



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 2012

\* For identification purpose only

## BUSINESS REVIEW

The Group maintained its steady growth trajectory in the third quarter that resulted in a phenomenal growth of net profit attributable to shareholders for the nine months ended 30 September 2012 by 50.3% over same period last year, reaching a historical height of HK\$85,650,000. Turnover for the nine months ended 30 September 2012 was HK\$388,143,000, which represented a significant increment of 44% over the same period last year. For the third quarter, turnover and net profit attributable to shareholders rose 26% and 32% respectively over the third quarter of 2011. Net profit margin improved significantly from 20.47% for the second quarter to 23.56% for the third quarter this year due to drop in administrative expenses for the third quarter. Net profit attributable to shareholders for the third quarter this year registered a sequential increase of 4.4% over the second quarter to HK\$31,178,000. The somewhat tamer growth rate in the third quarter was mainly due to the reduction of purchases of inventory by the distributors who took precautions in light of policy uncertainty facing the industry. The demand for the Group's leading products namely of *Ferplex*<sup>®</sup>, *Livaracine*<sup>®</sup>, *Carnitene*<sup>®</sup>, *Slounase*<sup>®</sup> and *Yallaferon*<sup>®</sup> at the hospital level remained strong throughout the third quarter.

The Group's relentless pursuit of operational efficiency and effectiveness in its sales and marketing organization ensued the reduction of selling expenses to turnover ratio to 34.4% for the nine-month period this year from 41.8% for the same period last year and net profit margin for the nine-month period improved by one percentage point to 22.1% compared with the net profit margin of 21.1% for the same period last year.

In the area of manufacturing, the Group has recently achieved a momentous milestone. In October, Powder Pharmaceutical Incorporated ("PPI"), a company of which approximately 15% of its issued capital is held by the Group, successfully made a submission to US FDA for approval of the production of Zingo in the new Hong Kong manufacturing facility. Zingo<sup>™</sup> is an FDA approved, needle-less, painless, fast, Lidocaine powder injection system that provides local analgesia for children age 3 and over as well as adults prior to venipuncture and intravenous cannulation. In December 2009, PPI acquired the entire assets of Zingo<sup>™</sup> franchise and moved the production facility to Hong Kong. PPI has since worked diligently to establish the new site according to FDA requirements. The submission will initiate the process of certification for the new manufacturing facility in Hong Kong by US FDA. The successful completion of this process will ensure the relaunch of Zingo<sup>™</sup> in US market.

During the period, the Group also realigned its priority in drug development by focusing on 12 proprietary programs that address unmet medical needs in five therapeutics areas such as cardiovascular, oncology, gynecology, dermatology and ophthalmology. Among them, there are two important phase II assets Rostafuroxin and Istaroxime that the Group

has partnered with a reputable venture capital firm to accelerate its development globally. A joint venture CVie Therapeutics Company Limited (“CVie”) was set up in August by issuing the first tranche shares to Ivy Blue Holdings Limited (“Ivy Blue”) for consideration of US\$4,000,000. The Group’s equity interest in CVie reduced from 100% to 79.95% after the share issuance and CVie becomes a stand-alone drug development company specialized in cardiovascular diseases. As CVie remains a subsidiary of the Company after the deemed disposal, the difference between the fair value of the equity of CVie disposed of and the consideration for the issuance of shares to Ivy Blue, which is unrealised gain of HK\$17,038,000 is recognised directly to the equity of the Group. In the same month, an application for global phase IIb study of Rostafuroxin for the treatment of hypertension has been filed with China SFDA. The Italian part of study is on tract to start earlier next year and the China part is expected for middle of 2013.

The Group’s other most important drug under development Anfibatide continued enrollment in its phase IIa study. As of today, a total of 10 patients have been treated and no severe adverse events have been reported. The enrollment for the first cohort of the study is planned to complete before the end of this year.

The registration study for Trazodone has progressed right on target with more than two fifth of patients being enrolled. It is on schedule to finish the patients enrollment before the Chinese New Year and with filing to China SFDA for marketing authorization is anticipated before the end of second quarter in 2013.

