
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lee’s Pharmaceutical Holdings Limited (the “**Company**”), you should at once hand this circular and the proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.



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

The notice convening the extraordinary general meeting of the Company to be held at Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen’s Road Central, Hong Kong on 11 March 2005 (Friday) at 11:30 a.m. is set out on pages 68 to 71 of this circular.

A form of proxy for the extraordinary general meeting is enclosed with this circular. Whether or not you propose to attend the extraordinary general meeting, you are requested to complete the form of proxy and return the same to the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) if you so wish.

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of its publication.

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions have the followings meanings, unless the context otherwise requires:

“associate”	as defined in the GEM Listing Rules
“Board”	board of Directors
“business day”	a day on which dealing in securities takes place on the Stock Exchange throughout its normal trading hours
“Cap”	the maximum aggregate annual value of the Continuing Connected Transactions to be carried on by the Company pursuant to the Distribution Agreement
“connected person”	as defined in the GEM Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions between 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” below
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held on 11 March 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 Continuing Connected Transactions and Cap
“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. on 11 March 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 Committee”	listing sub-committee of the board of directors of the Exchange with responsibility for GEM

DEFINITIONS

“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of independent non-executive Directors comprising Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl
“Hantec Capital”	Hantec Capital Limited, an independent financial adviser to the independent board committee and the Independent Shareholders in relation to (i) the issue of unlisted Warrants; (ii) renewal of general mandate to issue securities; and (iii) the Continuing Connected Transactions and a licensed corporation for types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under section 116(1) of the SFO
“Independent Shareholders”	<p>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 :</p> <ul style="list-style-type: none">(a) the issue of the Warrants, all Shareholders except the Subscriber and its associates;(b) the renewal of general mandate 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, High Knowledge Investments Limited and the Subscriber and its associates; and(c) the Continuing Connected Transactions and Cap and/or the Distribution Agreement, all Shareholders except the Subscriber, Sigma-Tau Industrie and Sigma-Tau Group and their respective associates.
“Latest Practicable Date”	22 February 2005, being the latest practicable date for the Company to ascertain certain information for the purpose of this circular
“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

DEFINITIONS

“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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers published by the Securities and Futures Commission
“Territory”	People’s Republic of China (excluding Hong Kong)

DEFINITIONS

“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
“Warrant(s)”	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 Warrant Instrument
“Warrant Instrument”	the instrument by way of deed poll to be executed by the Company subject to and with the benefit of which the Warrants shall be issued
“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, a management shareholders of Lee’s Group and any of their respective associates
“HK\$”	Hong Kong dollars
“US\$”	United States dollars
“%”	per cent.

EXPECTED TIMETABLE

Latest time for lodging forms of proxy for the EGM 11:30 a.m. on Wednesday, 9 March 2005

EGM to approve the issue of Warrants, the renewal of general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandate to issue securities, the increase in authorized share capital and the Continuing Connected Transactions and Cap

11:30 a.m. on Friday, 11 March 2005

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Lee Siu Fong (*chairperson*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Registered office:

PO Box 309 GT, Uglund House

South Church Street

Grand Cayman, Cayman Islands

Independent non-executive Directors:

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

Principal place of

business in Hong Kong:

Room 1905, Grand Millennium Plaza

Lower Block

181 Queen's Road Central

Hong Kong

24 February 2005

To Shareholders

Dear Sir/Madam,

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

INTRODUCTION

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 were 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.

* For identification purpose only

LETTER FROM THE BOARD

In the announcement dated 30 December 2004, the Directors announced further details of such issue of Warrants together with renewal of general mandates to issue securities and repurchase Shares, increase in authorized share capital and Continuing Connected Transactions and Cap which are required to be disclosed in compliance with the relevant requirements under the GEM Listing Rules.

This circular is therefore (i) to provide you with, amongst other things, information relating to the terms of the Subscription Agreement, the issue of Warrants, the renewal of general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandate to issue securities, the increase in authorized share capital and the Continuing Connected Transactions and Cap; (ii) to set out the recommendation of the Independent Board Committee and the advice of the Hantec Capital; and (iii) to give you notice convening the EGM to consider and, if thought fit, passing the resolutions approving the issue of unlisted Warrants, the renewal of general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandate to issue securities, the increase in authorized share capital and the Continuing Connected Transactions and Cap.

1. ISSUE OF WARRANTS

Pursuant to the Subscription Agreement, principal terms of which are set out in Appendix II, 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 the announcement dated 30 December 2004 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 the announcement dated 30 December 2004. The

LETTER FROM THE BOARD

Exercise Price also represents a premium of about 17.89% to the closing price per Share of HK\$0.190 as quoted on GEM on the Latest Practicable Date and a premium of about 17.89% to the average closing price per Share for the five consecutive trading days ended on the Latest Practicable Date. 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 the Latest Practicable Date, 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.

LETTER FROM THE BOARD

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 Latest Practicable Date, 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 any 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.

LETTER FROM THE BOARD

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 dated 5 August 2004, 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 Latest Practicable Date, the Subscriber has not requested to start such negotiation and therefore the Company has not started such discussion of the proposed convertible bonds pending the passing of the relevant resolution for the issue of Warrants.

Reasons for the Subscription and Issue of Warrants

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 these transactions, 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 the PRC. 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.

LETTER FROM THE BOARD

Use of proceeds

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 amounting to HK\$11.5 million, will be used for working capital to further expand the Lee's Group's sales and distribution network in the PRC, acquire new products and technologies and 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.

LETTER FROM THE BOARD

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 the announcement dated 30 December 2004 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 (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.

LETTER FROM THE BOARD

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.

2. RENEWAL OF THE 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 Independent Shareholders at the EGM by way of poll (at which Ms. Lee Siu Fong who 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 controlling the voting rights of 52.46% of the issued Shares) and the Subscriber and its associates shall abstain from voting) to renew the general mandate 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 has established an Independent Board Committee which consists only of independent non-executive Directors to advise Independent Shareholders as to whether the renewal of general mandate 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 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. For information, the Company has not sought for any refreshment of general mandate to issue securities and repurchase Shares since the last annual general meeting held on 18 May 2004.

