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## **Lee's Pharmaceutical Holdings Limited**

**李氏大藥廠控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 950)

### **DISCLOSEABLE TRANSACTIONS**

Reference is made to the announcements made by the Company on 12 March 2012 and 24 May 2012. After the negotiation between the parties to the non-legally binding term sheet, there are slight changes in the terms and conditions (including the total investment amount) for the Subscription, all of which are set out in the Purchase Agreement and the Shareholders Agreement.

The Board is pleased to announce that on 6 July 2012, CVie Therapeutics, CCF, IBHL and the Company entered into the Purchase Agreement, pursuant to which IBHL agrees to subscribe for the Series A Shares for consideration of up to US\$10,000,000, pursuant to the terms and conditions of the Purchase Agreement.

Immediately after the Initial Closing, CVie Therapeutics will cease to be a wholly-owned subsidiary of the Company, and the Company's equity interest in CVie Therapeutics will be reduced to 75.95% of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan).

After the Closings, CVie Therapeutics will then remain a subsidiary of the Company, and the Company's equity interest in CVie Therapeutics will be reduced to 65.13% (if the Special Tranche Issuance is made in full and the maximum limit of the Second Tranche Issuance is made) or 66.11% (if the Special Tranche Issuance is not made and the maximum limit of the Second Tranche Issuance is made) of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan), whereas IBHL will then hold 31.1% (if the Special Tranche Issuance is made in full and the maximum limit of the Second Tranche Issuance is made) or 30.04% (if the Special Tranche Issuance is not made and the maximum limit of the Second Tranche Issuance is made) of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan).

The Subscription constitutes a deemed disposal under Chapter 14 of the Listing Rules. As the applicable percentage ratios in respect of each of the Subscription and the transactions as contemplated under the Transaction Documents, and the indemnification provided under the Indemnification Agreement calculated under Chapter 14 of the Listing Rules are more than 5% but less than 25%, the Subscription and the transactions as contemplated under the Transaction Documents, and the indemnification provided under the Indemnification Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules, and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## **THE PURCHASE AGREEMENT**

### **Date**

6 July 2012

### **The parties**

- (1) CVie Therapeutics as issuer, which, as at the date of this announcement, is currently an indirect wholly-owned subsidiary of the Company;
- (2) CCF, a wholly-owned subsidiary of the Company which holds 6,642,857 Ordinary Shares in CVie Therapeutics, representing the entire issued share capital of CVie Therapeutics as at the date of this announcement;
- (3) IBHL; and
- (4) the Company, as a warrantor of certain representations, warranties and undertakings given by the Company, CCF and CVie Therapeutics.

To the best of knowledge, information and belief of the Directors having made all reasonable enquiries, IBHL and its ultimate beneficial owners (where applicable), are Independent Third Parties.

### **The Subscription**

Pursuant to the Purchase Agreement and subject to the conditions precedent set forth therein, IBHL agrees to subscribe for the Series A Shares for consideration of up to US\$10,000,000. The subscription and issuance of the Series A Shares shall occur in two or more tranches in the following manner:

#### *(1) First Tranche Issuance*

CVie Therapeutics shall allot and issue to IBHL 1,904,762 Series A-1 Shares at the Series A-1 Purchase Price (i.e. US\$4,000,000 of the Series A-1 Shares).

(2) *Special Tranche Issuance or Bridge Loan*

During the Relevant Period, CVie Therapeutics may, at its sole and absolute discretion, require, either:

- (i) IBHL to subscribe for up to 476,190 Series A-1 Shares at the Series A-1 Purchase Price (i.e. US\$1,000,000 of the Series A-1 Shares) provided that in each of the Special Tranche Issuances, at least 238,095 Series A-1 Shares (i.e. US\$500,000 of the Series A-1 Shares) shall be subscribed; or
- (ii) the Company to provide CVie Therapeutics with a non-interest bearing term loan facility up to an aggregate of US\$1,000,000, which shall mature at the earlier of three years from the loan is drawn or the consummation of the Second Closing provided that in each of the draw downs, at least US\$500,000 shall be drawn.

If CVie Therapeutics decides that the Special Tranche Issuance and the Bridge Loan are not required, the Special Tranche Closing and the closing of the Bridge Loan may not occur during the Relevant Period.

As the Bridge Loan is to be made by the Company to its subsidiary, the Bridge Loan does not constitute a transaction under Chapter 14 of the Listing Rules. However, the Company will comply with the relevant Listing Rules requirements (if any) as appropriate at the time when the Bridge Loan is made.

