Li Xiaoyi | Beneficial owner | | 35,110,000 | | |
| | Interest of spouse | (ii) | 16,000,000 | 51,110,000 | 11.34 |
| Chan Yau Ching, Bob | Beneficial owner | | 1,190,000 | 1,190,000 | 0.26 |
| Tsim Wah Keung, Karl | Beneficial owner | | 300,000 | 300,000 | 0.07 |

Notes:

- (i) 124,690,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

- (ii) These Shares are held by High Knowledge Investments Limited (“High Knowledge”) which is wholly owned by Dr. Li’s spouse, Ms. Lue Shuk Ping, Vicky (“Ms. Lue”). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) *Share options*

| Name | Capacity and nature | Number of options held | Number of underlying Shares |
|-------------------------|----------------------------|-------------------------------|------------------------------------|
| Lee Siu Fong | Beneficial owner | 448,000 | 448,000 |
| Leelalertsuphakun Wanee | Beneficial owner | 898,057 | 898,057 |
| Li Xiaoyi | Beneficial owner | 3,338,000 | 3,338,000 |
| Mauro Bove | Beneficial owner | 1,000,000 | 1,000,000 |
| Lam Yat Cheong | Beneficial owner | 300,000 | 300,000 |
| | | 5,984,057 | 5,984,057 |

(c) *Aggregate long positions in the Shares and the underlying Shares*

| Name | Number of Shares | Number of underlying Shares | Aggregate in number |
|-------------------------|-------------------------|------------------------------------|----------------------------|
| Lee Siu Fong | 127,195,000 | 448,000 | 127,643,000 |
| Leelalertsuphakun Wanee | 125,699,625 | 898,057 | 126,597,682 |
| Li Xiaoyi | 51,110,000 | 3,338,000 | 54,448,000 |
| Chan Yau Ching, Bob | 1,190,000 | – | 1,190,000 |
| Tsim Wah Keung, Karl | 300,000 | – | 300,000 |
| Mauro Bove | – | 1,000,000 | 1,000,000 |
| Lam Yat Cheong | – | 300,000 | 300,000 |

As at 30 September 2010, Dr. Li Xiaoyi also had beneficial interest in 1,000 shares in Powder Pharmaceuticals Incorporated, an associated corporation of the Company.

2. Short positions

No short positions of Directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the period ended 30 September 2010 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 2010, the following persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

1. Long positions

(a) *Ordinary shares of HK\$0.05 each of the Company*

| Name | Capacity and nature | Notes | Number of Shares | % of issued share capital |
|------------------------------------|-------------------------|-------|------------------|---------------------------|
| Huby Technology Limited | Beneficial owner | | 120,290,625 | 26.68 |
| Defiante Farmaceutica, S.A. | Beneficial owner | | 132,350,000 | 29.36 |
| Life Science Intelligence Limited | Beneficial owner | (i) | 22,773,437 | 5.05 |
| High Knowledge Investments Limited | Beneficial owner | (ii) | 16,000,000 | 3.55 |
| Lue Shuk Ping, Vicky | Interest in corporation | (ii) | 16,000,000 | 3.55 |
| | Interest of spouse | (iii) | 35,110,000 | 7.79 |

(b) Underlying shares

| Name | Capacity and nature | <i>Notes</i> | Nature of underlying shares | Number of underlying Shares |
|----------------------|----------------------------|--------------|------------------------------------|------------------------------------|
| Lue Shuk Ping, Vicky | Interest of spouse | (iii) | Share Options | 3,338,000 |

(c) Aggregate long positions in the Shares and the underlying Shares

| Name | Number of Shares | Number of underlying Shares | Aggregate in number |
|------------------------------------|-------------------------|------------------------------------|----------------------------|
| Huby Technology Limited | 120,290,625 | – | 120,290,625 |
| Defiante Farmaceutica, S.A. | 132,350,000 | – | 132,350,000 |
| Life Science Intelligence Limited | 22,773,437 | – | 22,773,437 |
| High Knowledge Investments Limited | 16,000,000 | – | 16,000,000 |
| Lue Shuk Ping, Vicky | 51,110,000 | 3,338,000 | 54,448,000 |

Notes:

- (i) Life Science Intelligence Limited is controlled by Vivo Ventures Fund VI, LP.
- (ii) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (iii) The Shares and share option are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

2. Short positions

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 30 September 2010, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Main Board Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the nine months ended 30 September 2010.

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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.

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 Main Board Listing Rules, or has any other conflict of interests with the Group 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 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 nine months ended 30 September 2010 before recommending it to the Board for approval.

As at the date of this report, 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, 18 November 2010