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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: 8221)

**ISSUE OF UNLISTED WARRANTS
RENEWAL OF GENERAL MANDATES TO
ISSUE SECURITIES AND REPURCHASE SHARES
INCREASE IN AUTHORIZED SHARE CAPITAL
AND
CONTINUING CONNECTED TRANSACTIONS**

Independent Financial Adviser to the Independent Board Committee



Hantec Capital Limited

Issue of Warrants

Pursuant to the Subscription Agreement dated 30 July 2004 as announced on 5 August 2004, the Company proposes to issue to the Subscriber the Warrants upon the terms and conditions mentioned therein.

Renewal of General Mandates to issue securities and repurchase shares

It is proposed that the general mandate in favour of the Directors to allot and issue new Shares shall be renewed up to 20% of the aggregate issued Shares at the date of passing the relevant resolution subject to the approval of Shareholders by poll at the EGM. Ms. Lee Siu Fong holds 0.68% of the issued Shares personally and Ms. Leelalertsuphakun Wanee and their respective associates (namely, Huby Technology Limited which holds 44.85% of the issued Shares, Dynamic Achieve Investments Limited which holds 2.31% of the issued Shares and High Knowledge Investments Limited which holds 4.62% of the issued Shares) (in aggregate holding 52.46% of the entire issued Shares) shall abstain from voting.

* For identification purpose only

It is also proposed that another resolution will be put to Shareholders at the EGM granting the Directors a general mandate authorizing the repurchase by the Company on the Stock Exchange of up to 10% of the issued Shares as at the date of passing the relevant resolution subject to the approval of Shareholders' at the EGM.

It is also proposed that the existing Shareholders shall by way of passing a separate ordinary resolution in the EGM give a general mandate in the Directors to add such repurchased Shares to the 20% general mandate to issue securities.

Increase in authorized share capital

As at the date of this announcement, the authorized share capital of the Company is HK\$25,000,000 consisting of 500,000,000 Shares of HK\$0.05 each, of which 346,225,000 were in issue. To facilitate future issue of Shares, the Directors propose to increase the authorized share capital of the Company from HK\$25,000,000 to HK\$50,000,000 by the creation of an additional 500,000,000 Shares subject to the approval of Shareholders at the EGM.

Continuing Connected Transactions

The Subscriber is a member of Sigma-Tau Group which, at present, has been carrying out on an on-going basis the Continuing Connected Transactions with the Company as being one of the suppliers of the pharmaceutical products to the Company for distribution. The Company now proposes to enter into the Distribution Agreement with Sigma-Tau Industrie, the particulars of which are as set out in this announcement.

The Company will seek the approval of the Independent Shareholders of the Continuing Connected Transactions (including the Cap). The Subscriber and its associates will abstain from voting on these matters at the EGM.

A circular containing, among other things, further details of the Continuing Connected Transactions (including the Cap), a letter from the independent board committee and a letter of advice from Hantec Capital to the independent board committee and Independent Shareholders containing their recommendation and advice on the Continuing Connected Transactions (including the Cap), together with the notice of a EGM will be despatched to the Shareholders as soon as possible.

BACKGROUND

In the Announcement dated 5 August 2004, the Directors announced that the Company had entered into the Subscription Agreement with the Subscriber for subscribing the Subscription Shares, and such subscription was completed on 17 August 2004 on which date 57,000,000 Shares have been issued to the Subscriber, representing 16.46% of the Company's enlarged issued Shares of 346,225,000 Shares. Pursuant to the Subscription Agreement, among other matters, it was also agreed that upon fulfillment of certain conditions, the Company proposed to issue to the Subscriber the Warrants. It was also stated in the Announcement that further announcement would be made upon issue of the Warrants. This announcement is therefore to set out further details of such issue, together with other matters as set out below, which are required to be disclosed in compliance with relevant requirements under the GEM Listing Rules.

The proceeds from the Subscription are approximately HK\$11,514,000 (before expenses) and the proceeds for the exercise in full of the Warrants (assuming only 69,245,000 Shares fall to be issued as explained below) will be approximately HK\$15,510,890 (before expenses). All such proceeds, which shall be no less than HK\$27,024,890 (before expenses) will be used for working capital to further expand the Lee's Group's sales and distribution network in China, acquire new products and technologies and to upgrade the existing manufacturing facilities, and for future investment purposes. At present, no particular investment targets have been identified by the Company. Should there be any future acquisition or investment, the Company will make appropriate disclosures in accordance with the relevant requirements in the GEM Listing Rules. As at the date of this announcement, out of the proceeds from the Subscription, approximately HK\$325,000 has been used to cover expenses arising from the Subscription and approximately HK\$875,000 has been used to cover operating expenses of the Group.