(3) *Second Tranche Issuance*

Upon the achievement of the Milestone, and the expiration of the Review Period (i.e. no objection notice is served by IBHL, or no reasonable justifiable scientific basis in support of conclusion in any objection notice served by IBHL is provided during the Review Period), IBHL shall subscribe for such number of Series A-2 Shares in one of the following manners:

- (i) if the Special Tranche Issuance has not occurred, IBHL shall, at the discretion of CVie Therapeutics, subscribe for up to US\$6,000,000 of the Series A-2 Shares at the Series A-2 Purchase Price; or
- (ii) if one or more Special Tranche Issuances have occurred prior to the Second Closing, IBHL shall, at the discretion of CVie Therapeutics, subscribe for the balance of US\$6,000,000 of the Series A-2 Shares as reduced by the actual amount of the Series A-1 Shares issued under the Special Tranche Issuance on a dollar-for-dollar basis at the Series A-2 Purchase Price.

The following table sets out the total number of the Series A-1 Shares and the Series A-2 Shares to be issued in each of the First Tranche Issuance, the Special Tranche Issuance and the Second Tranche Issuance:

	First Tranche Issuance	Special Tranche Issuance	Second Tranche Issuance (if the Special Tranche Issuance is made in full)	Second Tranche Issuance (if only half of the Special Tranche Issuance is made)	Second Tranche Issuance (if the Special Tranche Issuance is not made)
<b>Number of the Series A-1 Shares and the Series A-2 Shares (as the case may be) to be issued</b>	1,904,762 Series A-1 Shares for the subscription amount of US\$4,000,000	238,095 Series A-1 Shares (if only half of the Special Tranche Issuance is made) for the subscription amount of US\$500,000; or  476,190 Series A-1 Shares (if the Special Tranche Issuance is made in full) for the subscription amount of US\$1,000,000	1,746,032 Series A-2 Shares for the subscription amount of US\$5,000,000	1,876,984 Series A-2 Shares for the subscription amount of US\$5,500,000	2,000,000 Series A-2 Shares for the subscription amount of US\$6,000,000

### **Basis of the consideration**

Each of the Series A-1 Purchase Price and the Series A-2 Purchase Price was determined after arm's length negotiation between the parties to the Purchase Agreement with reference to (1) a fully-diluted pre-money valuation as agreed between the parties to the Purchase Agreement; and (2) the total number of issued Shares prior to the First Tranche Issuance and the total number of Shares to be issued under the Share Plan (in the case for the Series A-1 Purchase Price); or the total number of Shares, which shall be inclusive of the Shares reserved for the issuance under the Share Plan, the Series A-1 Shares issued at the Initial Closing and all Special Tranche Closings (if any) and all Ordinary Shares issued on or before the Second Closing but exclusive of the Ordinary Shares issued to CCF as a result of its contribution of US\$3,000,000 under the CCF Contributions before the Second Closing (in the case for the Series A-2 Purchase Price).

If one or more Special Tranche Issuances have occurred prior to the Second Closing, the total number of issued Shares after the First Tranche Issuance but before the Second Tranche Issuance will be increased and as a result, the Series A-2 Purchase Price will be adjusted downward, and in such a case, the Series A-2 Purchase Price will be lower than the Series A-2 Purchase Price calculated in the circumstance when no Special Tranche Issuance has occurred.

## **Conditions to the Subscription**

The obligations of the parties to the Purchase Agreement at each of the respective Closing are subject to the fulfilment or waiver, at or before each respective Closing, of the following, among others, major conditions:

- (1) the warranties under the Purchase Agreement being true, correct and complete when made, and as of each date of Closing with the same force and effect as if they had been made on and as of such date, subject to changes contemplated by the Purchase Agreement;
- (2) each of the parties to the Purchase Agreement having performed and complied with all agreements, obligations and conditions contained in the Purchase Agreement, and all applicable laws in connection with the Subscription;
- (3) each of the parties to the Purchase Agreement having obtained any and all consents and waivers necessary for consummation of the Subscription and the transactions as contemplated under the Transaction Documents, including, but not limited to, all permits, authorisations, approvals, consents or licenses of any governmental authority;
- (4) on or before the Initial Closing, the Shareholders Agreement, the Indemnification Agreement and the Management Rights Agreement having been executed and delivered;
- (5) all corporate and other proceedings in connection with the Subscription and the transactions as contemplated under the Transaction Documents, and all documents and instruments incident to such transactions having been passed, executed and/or delivered by CVie Therapeutics, CCF and the Company in substance and form satisfactory to IBHL, and IBHL having received all such counterpart originals or certified or other copies of such documents as it may reasonably request;
- (6) on or before the Initial Closing, the Restated Charter having duly adopted by the CVie Board and the Shareholders, and having duly filed with the Cayman Islands Registrar of Companies;
- (7) IBHL having completed all business, legal and financial (including tax) due diligence review activities relating to the CVie Group;
- (8) CVie Therapeutics having executed license agreements relating to the Licensed Assets; and
- (9) the CCF Contributions being made by CCF.