Also, conditional upon approval of the renewal of the general mandate 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 Circular, the Directors have no intention to exercise the general mandates to issue securities or to re-purchase Shares.

LETTER FROM THE BOARD

3. 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 Circular. 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.

4. 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 of the Company for distribution. The aggregate value of purchase made by the Company from 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. The aggregate value of purchase made by the Company from Sigma-Tau Industrie from 17 August 2004 (being the date of Sigma-Tau Group becoming a substantial Shareholder to the Company) to the Latest Practicable Date amounted to US\$195,000.00 (approximately HK\$1,521,000.00). 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, principal terms of the Distribution Agreement are set out as follows:

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:

- (a) 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.

LETTER FROM THE BOARD

(b) 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.

(c) 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.

(d) 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.

(e) 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 considers that such purchase is fair and reasonable and in the interests of the Company and the Shareholders as a whole, is as follows:

- (i) 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

LETTER FROM THE BOARD

- (ii) 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)
- (iii) 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 (approximately HK\$8,095,522.50) 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 ended 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); and
- for the year ending 31 December 2006, the equivalent of US\$2,099,500 (approximately HK\$16,376,100).

Basis for the Cap

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 the announcement dated 30 December 2004 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.

LETTER FROM THE BOARD

GEM Listing Rules Implications

The respective annual Caps for Continuing Connected Transactions contemplated under the Distribution Agreement for each of the two years ending 31 December 2005 and 2006 is estimated to be US\$1,514,500 (equivalent to approximately HK\$11,813,100) and US\$2,099,500 (equivalent to approximately HK\$16,376,100) respectively as determined with reference to (a) the estimated sales forecast of Carnitene® prepared by the distributors of the Group in PRC and the Company; (b) the historical actual sale volume of the Company; and (c) the safety stock (equivalent to three months of stocks for projected sales) to be maintained.

The estimated sales forecast of Carnitene® prepared by the existing distributors of the Lee's Group in the PRC and the Company is prepared with reference to (i) the historical actual sale volume of the Company; (ii) the safety stock (equivalent to three months of stocks for projected sales) to be maintained; and (iii) the estimated demand of Carnitene® in the PRC projected by the distributors of Lee's Group. The estimated annual Caps for the years of 2005 and 2006 are calculated respectively to approximately US\$1.5 million and approximately US\$2.1 million based on the sales forecast of Carnitene® in the PRC. Moreover, the Lee's Group has been actively engaging new distributors in the PRC.

Having regard to the fact that the Continuing Connected Transactions are conditional upon the compliance by the Company with all relevant requirements under the GEM Listing Rules (as set out in the "Conditions of the Continuing Connected Transactions" in the Letter from Hantec Capital), including but not limited to, annual review by the auditors and independent non-executive Director of the Company, which is regarded as a mechanism to protect the interest of the Independent Shareholders, the Directors (including the independent non-executive directors) consider that the Cap, is acceptable for the purpose of accommodating the estimated sales volume of Carnitene® in the forthcoming years. The Directors are of the view that the basis on which the Cap is determined is fair and reasonable.

The Company will seek the approval by the Independent Shareholders by way of a poll at the EGM in respect of the Agreement and the respective Cap in relation to the Continuing Connected Transactions for the two years ending 31 December 2005 and 2006 on the following conditions:

- (a) the amount of sale of Carnitene® to the Company by the Sigma-Tau Group for each of the financial years ending 31 December 2005 and 2006 will not exceed HK\$11,813,100 and HK\$16,376,100 respectively;
- (b) the Continuing Connected Transactions will be reviewed by the independent non-executive Directors who will confirm in the Company's annual report and accounts that the transactions have been entered into in compliance with the following:
 - (i) the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Lee's Group;
 - (ii) the Continuing Connected Transactions will be conducted either on normal commercial terms, or if there is no sufficient comparable transactions, on terms no less favourable to the Lee's Group than terms available from independent third parties;

LETTER FROM THE BOARD

- (iii) the Continuing Connected Transactions will be entered into in accordance with the terms of the Distribution Agreement that are fair and reasonable and in the interests of the Shareholders as a whole;
- (c) the Company must re-comply with GEM Listing Rules 20.35(3) and (4) in the following circumstances: (i) if the Cap in (a) above is exceeded; or (ii) when the relevant agreement is renewed or there is a material change to the terms of the agreement; and
- (d) each year the auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report in accordance with GEM Listing Rule 20.38, confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
 - (iii) have been entered into in accordance with the relevant agreement governing the transactions; and
 - (iv) have not exceeded the Caps disclosed in (a) above.
- (e) compliance by the Company with all other relevant requirements under the GEM Listing Rules.

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 has been formed to consider the terms of the Distribution Agreement, Continuing Connected Transactions and the Cap to be imposed pursuant to the requirements of the GEM Listing Rules. Hantec Capital has been appointed 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.

5. INFORMATION OF LEE'S GROUP AND SIGMA-TAU GROUP

Lee's Group is a research-driven and market-oriented biopharmaceutical company 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 of the provinces and cities in the PRC, marketing both self-developed

LETTER FROM THE BOARD

products and licensed products from abroad. Currently, the Company is the sole distributor of Sigma-Tau's Carnitene® (L-Carnitine) for the PRC and in less than one year, the Company has helped to establish Carnitene® as one of leading brands of L-Carnitine in the PRC.

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.

6. EGM

Set out on pages 68 to 71 of this circular is a notice convening the EGM to consider, and if thought fit, to approve by ordinary resolution (i) the issue of unlisted Warrants, (ii) the renewal of the general mandates to issue securities and repurchase Shares, the addition of the repurchase Shares to the 20% general mandate to issue securities, (iii) the increased in authorized share capital and (iv) the Continuing Connected Transactions and Cap.