The Group’s stellar performance and its commitment to innovation have continued to be recognised by its peer in the industry and by the governments. For a second year in the row, the Group was selected by Forbes Asia as one of the top 200 companies in Asia Pacific with revenue under a billion US dollar. With this achievement, the Group has joined an elite group of companies that perform consistently to deliver superb return to its shareholders.

The Group also won the 2012 Hong Kong Awards for Industries: Technology Achievement Award in respect of its first-in-class anti-platelet drug *Declotana*<sup>®</sup> (Anfibatide). The award is one of the most highly regarded honors in Hong Kong for technology-based enterprises. It represented distinguished recognition for the effort of the Group in technology innovation. As a first-in-class drug, *Declotana*<sup>®</sup> is the first platelet Ib antagonist to complete human phase I study and to start Phase II study. *Declotana*<sup>®</sup> represents a novel therapeutic mechanism and may change the paradigm for the treatment of acute coronary syndrome and percutaneous coronary intervention.

In August, the self-developed drug *Slounase*<sup>®</sup>, has also been designated by The Ministry of Science and Technology of the PRC as the “2012 National Key New Product”. *Slounase*<sup>®</sup> is the first pharmaceuticals being selected as National Key New Product in Anhui province. The award is recognition of the Group’s capability in research and development of new drug and testimony to the product’s quality and therapeutic potential. The designation is a prestige honor in China and will enhance *Slounase*<sup>®</sup>’s competitiveness in the market.

## PROSPECTS

The Group is still upbeat about the remaining quarter of the year and beyond. The hospital traffics in China keep marching upward and the demand for pharmaceuticals in the hospital level remain strong. With the policy uncertainty facing the industry being gradually ebbed, the confidence of distributors has since been returned. The sales of the Group's five leading products are expected to pick up steam and continue to be the driver of the growth.

It is also expected that a majority of provinces will start a new round of tender process in the next 6 to 9 months, providing opportunity for newly launch products. As six of the Group's 12 products have been launched less than three years, the availability of the tender participation will facilitate the market penetration for the newer products and serve as catalyst for future growth.

To keep up with the growth and maintain its competitiveness, the Group has embarked on a new mission to bring new quality, expertise and experiences to the Group's management team in the areas of drug development, sales and marketing and human resources. The recent joining of Dr. Bianchi and Dr. Lit-Fui Lau illustrates the Group's commitment in this regard. In October this year, the Group had the honor to appoint Dr. Giuseppe Bianchi as Chief Scientific Officer of CVie. Dr. Bianchi's research focuses are cardiovascular and renal pathology and pharmacology using genetic approaches. He has published more than 300 articles in peer-review journals including high impact journals such as Nature, Science Trans. Med., New England Journal of Medicine and Lancet. As inventor of both drugs Rostafuroxin and Istaroxime, Dr. Bianchi has devoted most of his professional life in understanding the underling genetic triggering mechanism of hypertension. With his knowledge and understanding, he will be instrumental to the success of these two projects.

Dr. Lit-Fui Lau also has joined the group in October as Senior Director of Development of CVie and General Manager of the Shanghai branch of Zhaoke Pharmaceutical (Hefei) Company Limited. For over 14 years, Dr. Lau had participated in the preclinical development of a number of novel compounds in multiple therapeutic areas and he has had responsibility and tract record in moving compounds into the clinical development stage in the CNS area. Dr. Lau brings with him a wealth of knowledge in drug development and extensive experience in the pharmaceutical industry. As Shanghai is becoming the hubs of drug development in China, his leadership as the head of the Group's operation in Shanghai will help to better position the Company in the industry and accelerate the growth of business in these important areas.

Having built a robust product portfolio and pipeline, the Group is in an audacious position to prod ahead and expand its market presence, asserting its growth momentum in the future to come.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2012