## **CCF Contributions**

On or before the Initial Closing, CCF shall contribute US\$2,000,000 in cash to CVie Therapeutics as payment for the subscription of additional 952,381 Ordinary Shares such that CCF shall hold 7,595,238 Ordinary Shares at the time of the Initial Closing. In addition, on or within 5 Business Days prior to the Second Closing, CCF shall further contribute US\$3,000,000 in cash to CVie Therapeutics as payment for the subscription of certain additional Ordinary Shares at the Series A-2 Purchase Price. CCF will, after the contribution of US\$3,000,000, hold 8,595,238 Ordinary Shares, representing 66.11% of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan) (if no Special Tranche Issuance is made) or 8,642,857 Ordinary Shares, representing 65.13% of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan) (if Special Tranche Issuance is made in full) as at the date of the Second Closing.

## **Representations and warranties**

CVie Therapeutics, CCF and the Company have jointly and severally given certain representations and warranties to IBHL relating to CVie Therapeutics for a transaction in the nature of the Subscription. In addition, IBHL has given certain representations and warranties to CVie Therapeutics relating to itself as a subscriber.

CCF and the Company agree to jointly and severally indemnify, defend and hold harmless IBHL and its affiliates, general partners, limited partners, members, shareholders, directors and employees and the affiliated parties of the shareholders of IBHL from and against any and all losses, damages, liabilities, liens, claims, obligations, penalties, settlements, deficiencies, proceedings, costs and expenses (including the fees, disbursements and other charges of counsel reasonably incurred by them in any action) resulting from, arising out of, or due to, directly or indirectly, any breach or violation of, or inaccuracy or misrepresentation in, any representation or warranty made by CVie Therapeutics, CCF and the Company; or any breach or violation of any covenant or agreement contained in the Transaction Documents.

## **Closings**

Each of the Closings shall take place in the following manner:

- (1) the Initial Closing shall take place within 10 Business Days after the fulfilment and/or waiver of the conditions precedent to the Initial Closing;
- (2) the Special Tranche Closing shall take place within 10 Business Days after (i) the fulfilment and/or waiver of the conditions precedent to the Special Tranche Closing; and (ii) the receipt of each of the written notice served by CVie Therapeutics to IBHL for notifying CVie Therapeutics' election, exercisable at its sole and absolute discretion, to proceed with the Special Tranche Issuance; and
- (3) the Second Closing shall occur upon the achievement of the Milestone and the expiration of the Review Period, and shall take place within 10 Business Days after the fulfilment and/or waiver of the conditions precedent to the Second Closing.

The following tables show the shareholding of Shareholders at each of the Closings:

**As at the Initial Closing**

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan)</b>
CCF	7,595,238	75.95%
IBHL	1,904,762	19.05%
Holder of the Ordinary Shares to be issued upon the exercise of the share option under the Share Plan	500,000	5%
<b>TOTAL</b>	<b>10,000,000</b>	<b>100%</b>

**As at the Special Tranche Closing (if the Special Tranche Issuance is made in full and the contribution of US\$3,000,000 by CCF under the CCF Contributions has not yet been made)**

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan)</b>
CCF	7,595,238	72.5%
IBHL	2,380,952	22.73%
Holder of the Ordinary Shares to be issued upon the exercise of the share option under the Share Plan	500,000	4.77%
<b>TOTAL</b>	<b>10,476,190</b>	<b>100%</b>

**As at the Second Closing (if the Special Tranche Issuance is not made, and the maximum limit of the Second Tranche Issuance is made)**

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan)</b>
CCF	8,595,238	66.11%
IBHL	3,904,762	30.04%
Holder of the Ordinary Shares to be issued upon the exercise of the share option under the Share Plan	500,000	3.85%
<b>TOTAL</b>	<b>13,000,000</b>	<b>100%</b>

**As at the Second Closing (if the Special Tranche Issuance is made in full, and the maximum limit of the Second Tranche Issuance is made)**

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan)</b>
CCF	8,642,857	65.13%
IBHL	4,126,984	31.10%
Holder of the Ordinary Shares to be issued upon the exercise of the share option under the Share Plan	500,000	3.77%
<b>TOTAL</b>	<b>13,269,841</b>	<b>100%</b>



## **Use of proceeds**

The proceeds from the Subscription will be used to develop, manufacture, register, use, market, distribute and sell the products containing the Licensed Assets in the PRC and such other purposes approved by the CVie Board (including the affirmative consent of the Series A Director) with the understanding that immediately following the Second Closing, CVie Therapeutics shall repay the outstanding amount of the Bridge Loan (if any) with the investment proceeds received by CVie Therapeutics from the issuance of the Series A-2 Shares at the Second Closing.

## **Share Plan**

Immediately after the Initial Closing and no later than 90 days thereafter, CVie Therapeutics shall implement the Share Plan, and 500,000 Ordinary Shares shall be reserved for issuance under the Share Plan established for the benefit of the officers, directors, employees and consultants of CVie Therapeutics. The Ordinary Shares under the Share Plan will be vested over not less than a 4 year period with the first 25% of such Ordinary Shares vesting following 12 months of the date of grant of the relevant options under the Share Plan, and the remaining Ordinary Shares vesting in equal monthly instalments over the following 36 months.