The Company will seek the approval of Independent Shareholders by poll for voting on the following transactions:

- (i) For the issue of unlisted Warrants, the Subscriber and its associates who in aggregate control the voting rights of 16.46% the issued Shares shall abstain from voting at the EGM.
- (ii) For the renewal of general mandates to issue securities, 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 who in aggregate control the voting rights of 68.92% of the issued Shares shall abstain from voting at the EGM.
- (iii) For the Continuing Connected Transactions, the Cap and the Distribution Agreement, the Subscriber, Sigma-Tau Industrie and Sigma-Tau Group and their respective associates who in aggregate control the voting rights of 16.46% of the issued Shares shall abstain from voting at the EGM.

The Company will also seek the approvals of Shareholders on the following matters namely (i) the repurchase of Shares, (ii) the addition of the repurchased Shares to the 20% general mandate to issue securities, and (iii) the increase in authorized share capital of the Company.

LETTER FROM THE BOARD

A form of proxy is enclosed for use by the Shareholders for the EGM. If a Shareholder is not able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the branch share registrar of Lee's Pharmaceutical Holdings Limited in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event no later than 48 hours before the time appointed for the holding of the meeting. Completion of the form of proxy will not preclude the Shareholder from attending and voting at the meeting or any adjournment thereof should he or she so wishes.

7. RECOMMENDATIONS

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions in respect of the issue of unlisted Warrants, renewal of general mandate to issue securities and Continuing Connected Transactions. Hantec Capital has been appointed to advise Independent Board Committee and Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee as set on page 22 on this circular. Independent Shareholders are urged to read carefully the opinion of Hantec Capital and the advice of the Independent Board Committee before making the voting decision.

Having considered the reasons above, we consider that the terms of the Subscription Agreement with the Subscription completed on 17 August 2004, issue of unlisted Warrants, the renewal of the general mandates to issue securities and repurchase Shares, the addition of such renewed repurchase Shares to the 20% general mandate to issue securities, the increase in authorized share capital and the Continuing Connected Transactions and Cap are in the interests of the Company and Shareholders and are fair and reasonable so far as the Independent Shareholders are concerned and recommends the Independent Shareholders and/or Shareholder to vote in favour of the resolutions to be proposed at the EGM for approving (i) the issue of unlisted Warrants; (ii) the renewal of the general mandate to issue securities and repurchase shares, the addition of the repurchase shares to 20% general mandate to issue securities; (iii) the increase in authorized share capital and (iv) the Continuing Connected Transactions and the Cap.

8. ADDITIONAL INFORMATION

Your attention is drawn to the letter set out on pages 23 to 39 of this circular from the Hantec Capital to the Independent Board Committee in respect of the issue of unlisted Warrants, renewal of general mandate to issue securities and Continuing Connected Transactions and Cap. Summary of the general information of the Company, the principal terms and conditions of the Subscription Agreement, the Warrants and explanatory statement of the repurchase mandate are also set out in Appendices I, II, III and IV to this circular.

9. PROCEDURES FOR DEMANDING POLL BY SHAREHOLDERS

Pursuant to Article 76 of Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of

LETTER FROM THE BOARD

the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required by the GEM Listing Rules. A poll may be demanded by :

- (a) the Chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meeting of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

In addition, pursuant to Article 77 of the Articles of Association of the Company, if a poll is demanded as aforesaid, it shall (subject as provided in Article 78 of the Articles of the Association of the Company) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting at which the poll was demanded or the taking of the poll, whichever is earlier. The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

Pursuant to Articles 86 and 92 of the Articles of Association of the Company, a demand by a person as proxy for a member or, in the case of a member being a corporation, by its duly authorized representative shall be deemed to be the same as a demand by a member.

Yours faithfully
For and on behalf of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairperson



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)

24 February 2005

To the Independent Shareholders

Dear Sir or Madam

**ISSUE OF UNLISTED WARRANTS
RENEWAL OF GENERAL MANDATE TO
ISSUE SECURITIES
AND
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 20 January 2005 ("Circular") of which this letter forms a part. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined in the Circular.

We have been appointed to advise the Independent Shareholders as to whether or not:

1. the issue of unlisted Warrants;
2. renewal of general mandate to issue securities; and
3. the terms of the Continuing Connected Transactions and the annual cap thereof

are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

Having considered the principal reasons and factors considered by, and the advice of, Hantec Capital as set in its letter of advice, we are of the opinion that the issue of unlisted Warrants, renewal of general mandate, and the terms of the Continuing Connected Transactions and the annual cap are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve, inter alia, the issue of unlisted Warrants, renewal of general mandate, the Continuing Connected Transactions, and the proposed annual caps for the Continuing Connected Transaction.

Independent Board Committee

Chan Yau Ching, Bob

Lam Yat Cheong

Tsim Wah Keung, Karl

Independent non-executive Directors

* For identification purpose only

LETTER FROM HANTEC CAPITAL

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders received from Hantec Capital in respect of issue of unlisted Warrants, renewal of general mandate to issue securities and the Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular:



45th Floor, Cosco Tower
183 Queen's Road Central,
Hong Kong

24 February 2005

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

**ISSUE OF UNLISTED WARRANTS
RENEWAL OF GENERAL MANDATE TO
ISSUE SECURITIES
AND
CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the issue of Warrants, renewal of general mandate ("New Issue Mandate") to issue securities and the terms of the Continuing Connected Transactions, particulars of which are set out in this circular (the "Circular") to the Shareholders dated 24 February 2005 and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular.

As set out in the letter from the Board (the "Letter from the Board"), the Board announced on 5 August 2004 that the Company and the Subscriber have entered into the Subscription Agreement dated 30 July 2004, pursuant to which the Subscriber has conditionally agreed to subscribe 57,000,000 Shares at a price of HK\$0.202 per Share. After completion of the Subscription, which was taken place on 17 August 2004, the Subscriber has since been interested in approximately 16.46% of the equity interest of the Company and became a substantial shareholder of the Company. Pursuant to the Subscription Agreement, the Company will issue the Warrants to the Subscriber after the completion of the Subscription. As such, the issue of Warrants and the issue of new Shares to the Subscriber pursuant to the exercise of the Warrants will constitute connected transactions of the Company under Rule 20.13 of the GEM Listing Rules and will be subject to approval by the Independent Shareholders.