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover	(2)	132,362	105,402	388,143	270,025
Cost of sales		(37,621)	(26,074)	(111,430)	(68,839)
Gross Profit		94,741	79,328	276,713	201,186
Other revenue		4,202	1,886	10,962	5,054
Gain on deemed disposal of associates		–	–	–	6,441
Selling and distribution expenses		(47,793)	(41,915)	(133,541)	(112,986)
Administrative expenses		(11,351)	(9,009)	(44,843)	(25,324)
Research and development expenses		(3,730)	(2,480)	(9,392)	(8,038)
Profit from operations		36,069	27,810	99,899	66,333
Finance costs		(363)	(99)	(870)	(559)
Share of results of associates		–	–	–	(273)
Profit before taxation		35,706	27,711	99,029	65,501
Taxation	(3)	(4,830)	(4,061)	(13,909)	(8,533)
Profit for the period		30,876	23,650	85,120	56,968
Attributable to:					
Shareholders of the Company		31,178	23,628	85,650	56,984
Non-controlling interests		(302)	22	(530)	(16)
		30,876	23,650	85,120	56,968
		HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic	(5)	6.00	5.03	17.44	12.17
Diluted	(5)	5.88	4.93	17.08	11.91

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2012

	For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Profit for the period	85,120	56,968
Other comprehensive income (expenses):		
Exchange differences on translation of:		
– Financial statements of overseas subsidiaries	430	3,562
– Revaluation of overseas buildings	–	130
Release of share of other reserves of associates	–	(5,855)
Other comprehensive income (expense) for the period, net of tax	430	(2,163)
<b>Total comprehensive income for the period</b>	<b>85,550</b>	<b>54,805</b>
Total comprehensive income (expenses) attributable to:		
Shareholders of the Company	86,080	54,811
Non-controlling interests	(530)	(6)
	<b>85,550</b>	<b>54,805</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2012

	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	Revaluation reserve	Exchange reserve	Retained profits	Sub-total	interests	
	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 2012	23,489	105,533	9,200	2,440	-	3,980	10,372	156,900	311,914	417	312,331
Employee share option benefits	-	-	-	944	-	-	-	-	944	-	944
Exercise of share options	81	2,497	-	(295)	-	-	-	-	2,283	-	2,283
Issue of ordinary shares by placement	2,424	149,707	-	-	-	-	-	-	152,131	-	152,131
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	203	203
Deemed partial disposal of interests in a subsidiary (note 7)	-	-	-	-	17,038	-	-	-	17,038	11,240	28,278
Profit (loss) for the period	-	-	-	-	-	-	-	85,650	85,650	(530)	85,120
Other comprehensive income for the period	-	-	-	-	-	-	430	-	430	-	430
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	430	85,650	86,080	(530)	85,550
2011 final dividend paid	-	-	-	-	-	-	-	(14,107)	(14,107)	-	(14,107)
2012 interim dividend declared	-	-	-	-	-	-	-	(9,357)	(9,357)	-	(9,357)
At 30 September 2012	25,994	257,737	9,200	3,089	17,038	3,980	10,802	219,086	546,926	11,330	558,256
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	-	-	-	896	-	-	-	-	896	-	896
Exercise of share options	186	2,201	-	(702)	-	-	-	-	1,685	-	1,685
Profit (loss) for the period	-	-	-	-	-	-	-	56,984	56,984	(16)	56,968
Other comprehensive income (expenses) for the period	-	-	-	-	(5,855)	130	3,552	-	(2,173)	10	(2,163)
Total comprehensive income (expenses) for the period	-	-	-	-	(5,855)	130	3,552	56,984	54,811	(6)	54,805
2010 final dividend paid	-	-	-	-	-	-	-	(9,384)	(9,384)	-	(9,384)
2011 interim dividend declared	-	-	-	-	-	-	-	(5,635)	(5,635)	-	(5,635)
At 30 September 2011	23,478	105,344	9,200	2,163	-	3,948	9,326	129,978	283,437	278	283,715

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the nine months ended 30 September 2012*

### 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, Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards 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 under the historical cost convention, as modified by the revaluation of leasehold buildings.

The accounting policies and method of computation used in the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2011 except as described below.

In the current period, the Group has applied, for the first time, the following new or revised standards and interpretations (the “new or revised HKFRSs”) issued by the HKICPA, which are or have become effective.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The adoption of the new or revised 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 HKFRSs that have been issued but are not yet effective:

HKFRSs	Annual Improvements 2009-2011 Cycle <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair value measurement <sup>2</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>1</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
Amendments to HKFRS 1	Government Loans <sup>2</sup>
Amendments to HKFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>4</sup>
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

The effective day of HKFRS 9 is for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In June 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidated – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or right, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five Standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five Standards are applied early at the same time.