The Company will comply with the relevant Listing Rules requirements as appropriate at the time of the adoption of the Share Plan.

## **Restated Charter**

As a condition precedent to the Initial Closing, the CVie Board and the Shareholders shall duly adopt the Restated Charter, which set forth terms governing the rights and obligations of the Shareholders, the major terms of which are as follows:

### *(1) Conversion of the Series A Shares into the Ordinary Shares*

The Series A Shareholders (i.e. IBHL) may, at their sole discretion, convert such number of the Series A Shares into the Ordinary Shares, and subject to anti-dilution and other customary adjustment provisions as agreed between the Series A Shareholders and CVie Therapeutics, the Series A Shares are initially convertible into an equal number of the Ordinary Shares. The new Ordinary Shares to be issued upon the conversion from the Series A Shares shall rank pari passu in all respect with the then existing Ordinary Shares.

The Series A Shares shall be automatically converted into the Ordinary Shares if CVie Therapeutics consummates an initial public offering of its equity interest on an internationally recognised stock exchange, or upon the election of the majority of the Series A Shareholders.

(2) *Redemption right*

Subject to the due compliance with the relevant requirements under the Listing Rules, the Series A Shareholders (i.e. IBHL) may, at its sole election, require CVie Therapeutics to redeem the Series A Shares upon the occurrence of certain events such as in the event of any material breach or violation of, or inaccuracy or misrepresentation in any representation or warranty made by CVie Therapeutics, CCF and the Company under the Transaction Documents. The redemption price per each of the Series A Shares shall be the higher of (i) certain percentage figures ranging from 100% to 200% of the Series A-1 Purchase Price (for the Series A-1 Shares) or the Series A-2 Purchase Price (for the Series A-2 Shares) paid per Series A Share depending on the length of time after the respective Closing plus accrued but unpaid dividends; (ii) the original purchase price paid per Series A Share plus an amount that would result in an annual internal rate of return of 18%, compounded annually, measured from the date of the issuance of such Series A Shares; or (iii) the then current fair market value of the Series A Shares at the time of redemption (with the understanding that such value will be determined by the CVie Board, acting in good faith, in the event that the securities of CVie Therapeutics are not publicly traded).

If CVie Therapeutics does not have sufficient profits or retained earnings or is otherwise unable for any reason whatsoever to redeem all of the Series A Shares required to be redeemed, the aggregate redemption amount that remains outstanding shall be converted into a debt to the Series A Shareholders payable in payment schedule mutually agreed by CVie Therapeutics and the relevant Series A Shareholders (with such payment schedule not shorter than 12 months), or if the payment schedule cannot be mutually agreed, CVie Therapeutics shall then be liquidated immediately and the Series A Shareholders shall then be entitled to the higher of (i) the amount payable to the Series A Shareholders upon liquidation of CVie Therapeutics under the Restated Charter; or (ii) the outstanding redemption amount.

The Company will comply with the relevant Listing Rules requirements as appropriate at the time when the redemption is made.

(3) *Dividend right*

CVie Therapeutics shall make a special tax dividend distribution to the Shareholders if and when CVie Therapeutics is determined as a passive foreign investment company or controlled foreign corporation under the United States tax law.

In addition, when (a) CVie Therapeutics (or any of its subsidiaries) satisfies the financial requirements for issuers to list on the main board of the Stock Exchange, and CVie Therapeutics has not submitted a listing application to the Stock Exchange within 6 months following the date on which CVie Therapeutics

first satisfies the relevant financial requirements for listing on the main board of the Stock Exchange, and such delay is attributable to or caused by CCF or any member of the CVie Board nominated by CCF; and (b) the majority of the Series A Shareholders delivers a written request to CVie Therapeutics requiring the payment of dividends, and such request is delivered prior to the consummation of an initial public offering by CVie Therapeutics of any equity securities of CVie Therapeutics (or any of its subsidiaries) on the main board of the Stock Exchange, all Shareholders shall receive dividends, out of funds legally available therefor, at a rate determined by the CVie Board, which shall serve as a continuing dividend obligation of CVie Therapeutics until the date on which CVie Therapeutics successfully consummates an initial public offering of its equity securities on the main board of the Stock Exchange, with the understanding that the Series A Shareholders shall be entitled to receive dividends for each Series A Shares (calculated on an as-converted basis) in an amount equal to 150% of any dividends payable by CVie Therapeutics on each Ordinary Share.

Save and except for the aforesaid circumstances, the Series A Shareholders shall carry the rights to receive dividends for each Series A Share in an amount at least equal to the product of (a) the dividend payable on each Share multiplied by (b) the number of Ordinary Shares issuable upon conversion of each Series A Share. The payment of dividends to the Series A Shareholders shall be made in preference to any payment of any dividends made to the holders of the Ordinary Shares and all other classes of Shares.