LETTER FROM HANTEC CAPITAL

Further, 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, the Directors propose to seek the approval of the Shareholders at the EGM to renew the New Issue Mandate 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 in order to maintain the financial flexibility for the Group's future business development. As a result of the issue of the Subscription Shares, the Company has utilised approximately 19.7% out of the 20% of the existing issue mandate granted by the Shareholders at the last annual general meeting on 18 May 2004. Pursuant to Rule 17.42(A) of the GEM Listing Rules, the renewal of the New Issue Mandate requires the approval of the Independent Shareholders at the EGM at which the controlling Shareholders and their associates shall abstain from voting.

On the other hand, as the Company is the sole distributor of Sigma-Tau's Carnitene® (L-Carnitine) for PRC, Sigma-Tau Group from time to time supplied such products to the Company before the Subscription and is expected to continue to do so after completion of the Subscription. Accordingly, such supply of pharmaceutical products by the Sigma-Tau Group to the Company would constitute non-exempt continuing connected transactions of the Company under Rule 20.35 of the GEM Listing Rules and such continuing connected transactions and the annual cap thereof will be subject to approval by the Independent Shareholders.

We have been appointed to advise the Independent Board Committee as to whether (i) the issue of Warrants and the underlying Shares to be issued upon exercise of the Warrants; (ii) renewal of New Issue Mandate; and (iii) the terms of the Continuing Connected Transactions and the annual cap thereof; are fair and reasonable so far as the Shareholders are concerned.

We are considered independent with reference to the independence test set out in Rule 17.96 of the GEM Listing Rules and is considered suitable to give independent advice to the Independent Board Committee. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company; the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries; or the associates of each of them.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors and the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors and the management of the Company regarding the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the

LETTER FROM HANTEC CAPITAL

management of the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider we have taken all reasonable steps to satisfy ourselves that we have performed the duties to assess the transactions and have a reasonable basis for forming our opinions. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Group, Sigma-Tau Group and their respective associates nor have we carried out any independent verification of the information supplied.

ISSUE OF WARRANTS

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the issue of Warrants, we have considered the following principal factors and reasons:

(i) *Background and reasons for the issue of Warrants*

As announced by the Company on 5 August 2004 and as set out in the Letter from the Board, the Company and the Subscriber entered into the Subscription Agreement on 30 July 2004, pursuant to which the Subscriber has conditionally agreed to subscribe 57,000,000 Shares at a price of HK\$0.202 per Share. We were advised by the Directors that at the time of negotiation for the Subscription, the issue of Warrants was one of the principal factors to catalyze the execution of the Subscription although the Subscription was not made inter-conditional with the issue of Warrants.

In addition, as set out in the Letter from the Board, the Directors consider that the issue of Warrants provides a further opportunity to raise funds, in addition to those raised under the Subscription of HK\$11.5 million for the Group's working capital and future investment purposes while strengthening its financial position, and broadening the capital base of the Company. We were advised that approximately HK\$2.37 million, representing approximately 21.12% of the net proceeds has been utilised for general working capital up to the Latest Practicable Date and the balance of approximately HK\$8.85 million remain unused. Pursuant to the Subscription Agreement, the Subscriber shall nominate a person to be appointed as Director upon completion of the Subscription. 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, the Subscriber shall further nominate one more person to be appointed as Director. The Directors consider that the Sigma-Tau Group will, through this transaction, bring to the Company the benefit of its almost 50 years of experience in pharmaceutical business worldwide, permitting the Group's possible access to its strong research and development expertise and new products and technologies. This may significantly improve the product pipeline of the Group to better leverage on its established sales and distribution network in China. As at the Latest Practicable Date, the Subscriber has not nominated any person to be appointed as Director.

LETTER FROM HANTEC CAPITAL

Further, we were advised by the Board that the additional fund to be raised from the exercise of Warrants of approximately HK\$15 million will be utilised for (i) the additions of equipment and facilities for production of new products to be developed and/or licensed in; (ii) marketing of new products to be licensed from overseas; and (iii) clinical studies and marketing of new product developed by the Group.

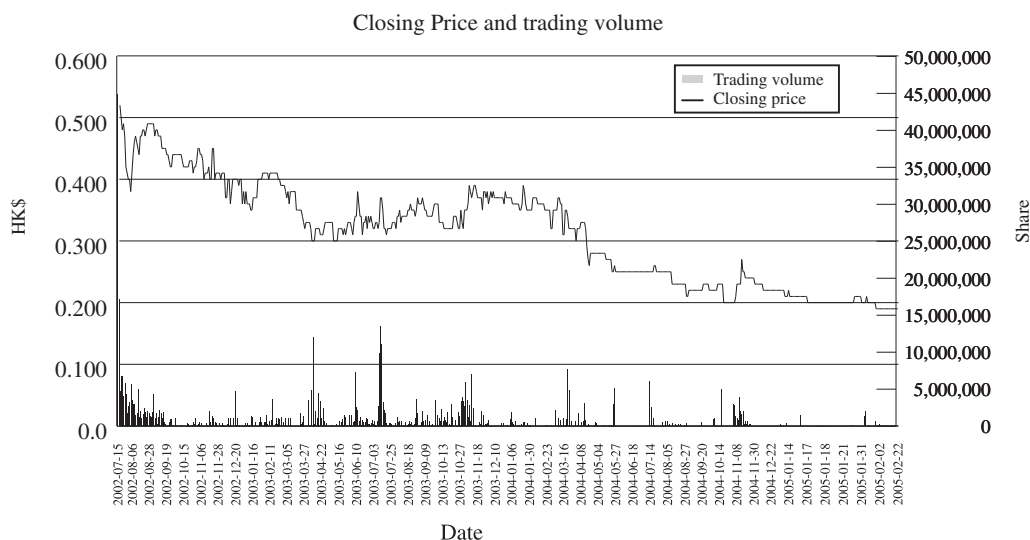
On the above basis and notwithstanding that the Company has no concrete plans as to utilisation of the proceeds from the issue of the Warrants, we consider that the issue of Warrants to the Subscriber is in the interests of the Company after taking into account (i) its catalyzing effect in the Subscription (ii) the opportunity to bring in additional capital to the Group; and (iii) the proposed use of proceed from the exercise of Warrants for (i) the additions of equipment and facilities for production of new products to be developed and/or licensed in; (ii) marketing of new products to be licensed from overseas; and (iii) clinical studies and marketing of new product developed by the Group.