The Lee's Group is a research-driven and market-oriented biopharmaceutical company focused on the PRC market. Through its operating subsidiary in China, the Group develops, manufactures and markets proprietary pharmaceutical products in China. It has established a sales and distribution network for pharmaceuticals covering most of the provinces and cities in China, marketing both self-developed products and licensed products from abroad. Currently, the Company is the sole distributor of Sigma-Tau's Carnitene® (L-Carnitine) for China and in less than one year, the Company has helped to establish Carnitene® as one of leading brands of L-Carnitine in China.

Sigma-Tau is the holding company of the Sigma-Tau Group which is a leading research-based Italian pharmaceutical company and the Sigma-Tau Group has an annual revenue of equivalent to approximately HK\$6 billion with approximately 2,400 employees worldwide, and the Subscriber is a wholly-owned subsidiary of Sigma-Tau. Therapeutic areas in which the Sigma-Tau Group's research and development are focused include oncology, neurology, cardiovascular, gastroenterology, metabolism and immunology, with more than 40 projects, 25 indications studied with 17 molecules. Sigma-Tau Group has operating subsidiaries throughout Europe and the United States and maintains a presence in all of the world's major pharmaceutical markets. All these activities are in fact complementary to the existing business activities of the Company and will result in bringing about business synergies for both parties who are at present predominantly operating in different geographical areas.

ISSUE OF WARRANTS

Pursuant to the Subscription Agreement, it is now proposed that the Warrants will be issued to the Subscriber under the following terms:

Issue price

HK\$10 will be payable by the Subscriber in respect of the issue of the Warrants

Terms

The Warrants shall entitle the Subscriber to subscribe for:

- (a) up to 57,845,000 Shares, or

- (b) where permissible under the GEM Listing Rules, up to such greater number of Shares equivalent to 20% of the entire issued Shares at the time of issue of the Warrants (which is anticipated to be 69,245,000 Shares given that the Subscription has already completed) and assuming no issue or repurchase of Shares prior to the issue of the Warrants,

during the Exercise Period at the Exercise Price of HK\$0.224 per Share, being the price payable for each Share in exercising the subscription rights attaching to the Warrants, and which is determined by averaging the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately before the date of the Subscription Agreement. The Exercise Price is the average closing price HK\$0.224 per Share for the five consecutive trading days ended on 23 July 2004, represents a premium of about 6.67% to the closing price per Share of HK\$0.210 as quoted on GEM on the date of this announcement and a premium of about 10.13% to the average closing price per Share for the five consecutive trading days ended on the date of this announcement. The Exercise Price has been arrived at after arm's length negotiations between the Company and the Subscriber, and the Directors considers that the Exercise Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Shares to be issued pursuant to exercise of the Warrants shall rank pari passu in all respects with the existing issued Shares, including the right to receive all dividends, bonuses or distributions declared, made or paid or proposed to be declared, made or paid by the Company.

Listing Status and Transfer Restrictions

No listing will be sought for any of the Warrants and no assignment or transfer of Warrants may be made unless such transfers are made from the Subscriber to its affiliates (i.e. any person, firm or corporation which, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with a party, and "control" means the legal or beneficial ownership of 50% or more of the voting or equity interests or the power or right to direct the management and affairs of the business (including acting as the general partner of a limited partnership)).

Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon exercise of the Warrants.

Conditions of issue of the Warrants

Besides conditional upon the satisfactory completion of the Subscription (which already took place on 17 August 2004), the issue of the Warrants is also conditional upon:

- (a) the passing of ordinary resolutions by Shareholders with the Subscriber and its associates shall abstain from voting in general meeting by poll to approve the creation and the issue of the Warrants and the issue of Shares falling to be issued upon the exercise of the subscription rights attaching to the Warrants; and
- (b) the GEM Listing Committee of the Stock Exchange having granted or agreed to grant listing of and permission to deal in the Shares falling to be issued upon the exercise of the subscription rights attaching to the Warrants.