As at the date of this announcement, CVie Therapeutics does not have any subsidiary, and has not conducted any business except for the obtaining of certain license rights necessary for its principal business activities proposed to be carried out. Thus, CVie Therapeutics does not satisfy any relevant financial requirements for listing on the main board of the Stock Exchange as at the date of this announcement.

(4) *Liquidation preference*

In the event of any liquidation, dissolution or winding up of CVie Therapeutics or other similar event as described in the Restated Charter, distributions to Shareholders shall be made in the following manner (after satisfaction of all creditors' claims and claims that may be preferred by law):

- (i) each Series A Shareholder shall be entitled to receive on a *pari passu* basis, an amount equal to 100% of the Series A-1 Purchase Price (for the Series A-1 Shares) or the Series A-2 Purchase Price (for the Series A-2 Shares) per Share (in each case as adjusted for share splits, share combinations, share dividends, reclassifications, recapitalizations and similar events with respect to such Shares), plus all accrued or declared but unpaid dividends; and

- (ii) the remaining assets of CVie Therapeutics shall then be distributed to the Series A Shareholders and holders of the Ordinary Shares on a *pro rata* basis.

(5) *Voting rights*

The Series A Shareholders shall be entitled to, in the case of a class meeting for the Series A Shareholders, one vote for every Series A Share in the class meeting for the Series A Shareholders; and in the case of general meeting for all classes of Shares, one vote for every Series A Share (assuming the Series A Shares held are fully converted).

The holders of the Ordinary Shares shall be entitled to, in the case of a class meeting for the holders of the Ordinary Shares, one vote for every Ordinary Share in the class meeting for the holders of the Ordinary Shares; and in the case of general meeting for all classes of Shares, one vote for every Ordinary Share.

**CVie Therapeutics may or may not proceed to an initial public offering of its equity securities on an internationally recognised stock exchange, or may or may not satisfy any relevant financial requirements for listing on the main board of the Stock Exchange after the Closings. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.**

## **THE SHAREHOLDERS AGREEMENT**

As fulfilment of a condition precedent to the Subscription, CVie Therapeutics, CCF, IBHL and the Company will enter into the Shareholders Agreement, which set forth terms governing the rights and obligations of CCF, IBHL and the Company as the Shareholders. The major terms of the Shareholders Agreement are as follows:

### **Date**

To be entered into on the date of the Initial Closing

### **The parties**

- (1) CVie Therapeutics as the subject company;
- (2) CCF as the Shareholder;
- (3) IBHL as the Shareholder; and
- (4) the Company as the parent company of the CCF.

### **CVie Board representation**

At the Initial Closing, the size of the CVie Board shall be 2 directors, comprising the Series A Director and the LPH Director. IBHL shall be entitled to appoint the Series A Director so long as IBHL continues to hold the Series A Shares (and/or the Ordinary Shares issued upon conversion of the Series A Shares) representing at least 10% of the total issued share capital of CVie Therapeutics, and the holders of a majority of the then outstanding Ordinary Shares shall be entitled to appoint the LPH Director.

At the Second Closing, the size of the CVie Board shall be increased to 3 directors, comprising the Series A Director, the LPH Director and an independent director, who has no affiliation (past or present) with CVie Therapeutics, CCF, IBHL or their shareholders, and such individual shall be jointly appointed by the Series A Director and the LPH Director.

The quorum of the CVie Board shall be 2 directors, including at least the Series A Director and the LPH Director.

### **Right of first refusal – Transfer by the Series A Shareholders**

Except for the Permitted Transfer, all Series A Shareholders (except for the selling Series A Shareholder who desires to sell its Series A Shares or Ordinary Shares) shall have a right of first refusal, exercisable within a period of 30 Business Days, to purchase such Series A Shares or Ordinary Shares proposed to be transferred by any selling Series A Shareholders who desires to sell its Series A Shares or Ordinary Shares, on the same terms and conditions, in the proportion to all such Series A Shareholders' holding of Ordinary Shares (assuming the Series A Shares held are fully converted).

Holders of the Ordinary Shares shall have a second right of first refusal, exercisable within a period of 30 Business Days, to purchase all or any portion of the Series A Shares or Ordinary Shares proposed to be transferred by the selling Series A Shareholders that are not purchased by the Series A Shareholders exercising their right of first refusal above, on the same terms and conditions, in the proportion to all such Shareholders' holding of Ordinary Shares.

### **Drag-along right**

In the event that (1) the holders of a majority interest of the outstanding Ordinary Shares; and (2) the majority of the then Series A Shareholders, each voting as a separate class, approve any transaction in which all or substantially all of the assets or equity securities of CVie Therapeutics will be sold, then each Shareholder shall be required to approve such sale transaction, and to sell on the same terms and conditions all its Shares.