(ii) Terms of the Warrants

The Warrants will be issued at an aggregate price of HK\$10 and the Warrants shall entitle the Subscriber to subscribe for up to 69,245,000 Shares during a period of 30 months from date of fulfillment of all conditions governing the issue of the Warrants at the exercise price of HK\$0.224 per Share, which is approximately equal to the average closing price per Share for the five consecutive trading days ended on 23 July 2004, being the last trading day before the date of the Subscription Agreement, and represents (i) a premium of about 6.67% to the closing price per Share of HK\$0.210 as quoted on GEM on the date of announcement dated 30 December 2004; (ii) a premium of about 10.34% to the average closing price per Share of HK\$0.203 for the five consecutive trading days ended on the date of the announcement dated 30 December 2004; (iii) a premium of about 17.89% to the closing price per Share of HK\$0.19 as quoted on GEM on the Latest Practicable Date; and (iv) premium of approximately 140.9% over the net assets value per Share of HK\$0.093 as at 30 June 2004.

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The following chart shows a summary of the closing price and the daily trading volume of the Shares during the period from 15 July 2002, being the listing date of the Shares, to 22 February 2005, being the Latest Practicable Date:



As stipulated above, both of the trading price and the transaction volume of the Shares have experienced significant decrease since the Shares are listed. Upon enquiry, the Directors represented to us that a longer tenure of the Warrants would enhance the possibility for the Subscriber to exercise the Warrants. In light of the fact that (i) the historical low transaction volume in the trading of the Shares; and (ii) the exercise price of HK\$0.224 represents a premium to the current market price of the Shares, the Directors are of the view that the exercise price and the tenure of the Warrants are fair and reasonable.

On the above basis, we consider that the exercise price is fair and reasonable to the Company and Shareholders as a whole after taking into the account (i) the substantial premium over the net assets per Share; and (ii) the substantial decrease in the trading price and the transaction volume of the Shares since the time of listing.

(iii) *Financial effects on the Company*

(a) Loss per Share

According to the annual report of the Company for the year ended 31 December 2003, the loss per Share for the year ended 31 December 2003 was approximately HK\$0.0185 (calculated on the basis of an issued capital of 290,441,216 Shares). On the assumption that the Subscription has been completed on 31 December 2003, the loss per Share would be approximately HK\$0.0155 (calculated on the basis of existing issued capital of 346,225,000 Shares) upon completion of the Subscription but before the exercise of Warrants. On the further assumption that the Subscription and the full exercise of Warrants have been completed on 31 December 2003, the loss per Share would be approximately HK\$0.0129 (calculated on the basis that 69,245,000 Shares will be issued upon full exercise of the Warrants with an

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enlarged issued capital of 415,470,000 Shares), representing a reduction of approximately 16.8% as compared to the loss per Share upon completion of the Subscription but before the exercise of Warrants of approximately HK\$0.0155.

In view of the loss per Share would be reduced as a result of the full exercise of the Warrants, we are of the view that the issue of Warrants is in the interest of the Independent Shareholders.

(b) Net assets value per Share

Based on the unaudited financial statements of the Company for the six months ended 30 June 2004, the net asset value per Share as at 30 June 2004 was approximately HK\$0.093 per Share. Given that (i) the subscription price of HK\$0.202 per Share under the Subscription and the exercise price of the Warrant represents a premium of about 117.2% and 140.9% to the unaudited net asset value per Share as at 30 June 2004 respectively and (ii) the issue of the Shares contemplated under the Subscription and full exercise of the Warrants will increase the capital base of the Company, the consolidated net asset value of the Group will be enhanced following completion of the Subscription and the exercise of the Warrants in full.

Given that the subscription price represents a premium to the latest published unaudited net asset value per Share and the increase of the capital base as a result of the issue of Warrants, we are of the view that the issue of Warrants is in the interest of the Independent Shareholders.

In light of the positive effects on the loss sharing and the net asset value as stated above, we consider the issue of Warrants and the possible exercise of Warrants should have favourable effects to the financials of the Company.

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(iv) *Dilution effect on shareholding*

The table below sets out the changes in the Company's shareholding structure immediately before and after completion of the issue of Warrants on the assumption that 69,245,000 Shares be issued upon exercising the subscription rights attaching to the 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 Subscriber	2,334,375	0.68	2,334,375	0.56
Other public Shareholders	57,000,000	16.46	126,245,000	30.39
	98,000,000	28.31	98,000,000	23.59
Total	346,225,000	100.00	415,470,000	100.00

Notes:

- 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.
- 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.
- 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%.
- 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.

Upon the exercise of the Warrants in full, 69,245,000 Shares will be issued to the Sigma-Tau Group, representing 20.0% of the existing issued share capital of the Company and 16.7% of the enlarged issued share capital of the Company immediately after the full exercise of the Warrants. Accordingly, the shareholding interests of the existing public Shareholders will be diluted from approximately 28.31% to approximately 23.59%, representing a reduction of approximately 4.72%. As stated in the Letter from the Board, each of the Company, the Directors and the existing controlling Shareholder has undertaken to the Stock Exchange to use their best endeavours to take appropriate steps to ensure that the public float of the Company will not be less than 25%.

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On the basis that the respective shareholding interests of every Shareholder, other than Sigma Tau Group, will be diluted by the same percentage and the respective undertakings from the Company, the Directors and the existing controlling Shareholders that the public float will not be less than 25%, we consider that the public Shareholders has not been prejudiced. Further, given that the exercise of Warrants will bring in new capital for the Company, we consider the dilution effect on shareholding is acceptable.