The Directors confirm that as at the date of this announcement, save the share option scheme approved and adopted on 26 June 2002 which is before the listing of the Company and the existing share option scheme also adopted by the Company on 26 June 2002, there is no outstanding warrants or similar subscription rights exercisable into Shares of the Company granted by the Company.

Public float

The Company, the Directors and the Company's controlling shareholders have undertaken to the Stock Exchange that upon completion of the issue of the Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants, all GEM Listing Rules including the public float of the Company not falling below the minimum prescribed 25% will be complied with. The Company, the Directors and the Company's controlling shareholders shall use their best endeavours to take appropriate steps to ensure that, upon any issue of the Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants there will be sufficient public float of the Company which will not be less than 25% of the issued share capital of the Company. Pursuant to the provisions of the GEM Listing Rules, the Stock Exchange reserves the right to suspend trading in the Company's securities or cancel the listing of such securities where the Stock Exchange considers that there are insufficient securities in the hands of the public.

Management Matters

Apart from the Company's undertaking in the Subscription Agreement with the Subscriber that upon completion of the Subscription, a person nominated by the Subscriber shall be appointed as Director, it has also been agreed that upon exercise up to 80% or above of the Warrants and payment in full for all the Shares falling to be issued upon the exercise of the subscription rights attaching to the Warrants, another person nominated by the Subscriber shall be appointed as Director; and a resolution be passed by the board of Directors to the effect that no repurchase of Shares by the Company shall be made and no new Shares be issued or agreed to be issued unless a unanimous approval (with the presence of the directors nominated by the Subscriber) has been given to it in a duly convened meeting of the board of Directors of the Company. As at the date of this announcement, the Subscriber is considering to appoint a person as Director pursuant to the terms of the Subscription Agreement. Further announcement will be made by the Company in compliance with the GEM Listing Rules if the Subscriber appoints such a Director.

Connected Transaction

Upon completion of the Subscription under the GEM Listing Rules, the Subscriber has become a substantial Shareholder who holds 16.46% of the Company's entire issued Shares and therefore a connected person of the Company. The issue of the Warrants therefore will constitute a connected transaction of the Company under the GEM Listing Rules, and be subject to approval of the Independent Shareholders which do not have material interest by way of poll at the EGM with the Subscriber and its associates abstaining from voting on the relevant resolution approving the issue of the Warrants.

Takeovers Code Implication

On the basis that the Subscription has been completed and that assuming up to 69,245,000 Shares having been issued upon the exercising in full the subscription rights attaching to the

Warrants, it is possible that the Subscriber (and its concert parties) will hold 30% or above of the enlarged issued Shares. If that occurs, the Subscriber will be required under the Takeovers Code to make a general offer for all the issued Shares not already owned or controlled or agreed to be acquired by the Subscriber and parties acting in concert with it. The Subscriber has undertaken with the Company in the Subscription Agreement that it shall comply in all respects with the requirements in the Takeovers Code, including without limitation the obligations to make a general offer to all other Shareholders for all the issued Shares not already owned or controlled by it when, as a result of exercising by it the subscription rights attaching to the Warrants, the aggregate shareholdings of it and/or parties acting in concert with it increase(s) to 30% or more of the entire issued Shares from time to time.

Convertible Bonds

In the Announcement, the Company announced that it has undertaken with the Subscriber that, upon request by the Subscriber, at any time before the exercise of the Warrants by the Subscriber, the Company shall negotiate with the Subscriber or its nominee(s) in good faith for the Company to issue, in addition to the Warrants, one or a series of convertible bonds(s) to permit the Subscriber to further participate in the Company under the terms and conditions to be agreed which will be acceptable as well as beneficial to both parties. As at the date of this announcement, the Company has not started the discussion of the proposed convertible bonds pending resolution of the issue of Warrants.