In addition, if at any time after the 4th anniversary of the date of the Initial Closing, the majority of the then Series A Shareholders notifies CVie Therapeutics in writing that such holders intend to seek a sale transaction in which all or substantially all of the assets or equity securities of CVie Therapeutics will be sold, the holders of a majority in interest of the outstanding Ordinary Shares will have a right of first offer to acquire the Shares held by the Series A Shareholders, exercisable within 20 Business Days following the receipt of such sale notice setting forth the price and general terms upon which such holders of a majority in interest of the outstanding Ordinary Shares propose to acquire the Shares held by the Series A Shareholders. However, if (1) the holders of a majority in interest of the outstanding Ordinary Shares fail to exercise the aforesaid right of first offer or the majority of the then Series A Shareholders refuses to sell their Shares; and (2) the majority of the then Series A Shareholders approves a sale transaction proposed by a bona fide third party with the aggregate purchase price payable in excess of US\$120 million and with such terms and price not less favourable than those proposed terms offered by the holders of a majority in interest of the outstanding Ordinary Shares (if any), each Shareholder (including the Series A Shareholders and the holders of the Ordinary Shares) shall then sell and transfer the Shares held by each of them to such third party.

## **INDEMNIFICATION AGREEMENT**

### **Date**

To be entered into on the date of the Initial Closing

### **The parties**

- (1) CVie Therapeutics as an indemnifier;
- (2) the Initial Series A Director as an indemnitee; and
- (3) IBHL as an indemnitee.

### **Indemnification for the Initial Series A Director**

Pursuant to the Indemnification Agreement, CVie Therapeutics undertakes primary obligations to indemnify the Initial Series A Director, to the fullest extent permitted by law, if the Initial Series A Director was or is or becomes a party to or other participant in, or is threatened to be made a part to or witness, any claim related to the fact that he is or was a director, officer, employee, agent or fiduciary of CVie Therapeutics, or is or was serving at the request of CVie Therapeutics in such capacity, or by reason of any action or inaction on his part while serving in such capacity or as a result of any claim made by any Shareholder against him and arising out of or related to any round of financing of CVie Therapeutics, or made by a third party against him based on any misstatement or omission of a material fact by CVie Therapeutics, except such claims as shall incur or sustain by or through gross negligence or willful default on the part of the Initial Series A Director, against any and all expenses (including attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating,

defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such claim), judgments, fines, penalties and amounts paid in settlement (if, and only if, such settlement is approved in advance by CVie Therapeutics, which approval shall not be unreasonably withheld) of such claim and any taxes imposed on him as a result of the receipt of any payments under the Indemnification Agreement, including all interest, assessments and other charges paid or payable in connection with or in respect of such expenses.

### **Indemnification for IBHL and its affiliated persons**

Further, pursuant to the Indemnification Agreement, CVie Therapeutics agrees to indemnify each of IBHL and its affiliated persons that, if and whenever IBHL or its affiliated persons is or was a party or is threatened to be made a party to or is in any way involved in any claim (including without limitation any such claim brought by or in the right of CVie Therapeutics), by reason of (i) the fact that the Initial Series A Director is or was an agent of CVie Therapeutics, (ii) anything done or not done by the Initial Series A Director in such capacity, or (iii) the fact that IBHL or its affiliated persons is or was acting as an express agent of CVie Therapeutics upon the request of CVie Therapeutics and solely for the benefit of CVie Therapeutics, against all expenses incurred by IBHL and its affiliated persons or on their behalf in connection with such claim (including but not limited to in connection with the investigation, defense, settlement or appeal of such claim) except to the extent that any such expenses arise from a claim for which the Initial Series A Director is not entitled to indemnification pursuant to the Indemnification Agreement or under applicable law.

CVie Therapeutics' obligation to provide indemnification pursuant to the Indemnification Agreement is subject to certain exceptions and limitations set out therein. In particular, the maximum liability of CVie Therapeutics shall not exceed the amount of proceeds received by CVie Therapeutics in connection with the sale and issuance of the Series A Shares under the Purchase Agreement.

### **EFFECT OF THE CLOSINGS**

Immediately after the Initial Closing, CVie Therapeutics will cease to be a wholly-owned subsidiary of the Company, and the Company's equity interest in CVie Therapeutics will be reduced to 75.95% of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan). IBHL will then hold 19.05% of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan) while the options under the Share Plan will be 5% of the total issued share capital of CVie Therapeutics.

After the Closings, CVie Therapeutics will then remain a subsidiary of the Company, and the Company's equity interest in CVie Therapeutics will be reduced to 65.13% (if the Special Tranche Issuance is made in full and the maximum limit of the Second Tranche Issuance is made) or 66.11% (if the Special Tranche Issuance is not made and the maximum limit of the Second Tranche Issuance is made) of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan), whereas IBHL will then hold 31.1% (if the Special Tranche Issuance is made in full and the maximum limit of the Second Tranche Issuance is made) or 30.04% (if the Special Tranche Issuance is not made and the maximum limit of the Second Tranche Issuance is made) of the total issued share capital of CVie Therapeutics (on an as converted basis and taking into account 500,000 Ordinary Shares for issuance under the Share Plan). In all these circumstances, the accounts of CVie Therapeutics will be consolidated into the financial statement of the Group. As CVie Therapeutics remains a subsidiary of the Company, the difference between the fair value of the equity of CVie Therapeutics disposed of and the consideration for the Subscription will be recognized directly to the equity of the Group upon the closing of the Subscription which constitutes a deemed disposal under Chapter 14 of the Listing Rules.