RECOMMENDATIONS

Having considered the factors set out above, in particular,

- (i) the commercial justification behind the issue of Warrants to the Subscriber;
- (ii) the opportunity to raise additional capital for (i) the additions of equipment and facilities for production of new products to be developed and/or licensed in; (ii) marketing of new products to be licensed from overseas; and (iii) clinical studies and marketing of new product developed by the Group;
- (iii) the exercise price represents a substantial premium over the net asset value per Share; and
- (iv) the favourable effects on financials of the Company arising from the possible exercise of Warrants,

we consider that the issue of Warrants is, on balance, in the interest of the Company and the Shareholders and is fair and reasonable so far as the Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders to vote in favour of the ordinary resolution approving the issue of Warrants and the Shares to be issued upon exercise of the Warrants to be proposed at the EGM.

RENEWAL OF GENERAL MANDATE TO ISSUE SECURITIES

Principal factors and reasons considered

In arriving at our opinion regarding the terms of renewal of the New Issue Mandate, we have considered the following principal factors and reasons:

- (i) *Background of and reasons for the renewal of the New Issue Mandate*

As announced by the Company on 5 August 2004, the Company and the Subscriber entered into the Subscription Agreement on 30 July 2004, pursuant to which Subscriber has conditionally agreed to subscribe 57,000,000 Shares at a price of HK\$0.202 per Share. Given that the Subscription Shares allotted and issued under the existing general mandate already represent approximately 19.7% of the issued Shares as at 18 May 2004, being the date which existing general mandates was granted, the existing general mandate to issue Shares so granted to the Directors has therefore been significantly utilised. The Directors therefore propose to seek the approval of the Shareholders

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at the EGM to renew the New Issue Mandate to Directors to (i) 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 (assuming that no new issue or repurchase of Shares between the period between the Latest Practicable Date and the date of the EGM and the respective number of issued Shares and the Shares issuable under the New Issue Mandate as at the date of EGM will be 346,225,000 Shares and 69,245,000 Shares) in order to maintain the financial flexibility for the Group's future business development. Pursuant to Rule 17.42(A) of the GEM Listing Rules, the renewal of the New Issue Mandate requires the approval of the Independent Shareholders at the EGM at which the controlling Shareholders and their associates shall abstain from voting. The Directors confirm that the Company has not sought for any refreshment of its general mandate since the last annual general meeting of the Company held on 18 May 2004.

(ii) *Financial flexibility*

Having considered the various fund raising alternatives such as bank financing and debt issuance which will result in the Group incurring financing costs, the Directors believe that equity financing such as issuance of new Shares for cash or equity swaps will be a more appropriate means to fund the future development of the Group and provide additional working capital to the Group.

We have reviewed the information, provided by the Group and have been advised by the Directors and we concur that the Group has sufficient working capital, taking into account the net proceeds from the Subscription and has no immediate funding needs for the current operations of the Group. However, we were advised by the Directors that approximately HK\$2.37 million, representing 21.21% of the net proceeds from the Subscription of approximately HK\$11.2 million, has been utilised for general working capital up to the Latest Practicable Date and the balance of approximately HK\$8.85 million remain unused. Notwithstanding the Company proposes to issue the Warrants to the Subscriber, the issue of the Warrants is subject to Shareholders' approval and may or may not proceed. In the event that the Warrants have been issued to the Subscribers, there is no assurance that such Warrants will be exercised. The Directors consider that the granting of the New Issue Mandate will increase the flexibility for raising capital for the Group to capture any future business development which will be beneficial to the Shareholders as the amount of capital that may be raised will increase upon renewal of the existing general mandate when assessing and negotiating potential acquisitions and for general working capital purpose in order to strengthen the capital base of the Company. Although the Company has no immediate funding need before the holding of next annual general meeting, the Directors believe that appropriate investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. In the event that such investment opportunity arises which would exceed the existing general mandate, the Directors are uncertain whether the Company is able to obtain independent Shareholders' approval for the renewal of the New Issue Mandate in a timely manner. In light of the above, the Directors consider that it is in the interest of the Company to obtain Independent Shareholders' approval to refresh the New Issue Mandate as soon as practicable. The Directors believe that the New Issue Mandate will provide the Group with a maximum flexibility for future investment and/or acquisitions when new prospective investments arise.

Having considered the above, we consider that the renewal of the New Issue Mandate will help the Company to maintain financial flexibility and allow the Company to raise new funds should opportunity arise.

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(iii) *Potential dilution to shareholding of the Independent Shareholders*

We set out below a table depicting the shareholding structure of the Company as at the Latest Practicable Date and, for illustrative purpose, the shareholding structure of the Company upon full utilisation of the New Issue Mandate:

	Number of issued Shares as at the Latest Practicable Date <i>No. of Shares</i>	Approximate percentage <i>%</i>	Number of issued Shares after the full utilisation of the renewal of New Issue Mandate <i>No. of Shares</i>	Approximate percentage <i>%</i>	Number of issued Shares after full exercise of Warrants and full utilisation of the refreshment of New Issue Mandate <i>No. of Shares</i>	Approximate percentage <i>%</i>
Huby Technology Limited (<i>Note 1</i>)	155,290,625	44.85	155,290,625	37.38	155,290,625	31.15
High Knowledge Investments Limited (<i>Note 2</i>)	16,000,000	4.62	16,000,000	3.85	16,000,000	3.21
Zengen Inc. (<i>Note 3</i>)	9,600,000	2.77	9,600,000	2.31	9,600,000	1.92
Dynamic Achieve Investments Limited (<i>Note 4</i>)	8,000,000	2.31	8,000,000	1.92	8,000,000	1.60
Lee Siu Fong	2,334,375	0.68	2,334,375	0.56	2,334,375	0.47
Subscriber	57,000,000	16.46	57,000,000	13.72	126,245,000	25.32
Other public Shareholders	98,000,000	28.31	98,000,000	23.59	98,000,000	19.66
Shares issued under the renewal of New Issue Mandate	-	-	69,245,000	16.67	83,094,000	16.67
Total	346,225,000	100	415,470,000	100	498,564,000	100

Notes:

- 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.
- 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.
- 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%.
- 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.