The directors anticipate that these five Standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 10 and HKFRS 11 may have an impact on amounts reported in the consolidated financial statements.

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 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 affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans.

## 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

	(Unaudited) For the three months ended 30 September		(Unaudited) For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Proprietary products	55,037	51,918	189,643	136,436
License-in products	77,325	53,484	198,500	133,589
	<b>132,362</b>	105,402	<b>388,143</b>	270,025

### Geographical segments

During the period ended 30 September 2012 and 2011, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

### 3. Taxation

	(Unaudited) For the three months ended 30 September		(Unaudited) For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current tax				
Hong Kong Profits Tax	5,360	2,774	5,360	3,900
PRC Enterprise Income Tax	1,276	941	6,943	1,480
Underprovision in prior period	2,692	–	2,692	–
	<b>9,328</b>	3,715	<b>14,995</b>	5,380
Deferred tax (Overprovision) provision of current period	(4,498)	346	(1,086)	3,153
	<b>4,830</b>	4,061	<b>13,909</b>	8,533

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in Hong Kong for both periods.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

### 4. Dividends

An interim dividend of HK\$0.018 per share, totalling HK\$9,357,000 for the six months ended 30 June 2012 was declared on 27 August 2012 and paid on 18 October 2012.

The Board does not recommend the payment of other interim dividend for the third quarter of 2012.

## 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	
	2012	2011	2012	2011
Net profit attributable to shareholders of the Company for the purpose of basic and diluted earnings per share	<b>HK\$31,178,000</b>	HK\$23,628,000	<b>HK\$85,650,000</b>	HK\$56,948,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>519,411,710</b>	469,550,437	<b>491,245,408</b>	468,392,195
Effect of dilutive potential ordinary shares:				
Options	<b>11,039,777</b>	9,761,858	<b>10,106,982</b>	9,990,908
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>530,451,487</b>	479,312,295	<b>501,352,390</b>	478,383,103

As per shareholders' agreement ("the Agreement") of Powder Pharmaceuticals Incorporated ("Powder"), the shareholders (except Lee's Pharmaceutical International Limited, a subsidiary of the Group) of Powder shall be entitled to exercise the rights to convert, (and not parts) of its shares free from encumbrances to shares of the Company. The shareholders can convert the shares at valuation of HK\$1.80 per share, subject to adjustments, starting from the day after the 3rd anniversary and ending on the day immediately before the 5th anniversary of the date of agreement, i.e. from 8 January 2013 to 7 January 2015 ("the conversion period").

Thus, the shareholders of Powder could convert 22,031,523 shares of the Company during the conversion period which the contingent share agreement will cause dilution of earnings per share of the Company. Earnings per share of the Company will be diluted accordingly since 8 January 2013. No dilution effect is resulted from this Agreement in the current reporting period.

**6. Capital commitment**

As at 30 September 2012, the Group has capital commitments in respect of the acquisition of intangible assets, license fee and development cost, HK\$14.25 million (30 September 2011: HK\$26.99 million), property, plant and equipment HK\$0.65 million (30 September 2011: HK\$1.88 million) and construction contract HK\$97.79 million (30 September 2011: HK\$76.40 million).

**7. Deemed partial disposal of interests in a subsidiary**

On 3 August 2012, CVie Therapeutics Company Limited (“CVie”), incorporated as a wholly-owned subsidiary of the Group in April 2012, issued 1,904,762 shares to Ivy Blue Holdings Limited, an independent third party to the Group, at consideration of USD4,000,000. After the issuance of shares, the Group’s shareholding in CVie reduced by 20.05% to 79.95%. As the Group retained control over CVie, the Group recognised a gain on deemed partial disposal of interests in CVie of HK\$17,038,000 in the equity attributable to the shareholders of the Company, and an increase in non-controlling interests of HK\$11,240,000 during the reporting period.



## 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 30 September 2012.

## REVIEW OF INTERIM FINANCIAL STATEMENTS

The results for the nine months ended 30 September 2012 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.

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 report for the nine months ended 30 September 2012 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

On behalf of the Board

**Lee Siu Fong**

*Chairman*

Hong Kong, 26 November 2012