The extent of the dilution effect on the Company's equity interest in CVie Therapeutics as a result of the Subscription will depend on (1) whether the Special Tranche Issuance will occur, and if it does occur, whether the Special Tranche Issuance is made in full; and (2) the actual subscription amount in the Second Tranche Issuance.

#### **GENERAL INFORMATION OF IBHL**

IBHL, incorporated in the British Virgin Islands, is an investment holding company.

#### **GENERAL INFORMATION OF CVIE THERAPEUTICS**

CVie Therapeutics is an exempted company with limited liability incorporated under the laws of the Cayman Islands. As at the date of this announcement, CVie Therapeutics is an indirect wholly-owned subsidiary of the Company. CVie Therapeutics intends to develop, manufacture, distribute and/or sell three additional new pharmaceutical products and has obtained and will continue to obtain the necessary license rights (including patents and know-how) (i.e. the Licensed Assets) to develop, manufacture, distribute and/or sell such products. CVie Therapeutics has obtained the license rights for the pharmaceutical products containing Rostafuroxin, Istaroxime and SERCA2a Compounds from Sigma-Tau Industrie Farmaceutiche Riunite S.p.A., and ROSTAQUO S.p.A., details of which are disclosed in the announcement made by the Company on 24 May 2012.

Save and except for the obtaining of certain license rights by CVie Therapeutics, CVie Therapeutics has not conducted any business since the date of the incorporation of CVie Therapeutics and will not conduct any business prior to the Initial Closing.



## **GENERAL INFORMATION OF THE GROUP**

The Group consists of research-driven and market-oriented biopharmaceutical companies focused on the PRC market. Through its operating subsidiary in the PRC, the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. It has established a sales and distribution network for pharmaceuticals covering most provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad.

## **REASONS FOR AND BENEFITS OF THE SUBSCRIPTION**

The Company, through CVie Therapeutics, is diversifying its business scope in the manufacturing and sales of new pharmaceutical products. In connection with such objective, the Subscription would provide CVie Therapeutics with additional funding to develop, manufacture, distribute and/or sale the new pharmaceutical products. The Board considers that the terms of the Transaction Documents are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **LISTING RULES IMPLICATIONS**

The Subscription constitutes a deemed disposal under Chapter 14 of the Listing Rules. As the applicable percentage ratios in respect of each of the Subscription and the transactions as contemplated under the Transaction Documents, and the indemnification provided under the Indemnification Agreement calculated under Chapter 14 of the Listing Rules are more than 5% but less than 25%, the Subscription and the transactions as contemplated under the Transaction Documents, and the indemnification provided under the Indemnification Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules, and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“Bridge Loan”	a non-interest bearing term loan facility up to an aggregate of US\$1,000,000 to be provided to CVie Therapeutics by the Company at the request of CVie Therapeutics under the Purchase Agreement