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The aggregate shareholding of the existing public Shareholders will decrease from approximately 28.31% to (i) approximately 23.59% upon full utilisation of the New Issue Mandate assuming no Shares will be issued or repurchased during the period between the Latest Practicable Date and the date of EGM; and (ii) approximately 19.66% upon full exercise of the Warrants and full utilisation of the New Issue Mandate assuming no Shares will be issued or repurchased during the period between the Latest Practicable Date and the date of EGM. There will be a potential dilution of approximately 16.67% upon full utilisation of New Issue Mandate. Taking into account that (i) the New Issue Mandate will increase the amount of capital which may be raised under the New Issue Mandate and provides more options of financing to the Group for further development of its business as well as in other potential future acquisitions as and when such opportunities arise; (ii) the fact that the shareholding of all the Shareholders will be diluted to the same extent upon any utilisation of the New Issue Mandate; and (iii) the respective undertakings given by the Company and the Directors that each of them will use their best endeavours to take appropriate steps to ensure that, upon issue of any Shares as a result of the full utilisation of the New Issue Mandate, the public float of the Company will not be less than 25%, we consider such dilution or potential dilution of shareholding of Independent Shareholders acceptable.

RECOMMENDATIONS

Having considered the above principal factors and reasons, in particular, (i) equity financing such as issuance of new Shares for cash or equity swaps will be a more appropriate means to fund acquisitions of potential businesses comparing to bank financing and debt issuance; and (ii) the New Issue Mandate will provide financial flexibility for raising capital for the Group as the Directors consider appropriate for future investment and/or acquisition when new prospective investment opportunities arise or for general working capital purpose as the amount of capital that maybe raised will increase and the Company is allowed to raise capital within a short period of time, we consider that the renewal of the New Issue Mandate to issue further securities of the Company up to a maximum of 20% of the aggregate issued Shares at the date of passing the relevant resolution is in the interest of the Company and its shareholders and is fair and reasonable so far as the Shareholders are concerned.

Independent Shareholders are, however, advised to note the possible dilution effect of the utilization of the New Issue Mandate on their shareholding interests in the Company. On balance, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution approving the renewal of the New Issue Mandates to be proposed at the EGM.

THE CONTINUING CONNECTED TRANSACTIONS

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Continuing Connected Transactions, we have considered the following principal factors and reasons:

(i) *Background of and reasons for the Continuing Connected Transactions*

The Group is a research-driven and market-oriented biopharmaceutical company focused on the PRC market. Through its operating subsidiary in PRC, it develops, manufactures and markets proprietary pharmaceutical products in PRC. It has established a sales and distribution network for

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pharmaceuticals covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad. Currently, the Company is the sole distributor of Sigma-Tau's Carnitene® (L-Carnitine) in the PRC.

Sigma-Tau Group, a leading research-based Italian pharmaceutical group, has an annual revenue of equivalent to approximately HK\$6 billion with approximately 2,400 employees worldwide. 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.

As announced by the Company on 5 August 2004, the Company and the Sigma-Tau Group entered into the Subscription Agreement on 30 July 2004, pursuant to which Sigma-Tau Group has conditionally agreed to subscribe 57,000,000 Shares at a price of HK\$0.202 per Share. As a result of the completion of the Subscription taken place on 17 August 2004, the Sigma-Tau Group has since been interested in approximately 16.46% equity interest of the Company and became connected persons of the Company. Thus, the transactions between them constitute connected transactions under the GEM Listing Rules.

As set out in the Letter from the Board, the aggregate value of purchase from the Company to Sigma-Tau Industrie from November 2003 (being the month of the first purchase made) up to 16 August 2004 amounted to US\$1,037,887.50 (equivalent to approximately HK\$8,095,522.50).

We have reviewed the historical quarterly sales of Carnitene® by the Group in the PRC for the first three quarters in 2004 and reveal that the sales volume of Carnitene® contribute over 20% of the Group's turnover during the period under review.

Taking into consideration of the Continuing Connected Transactions are part of the principal business of the Group, we consider that the Continuing Connected Transactions are in the commercial interest to the Company and the Shareholders as a whole.

(ii) Terms of the Continuing Connected Transactions

Prior to completion of the Subscription, the Sigma-Tau Group has appointed the Company as the sole distributor of Sigma-Tau's Carnitene® in the PRC since September 2003. Pursuant to the relevant agreement, Sigma-Tau Group has agreed to supply to the Company and the Company has agreed to buy Carnitene® at a certain fixed price per pack.

As a result of the completion of the Subscription on 17 August 2004, the Distribution Agreement entered into between Sigma-Tau Industrie and the Company constituted a continuing connected transactions of the Company under the GEM Listing Rules.

Pursuant to the Distribution Agreement, the price for the supply of Carnitene® was determined based on arm's length negotiation and normal commercial terms. We were confirmed by the Directors that Sigma Tan Group has not engaged distributor in the PRC, other than the Group, for

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distribution of pharmaceutical products in the PRC. Accordingly, the Group is the exclusive distributor in the PRC. In order to assess whether the price level is not less favourable than the Company can obtain from independent overseas third parties for pharmaceutical products with similar application, we have reviewed the price of another medicine similar to Carnitene® which has been offered to the Group since 2004, we noted that the Group's gross profit margin of selling Carnitene® in the PRC is higher than that of selling similar medicine which is offered by another independent supplier.

On the other hand, we were confirmed by the Directors that Sigma Tau Group has not engaged distributor in the PRC, other than the Group, for distribution of pharmaceutical products in the PRC. Thus, the Group is the exclusive distributor of Carnitene® in the PRC and there is no similar transaction in the PRC for us to assess whether the terms offered by Sigma-Tau Group is not less favourable than it offered to other independent third parties.

In view of the above, we consider that the Continuing Connected Transactions are to be carried out on normal commercial terms and the price is not less favourable than the Company can obtain from independent third parties.