Use of Proceeds

The Board considers that the Subscription and the issue of Warrants provide an opportunity to raise additional funds with greater flexibility for the benefit of the Lee's Group's working capital for future investment purposes while strengthening its financial position, and broadening the capital base of the Company. More importantly, such strategic partnership could transform the Company into a stronger player in China's pharmaceutical market and propel the Lee's Group onto a new level. The Directors consider that the Sigma-Tau Group will, through this transaction, also bring to the Company the benefit of its almost 50 years of experience in pharmaceutical business worldwide, permitting the Lee's Group's possible access to its strong research and development expertise and new products and technologies. This may significantly improve the product variety of the Lee's Group to better leverage on its established sales and distribution network in China. The Directors also consider and confirm that upon completion of these transactions and with due regard to the business nature of the Sigma-Tau Group and although as a result there will be changes in the shareholding structure of the Company, the Company will still be continuing its existing business activities. The Directors have no intention to bring about any material change to any areas of such existing business activities.

The proceeds for the exercise in full of the Warrants (69,245,000 Shares fall to be issued) will be approximately HK\$ 15.5 million. At present, it is still the Directors' intention that all such proceeds, together with those raised through the Subscription, will be used for working capital to further expand the Lee's Group's sales and distribution network in China, acquire new products and technologies and to upgrade the existing manufacturing facilities, and for future investment purposes. At present, no particular investment targets have been identified by the Company.

Should there be any future acquisition or investment, the Company will make appropriate disclosures in accordance with the relevant requirements in the GEM Listing Rules.

Changes in Shareholding Structure

On the assumption that 69,245,000 Shares be issued upon exercising the subscription rights attaching to the Warrants, the table below sets out the changes in the Company's shareholding structure immediately before and after completion of the issue of Warrants:

	Present shareholding structure		After full exercise of Warrants	
	No. of Shares	%	No. of Shares	%
Huby Technology Limited (<i>Note 1</i>)	155,290,625	44.85	155,290,625	37.38
High Knowledge Investments Limited (<i>Note 2</i>)	16,000,000	4.62	16,000,000	3.85
Zengen Inc. (<i>Note 3</i>)	9,600,000	2.77	9,600,000	2.31
Dynamic Achieve Investments Limited (<i>Note 4</i>)	8,000,000	2.31	8,000,000	1.92
Lee Siu Fong	2,334,375	0.68	2,334,375	0.56
Subscriber	57,000,000	16.46	126,245,000 (<i>Note 5</i>)	30.39
Other public Shareholders	<u>98,000,000</u>	<u>28.31</u>	<u>98,000,000</u>	<u>23.59</u>
Total	<u><u>346,225,000</u></u>	<u><u>100.00</u></u>	<u><u>415,470,000</u></u>	<u><u>100.00</u></u>

Notes

- 1: Huby Technology Limited is beneficially owned as to 50% by Ms. Lee Siu Fong and as to 50% by Ms. Leelalertsuphakun Wanee, both of whom are Directors.
- 2: High Knowledge Investments Limited is wholly owned by Ms. Lue Shuk Ping, Vicky who is sister-in-law of each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, both of whom are Directors.
- 3: Based on the available information from Zengen, the total equity of Zengen was US\$11.6 million as at 4 June 2002. There are more than 100 shareholders of Zengen and based on the available information from Zengen, shareholders of Zengen are US citizens and there is no controlling shareholder. The single largest shareholder, who is independent of the Company and its connected persons, holds about 16% of the total issued share capital of Zengen. Eight shareholders of Zengen, each of whom holds more than 5% of the total issued share capital of Zengen have an aggregate shareholding in Zengen of about 66%.

- 4: Dynamic Achieve Investments Limited is beneficially owned as to 50% by Ms. Lee Siu Fong and as to 50% by Ms. Leelalertsuphakun Wanee, both of whom are Directors.
- 5: These 126,245,000 Shares represent the sum of 57,000,000 Subscription Shares and 69,245,000 Shares which fall to be issued upon exercise in full of the Warrants.

Maintaining Listing of the Company

Immediately after the exercising in full the subscription rights attaching to the Warrants, the Subscriber and parties acting in concert with it will hold approximately 30.39% of the Company's entire issued Shares as enlarged by the issue and allotment of the Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants. Accordingly, in the absence of other changes in shareholding in the Company, the Shares held by the public (within the meaning of the GEM Listing Rules) will be diluted from 28.31% as at the date of this announcement to 23.59%, which will be below the threshold of 25% required to be held by the public as stipulated under the GEM Listing Rules.