“Business Day(s)”	any day other than a Saturday, Sunday or other day on which commercial banks in the PRC, Hong Kong or New York are required or authorised by law or executive order to be closed or on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. Hong Kong time
“CCF”	China Cardiovascular Focus Limited, a company incorporated and existing under the laws of the British Virgin Islands
“CCF Contributions”	Contribution of US\$2,000,000 in cash to be made by CCF to CVie Therapeutics on or before the Initial Closing, and further contribution of US\$3,000,000 in cash to be made by CCF to CVie Therapeutics on or within 5 Business Days prior to the Second Closing.
“Closings”	collectively the Initial Closing, the Special Tranche Closing and the Second Closing, and each, a “Closing”
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its issued shares listed on the main board of the Stock Exchange
“connected persons”	having the meaning as ascribed under the Listing Rules
“CVie Board”	the board of directors of CVie Therapeutics
“CVie Group”	collectively CVie Therapeutics and any other entities that is directly or indirectly controlled by CVie Therapeutics
“CVie Therapeutics”	CVie Therapeutics Company Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands
“Directors”	the director(s) of the Company
“First Tranche Issuance”	issuance of 1,904,762 Series A-1 Shares to IBHL at the Series A-1 Purchase Price
“Group”	the Company and its subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IBHL”	Ivy Blue Holdings Limited, a company with limited liability and incorporated under the laws of the British Virgin Islands
“Indemnification Agreement”	the indemnification agreement to be entered into among CVie Therapeutics, the Initial Series A Director and IBHL pursuant to which CVie Therapeutics agrees to provide indemnification for the Initial Series A Director and IBHL and its affiliated persons against expenses in respect of certain claims set forth therein
“Independent Third Party(ies)”	person(s) or company(ies) and their respectively ultimate beneficial owner(s) which, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
“Initial Closing”	the closing of the First Tranche Issuance
“Initial Series A Director”	the Series A Director initially appointed by IBHL at the Initial Closing
“Licensed Assets”	the grant of exclusive rights by (1) an Independent Third Party to market, distribute, promote and sell Remodulin (treprostiril) Injection in the PRC; and (2) by Sigma-Tau Industrie Farmaceutiche Riunite S.p.A. and/or its affiliates, namely ROSTAQUO S.p.A., to develop, manufacture, distribute and sell the pharmaceutical products containing Rostafuroxin, Istaroxime or SERCA2a Compounds as one active ingredient
“LPH Director”	a director of the CVie Board in which the holders of a majority of the then outstanding Ordinary Shares are entitled to appoint
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Management Rights Agreement”	the management rights agreement to be entered into between CVie Therapeutics and IBHL pursuant to which CVie Therapeutics agrees to allow IBHL to, among others, make consultation and/or obtain documents and reports in connection with the management affairs of CVie Therapeutics
“Milestone”	the completion by CVie Therapeutics of the Phase IIb clinical trials for a new product, with such clinical trials meeting the efficacy and safety endpoints in the field of cardiovascular disease in humans as mutually agreed by CVie Therapeutics and IBHL
“Ordinary Share(s)”	ordinary share(s), par value US\$0.01 per share of CVie Therapeutics
“Permitted Transfer”	the transfer of the Shares to the affiliates of the existing Shareholders as permitted under the Shareholders Agreement
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchase Agreement”	the series A preference share purchase agreement dated 6 July 2012 among CVie Therapeutics, CCF, IBHL and the Company for the issuance and allotment of the Series A Shares pursuant to the terms and conditions set forth therein
“Restated Charter”	the amended and restated memorandum and articles of association of CVie Therapeutics
“Relevant Period”	at any time following the date of the Initial Closing and ending 24 months thereafter
“Review Period”	the 30-day period following the delivery of the notice by CVie Therapeutics to the then holders of the Series A-1 Shares for notifying that the Milestone has been achieved
“Series A Director”	a director of the CVie Board in which IBHL shall be entitled to appoint

“Series A Shares”	collectively the Series A-1 Shares and the Series A-2 Shares
“Series A Shareholder”	holder of the Series A Shares
“Series A-1 Shares”	Series A-1 redeemable convertible preference shares, par value US\$0.01 per share of CVie Therapeutics
“Series A-1 Purchase Price”	the purchase price of US\$2.1 per Series A-1 Share
“Series A-2 Shares”	Series A-2 redeemable convertible preference shares, par value US\$0.01 per share of CVie Therapeutics
“Series A-2 Purchase Price”	the purchase price of US\$3 per Series A-2 Share, subject to the automatic downward adjustment to an amount derived from a fully-diluted pre-money valuation of US\$30,000,000 divided by the total number of Shares, which shall be inclusive of the Shares reserved for the issuance under the Share Plan, the Series A-1 Shares issued at the Initial Closing and all Special Tranche Closings (if any) and all Ordinary Shares issued on or before the Second Closing but exclusive of the Ordinary Shares issued to CCF as a result of its contribution of US\$3,000,000 under the CCF Contributions before the Second Closing, if one or more Special Tranche Issuances have occurred prior to the Second Closing
“Second Closing”	the closing of the Second Tranche Issuance
“Second Tranche Issuance”	issuance of such number of Series A-2 Shares to IBHL at the Series A-2 Purchase Price
“Share(s)”	shares in CVie Therapeutics, including the Ordinary Shares and the Series A Shares
“Shareholders”	shareholders of CVie Therapeutics
“Shareholders Agreement”	the shareholders agreement to be entered into among CVie Therapeutics, CCF, IBHL and the Company setting out the rights and obligations of CCF, IBHL and the Company as the Shareholders

“Share Plan”	the share incentive plan for the issuance of 500,000 Ordinary Shares to officers, directors, employees and consultants of CVie Therapeutics in compliance with the Listing Rules and the Restated Charter
“Special Tranche Closing”	the closing of the Special Tranche Issuance
“Special Tranche Issuance”	issuance of up to an aggregate of 476,190 Series A-1 Shares at the Series A-1 Purchase Price to IBHL during the Relevant Period at the election of CVie Therapeutics
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of the Series A Shares by IBHL as contemplated under the Purchase Agreement
“Transaction Documents”	collectively the Purchase Agreement, the Shareholders Agreement, the Management Right Agreement, the Indemnification Agreement and the Restated Charter
“US\$”	United States dollars, the lawful currency of the United States of America
“United States”	the United States of America
“%”	Per cent

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

Hong Kong, 6 July 2012

*As at the date thereof, Ms. Lee Siu Fong (Chairman), 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.*

\* *for identification purpose only*