It is the intention of the Company to maintain the listing of the Shares on the Stock Exchange after completion of the Subscription and immediately upon exercising in full the subscription rights attaching to the Warrants. Accordingly, the Company and the Directors have undertaken to the Stock Exchange to use their best endeavours to take appropriate steps to ensure that, upon issue of any Shares as a result of the exercise of the subscription rights attaching to the Warrants, the public float of the Company will not be less than 25%. The existing controlling Shareholder, namely, Huby Technology Limited, has also undertaken with the Stock Exchange that it will take appropriate steps to ensure that sufficient public float exists in the Shares, it will take appropriate steps (including without limitation the disposal of Shares held by it) to ensure that, upon issue of any Shares as a result of the exercise of the subscription rights attaching to the Warrants, the public float of the Company will not be less than 25%. The Stock Exchange reserves the right to suspend trading in the Shares or cancel the listing of the Shares where the Stock Exchange considers that there are insufficient Shares in the hands of the public.

The Stock Exchange has stated that if, upon completion of the above-mentioned transactions, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading in the Shares; or**
- **there are too few Shares in public hands to maintain an orderly market,**

then it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained. In this connection, it should be noted that upon completion of the issue of the Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

If the Company remains a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of the proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the GEM Listing Rules, to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant as set out in the GEM Listing Rules.

RENEWAL OF GENERAL MANDATES TO ISSUE SECURITIES AND REPURCHASE SHARES

Given that the Subscription Shares have been allotted and issued under the existing general mandate granted to the Directors at the Company's last annual general meeting held on 18 May 2004, and that the Subscription Shares collectively already represent approximately 19.7% of the issued Shares as at the date on which such mandate was given (i.e. 18 May 2004), the existing general mandate to issue Shares so given to the Directors has therefore been significantly utilized. The Directors therefore propose to seek the approval of the Shareholders at the EGM by way of poll (at which Ms. Lee Siu Fong holding 0.68% of the issued Shares personally and Ms. Leelatertsuphakun Wanee and their respective associates (namely Huby Technology Limited which holds 44.85% of the issued Shares, Dynamic Achieve Investments Limited which holds 2.31% of the issued Shares and High Knowledge Investments Limited which holds 4.62% of the issued Shares) (in aggregate holding 52.46% of the issued Shares) and the Subscriber and its associates shall abstain from voting) to renew the general mandates to Directors to further issue securities of the Company up to a maximum of 20% of the aggregate issued Shares at the date of passing the relevant resolution. The Company shall establish an independent board committee which shall consist only of independent non-executive Directors to advise Independent Shareholders as to whether the renewal of general mandates to issue securities is fair and reasonable and whether such transaction or arrangement is in the interests of the Company and its Shareholders as a whole. The Company has appointed Hantec Capital as the independent financial adviser to make recommendations to the independent board committee and the Independent Shareholders as to whether the renewal of general mandates is fair and reasonable and whether such transaction or arrangement is in the interests of the Company and its Shareholders as a whole and to advise Independent Shareholders on how to vote.

Also, conditional upon approval of the renewal of the general mandates to issue securities as referred to above, the total number of Shares will, as a result, be greater than the number of Shares that are capable of being repurchased by the Company pursuant to the repurchase mandate given to Directors at the Company's last annual general meeting held on 18 May 2004. It is therefore also intended that another resolution will be put to Shareholders at the EGM granting the Directors a general mandate authorizing the repurchase by the Company on the Stock Exchange of up to 10% of the issued Shares as at the date of passing the relevant resolution.

It is also proposed that the existing Shareholders shall by way of passing a separate ordinary resolution in the EGM give a general mandate to the Directors to add such repurchased Shares to the 20% general mandate to issue securities.

As at the date of this announcement, the Directors have no intention to exercise the general mandates to issue securities or to repurchase Shares.

INCREASE IN AUTHORIZED SHARE CAPITAL

The authorized share capital of the Company is HK\$25,000,000 consisting of 500,000,000 Shares of HK\$0.05 each, of which 346,225,000 are in issue as at the date of this announcement. To facilitate the future issue of the Shares including the 69,245,000 under the Warrants, the Directors propose to increase the authorized share capital of the Company from HK\$25,000,000 to HK\$50,000,000 by the creation of an additional 500,000,000 Shares. The proposed increase in the authorized share capital of the Company is subject to approval by the Shareholders at the EGM.

CONTINUING CONNECTED TRANSACTIONS

The Subscriber is a member of the Sigma-Tau Group which at present, has been carrying out on an on-going basis the Continuing Connected Transactions with the Company as being one of the suppliers of pharmaceutical products to the Company for distribution. The aggregate value of purchase made by the Company to Sigma-Tau Industrie from November 2003 (being the date of first purchase) to 16 August 2004 amounted to US\$1,037,887.50 (approximately HK\$8,095,522.50) which was carried out prior to Sigma-Tau Group becoming substantial Shareholder of the Company. No purchase was made from the Company to Sigma-Tau Industrie from 17 August 2004 (being the date of Sigma-Tau Group becoming a substantial Shareholder to the Company) to the date of this announcement. As it is intended that the Subscriber, Sigma-Tau Industrie and/or Sigma-Tau Group will continue carrying on such transactions with the Company, all such on-going transactions after the Subscription will constitute connected transactions of the Company under the GEM Listing Rules. As such transactions become connected transactions. The Company now proposes to enter into the Distribution Agreement with Sigma-Tau Industrie, the proposed principal terms of which are as follows:

Principal terms of the Distribution Agreement

Date:

1 October 2004

Parties:

- (i) Sigma-Tau Industrie, a member of the Sigma-Tau Group which is a substantial Shareholder; and
- (ii) the Company.

Principal Terms:

Duration

- The Distribution Agreement shall take effect on 1 October 2004 and last for two Marketing Years commencing from 1 October 2004 to 31 December 2006 and upon expiration on 31 December 2006, the parties may renew it subject to agreement by both parties and in compliance with the GEM Listing Rules.

Distribution Rights

- Sigma-Tau Industrie appoints the Company as its exclusive distributor to import, promote, distribute and sell the Product identified by the Trademark in the Territory.

Purchases and Sales

- Sigma-Tau Industrie agrees to sell or have sold the Product to the Company and the Company agrees to purchase the Product exclusively from Sigma-Tau Industrie or any company of Sigma-Tau Group designated by Sigma-Tau Industrie.
- The Company shall provide, at its own care and expenses, directly or through a governmental approved entity in the Territory, the importing of the Product from Italy into the Territory.
- The Company represents and warrants that it has, it will have, it will procure to have and it will continue to have, all the necessary consents and/or permits which may from time to time be required by the government or other applicable authorities in the Territory to enable the Company to carry out and comply with the importation of the Product from Italy into the Territory, either directly or through a governmental approved entity in the Territory, and the further promotion and distribution of such Product in the Territory. Such a governmental approved entity shall be promptly communicated in writing to Sigma-Tau Industrie by the Company and Sigma-Tau Industrie reserves the right either to approve or not such entity, which approval shall not be unreasonably withheld or delayed.

Governmental approvals

- The import drug permit is obtained in the name of Sigma-Tau Industrie. The Company agrees to use its best efforts to obtain and to maintain on Sigma-Tau Industrie's behalf and in Sigma-Tau Industrie's name and at the Company's cost and expense any marketing authorizations, permits, licenses and other government approvals that may be required for the sale of the Products within the Territory, including, but not limited to, any government approvals which may be required under applicable law for the appointment of the Company as the distributor of the Product in the Territory.

Minimum purchase quantity

- The Company undertakes to purchase from Sigma-Tau Industrie per each Marketing Year the minimum purchase quantity which has been arrived at after arm's length negotiations between the Company and Sigma-Tau Industrie and the Board (including the independent non-executive directors) considers that such purchase is fair and reasonable on normal commercial terms which are no less favourable than those offered by Sigma-Tau Industrie to independent third parties and in the interests of the Company and the Shareholders as a whole, is as follows:
 - in respect of the first three months in the first Marketing Year from 1 October 2004 to 31 December 2004, there is no minimum purchase quantity and there was no purchase during this period
 - in respect of the twelve months in the first Marketing Year from 1 January 2005 to 31 December 2005, the equivalent of US\$1,300,000 (approximately HK\$10,140,000)
 - in respect of the second Marketing Year from 1 January 2006 to 31 December 2006, the equivalent of US\$1,690,000 (approximately HK\$13,182,000)

- In case the Company fails to purchase and pay for in each Marketing Year the relevant minimum purchase quantity, Sigma-Tau Industrie may at any time during its term terminate the Distribution Agreement.

The Cap

- As required under Rule 20.35(2) of the GEM Listing Rules, for each year, there will be a maximum aggregate annual value arising from the Continuing Connected Transaction (i.e. the Cap) and therefore, on the basis that the Company will at least purchase from Sigma-Tau Industrie the minimum purchase quantity, by reference to transactions carried on by the Company with Sigma-Tau Industrie since November 2003 to 16 August 2004 amounted to US\$1,037,887.50 relating to the Product and market expectation in the coming years, the amount of purchase by the Company pursuant to the Distribution Agreement shall not exceed the respective Caps set out as follows:
 - for the three months ending 31 December 2004, no Cap is sought by the Company because there was no purchase during this period.
 - for the year ending 31 December 2005, the equivalent of US\$ 1,514,500 (approximately HK\$11,813,100)
 - for the year ending 31 December 2006, the equivalent of US\$ 2,099,500 (approximately HK\$16,376,100)

The Cap amounts mentioned above are determined by reference to, among other matters, sales forecast by its distributors and Directors and after taking into account of two main considerations. First, a health growth of 46% and 39% respectively for the coming two years is reasonable, which is determined by reference to the projections presented to the Group by its local distributors and by Directors. As the total purchase from November 2003 to the date of this announcement amounted to US\$1,037,887.50, and the expected annual Caps for the calendar years of 2005 and 2006 are calculated respectively to US\$1,514,500.00 (approximately 46% higher than in 2004) and US\$2,099,500.00 (approximately 39% higher than in 2005). Secondly, the Group's sales of the Product is mainly through its local distributors which have presented to the Group in writing their projections of the sales of the Product for the coming two years.

The Directors (including the independent non-executive directors) consider that the terms of the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Lee's Group. They also consider that the terms of the Continuing Connected Transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms between the Company and the Sigma-Tau Industrie.

The Directors (including the independent non-executive directors) are of the view that so far as the Shareholders are concerned, the Continuing Connected Transactions and the terms thereof are fair and reasonable and in the best interests of the Lee's Group and the Shareholders as a whole.

As it is intended that the Sigma-Tau Group will continue carrying on such transactions with the Company, all such transactions will constitute continuing connected transactions of the Company under Rule 20.14 of the GEM Listing Rules. As each of the percentage ratios for the Continuing Connected Transactions is on an annual basis more than 2.5% and the annual amount for any of the Marketing Years may be higher than the equivalent of HK\$10,000,000, the Continuing Connected Transactions are and therefore will, pursuant to Rule 20.35(4) of the GEM Listing Rules, be subject to the approval of the Independent Shareholders by way of

poll at the EGM. An independent board committee will be formed to consider the terms of the Distribution Agreement and the Cap to be imposed pursuant to the requirements of the GEM Listing Rules. Hantec Capital has been appointed as the independent financial adviser to advise the independent board committee and Independent Shareholders of the Company on the fairness and reasonableness of the terms of the Distribution Agreement and the relevant Cap.

GENERAL

A circular to the Shareholders containing details of the issue of the Warrants, the renewal of general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandates to issue securities, the increase in authorized share capital and the Continuing Connected Transactions, a letter of advice from Hantec Capital with respect to the issue of unlisted Warrants, renewal of general mandates to issue securities, the addition of such renewed repurchase Shares to the 20% general mandates to issue securities and Continuing Connected Transactions and a notice convening the EGM, will be despatched to the Shareholders as soon as practicable for the purpose of convening the EGM to consider and if thought fit approve the issue of the Warrants, the renewal of general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandates, the increase in authorized share capital and the Continuing Connected Transactions.

DEFINITIONS

“Announcement”	the announcement released by the Company dated 5 August 2004
“Board”	the board of Directors
“Cap”	the maximum aggregate annual value of the Continuing Connected Transactions to be carried on by the Company pursuant to the Distribution Agreement
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“connected person”	as defined in the GEM Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions between the Lee’s Group and the Sigma-Tau Group contemplated under the Distribution Agreement dated 1 October 2004, the particulars of which are set out in the section “Continuing Connected Transactions” above
“Director(s)”	director(s) of the Company

“EGM”	an extraordinary general meeting of the Company to be held on or around 7 February 2005 for the purpose of approving the issue of Warrants, the renewal of general mandates to issue securities and repurchase Shares, the mandate regarding the addition of the repurchase Shares to the 20% general mandate to issue securities, the increase in authorized share capital and the Continuing Connected Transactions
“Exercise Period”	the period between the date of fulfillment of all conditions governing the issue of the Warrants which is expected to be the date of EGM on which date the relevant resolution would be passed (i.e. around 7 February 2005) and the day immediately before the expiry of 30 months from the date of the fulfillment of the conditions of the Warrants (both days inclusive) during which the Subscriber or its nominee(s) can exercise the subscription rights attaching to the Warrants
“Exercise Price”	HK\$0.224, being the price payable for each Share in exercising the subscription rights attaching to the Warrants
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Hantec Capital”	Hantec Capital Limited, an independent financial adviser to the independent board committee and the Independent Shareholders in relation to the issue of Warrants, renewal of general mandate to issue securities, the addition of such renewed repurchase Shares to the 20% general mandate to issue securities and Continuing Connected Transactions, and which is a licensed corporation for types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under section 116(1) of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	the following Shareholders who are not involved in or interested in the transactions and are not required under the GEM Listing Rules to abstain from voting at the EGM: (a) For the issue of the Warrants, all Shareholders except the Subscriber and its associates ;

- (b) For the renewal of general mandates to issue securities, all Shareholders except Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee and their respective associates namely, Huby Technology Limited, Dynamic Achieve Investments Limited and High Knowledge Investments Limited and the Subscriber and its associates; and
- (c) For the Continuing Connected Transactions and/or the Distribution Agreement, all Shareholders except the Subscriber, Sigma-Tau Industrie and Sigma-Tau Group and their respective associates

“Lee’s Group”	the Company and its subsidiaries
“Marketing Year”	each 12 month period (except the first Marketing Year) of commercialization (i.e. once the product launch to the market) of the Product in the Territory by the Company, with the first Marketing Year to start from 1 October 2004 to 31 December 2005
“PRC” or “China”	People’s Republic of China
“Product”	L-carnitine injectable of 5ml which is used for secondary deficiencies, myocardial metabolic damage due to coronary heart disease angina, acute myocardial infarction, severe hypoperfusion conditions due to cardiogenic shock
“Sigma-Tau”	Sigma-Tau Finanziaria SpA, a company organized and existing under the laws of Italy and the ultimate holding company of the Sigma-Tau Group
“Sigma-Tau Industrie”	Sigma-Tau Industrie Farmaceutiche Riunite SpA, a company organized and existing under the laws of Italy and a member of the Sigma-Tau Group
“Sigma-Tau Group”	Sigma-Tau and its subsidiaries
“Subscriber”	Defiante Farmaceutica, Lda, a company established under the laws of Portugal and is a wholly owned subsidiary of Sigma-Tau
“Subscription”	the subscription of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement relating to the subscription of Shares and issue of Warrants in the Company dated 30 July 2004 entered into between the Company and the Subscriber

“Subscription Shares”	57,000,000 new Shares issued pursuant to the Subscription Agreement
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers published by the Securities and Futures Commission
“Trademark”	the trademark CARNITENE and its Chinese version to be registered in the Territory in the name of Sigma-Tau Industrie and/or any other trademarks also in the form of Chinese characters chosen at its sole discretion by Sigma-Tau Industrie and registered in the name of Sigma-Tau Industrie in the Territory, which shall be used to identify the Product in the Territory
“Territory”	People’s Republic of China (excluding Hong Kong)
“Warrants”	unlisted Warrants to be constituted by an instrument and to be issued by the Company carrying the rights in registered form to subscribe for (a) up to 57,845,000 Shares, or (b) where permissible under the GEM Listing Rules, up to such greater number of Shares equivalent to 20% of the entire issued Shares at the time of issue of the Warrants (which is anticipated to be 69,245,000 Shares given that the Subscription has already completed), and that such Warrants will be subject to the terms and conditions contained in the instrument
“Zengen”	Zengen Inc., a biotechnology company incorporated in the United States on 18 May 1999, an independent third party not connected with the directors, chief executives, substantial shareholders, management shareholders of Lee’s Group and any of their respective associates

“HK\$”	Hong Kong dollars
“US\$”	United States dollars
“%”	per cent.

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

Hong Kong, 30 December 2004

As at the date thereof, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.leespharm.com.