(iii) Annual caps of the Continuing Connected Transactions

The respective annual cap for Continuing Connected Transactions contemplated under the Distribution Agreement for each of the two years ending 31 December 2006 is estimated to be US\$1,514,500 (equivalent to approximately HK\$11,813,100) and US\$2,099,500 (equivalent to approximately HK\$16,376,100) respectively (the "Cap") as determined with reference to (a) the estimated sales forecast of Carnitene® prepared by the distributors of the Group in PRC and the Company; (b) the historical actual sale volume of the Company; and (c) the safety stock (equivalent to three months of stocks for projected sales) to be maintained.

We had tried to search for market researches on the demand for products similar to Carnitene® in the PRC and revealed that no such independent research is available to the best of our knowledge. We have reviewed the historical sales of Carnitene® by the Group in the PRC since November 2003. We have also collected and reviewed the estimated sales forecast of Carnitene® prepared by the Company based on the purchase estimation of 17 of the existing independent distributors which accounted for approximately 87.04% of the total purchase of Carnitene® amounted to US\$811,564 (equivalent to approximately HK\$6,330,199) between the period from November 2003 and December 2004 from the Group in the PRC and the Company which is prepared with reference to (i) the historical actual sale volume of the Company; (ii) the safety stock (equivalent to three months of stocks for projected sales) to be maintained; and/or (iii) the estimated demand of Carnitene® in the PRC projected by the distributors of Group. It is noted that the purchase volume of Carnitene® by its distributors in the second half of 2004 recorded an approximately 45% growth than that in the first half of 2004. Moreover, the management of the Company has informed us that the determination of the 3 months safety stock period is based on the time lag from placing orders to delivery of Carnitene® from the Sigma-Tau Group pursuant to the Distribution Agreement. In light of the foregoing, we are of the opinion that the estimated sales forecast of Carnitene® is prepared with reference to the historical actual sale volume of the Company and the safety stock (equivalent to three months of stocks for projected sales) and on a fair and reasonable basis.

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In reviewing the sales forecast of Carnitene[®], we have performed calculation to cross-check the sales forecast of the Company with each of the sales forecasts prepared by the distributors of the Group and revealed that the calculations of the sales forecasts prepared by the distributor are in line with the sales forecast prepared by the Company. We were also given to understand that most of the customers consuming Carnitene[®] from the 17 distributors were mainly hospitals located in different provinces and cities in the PRC. In conducting the sales forecasts, each of the distributors has taken into account the estimated demand of Carnitene[®] in 2005 and 2006 by its existing customers of different size (i.e. the number of beds that the hospitals possessed) and the estimated demand for Carnitene[®] by new customers in different provinces and cities which the distributor is going to penetrate for the coming two years. We have reviewed the calculation of each of the distributors' sales forecast and are of the opinion that the methodology adopted by the distributors is fair and reasonable. We have also discussed with the management of the Company and were advised that those sales forecasts from the distributors were prepared in accordance with the fair expectation of the Group's distributors. Upon enquiry, the Directors advised us that the Company had assessed the feasibility of each of the sales forecasts prepared by the 17 distributors with reference to the financial background, the size of operation, the length of relationship and the existing client base of each of the distributors. Based on the preliminary assessment results, the Company made relevant downward adjustments on the estimated purchase volume of certain distributors whichever the Company considered necessary. The Directors have individually assessed the estimated demand for Carnitene[®] in each markets which the distributors are serving or going to serve. And also, the Directors also confirmed that the distributors have sufficient financial resources to place orders amounting up to the amount of their estimated purchase volume.

The Directors also advised us that sufficient buffer should be allowed in the Caps for (i) those distributors who have not submitted their sales forecasts to the Company; and (ii) new distributors to be engaged by the Group in the years of 2005 and 2006. For those distributors who have not submitted their sales forecasts, the Company has adopted their historical purchase volume between the period from November 2003 to December 2004 as the benchmark of their future consumption in each of the years of 2005 and 2006. In addition, the Directors represented to us that the Group has been actively engaging new distributor in the PRC. From January 2004 to December 2004, the number of distributors increased from 9 to 65. The buffer amount for the year 2005 and 2006 are approximately US\$43,504 and US\$115,784, representing approximately 3.2% and 5.5% of the Caps respectively.

The Directors considered that the annual Caps of approximately US\$1.5 million (approximately HK\$11.8 million which is approximately 46% higher than the cost of sales of Carnitene[®] for the period from November 2003 to December 2004) and approximately US\$2.1 million (approximately HK\$16.4 million which is approximately 39% higher than the cost of sales of Carnitene[®] in 2005) would provide the Group with the sufficient buffer to fulfill the demand of the Group's existing distributors and the new distributors to be engaged by the Group in 2005 and 2006.

We are of the view that the adoption of the sales forecasts prepared by the independent distributors as the basis to determine the Cap is more objective than the Company to estimate the future demand for Carnitene[®] by itself. We also consider the making of relevant downward adjustments on the estimated purchase volume of certain distributors with reference to the financial

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background, the size of operation, the length of relationship and the existing client base of each of the distributors forms a more prudent methodology and is fair and reasonable to the Company and the Independent Shareholders as a whole. We are also of the opinion that the buffer amount of approximately US\$43,504 and US\$115,784 for the year 2005 and 2006 as allowed in the Caps for any orders from the distributors which did not submit their forecast and any other new distributors would provide greater flexibility to the Company given that any exceed of the Caps would require further approval in another EGM and would result in unduly burdensome for the Group's operation. Most importantly, the purchase volume of Carnitene® by its distributors in the second half of 2004 recorded an approximately 45% growth than that in the first half of 2004, we are of the view that the demand of Carnitene® is demonstrating a substantial growth trend. According to "Atlas of Heart Disease and Stroke, World Health Organisation ("WHO"), September 2004", it was estimated that 16.7 million people around the globe died of cardiovascular diseases in 2002. This is about one-third of all deaths globally. By 2020, heart diseases and stroke will become the leading cause of both death and disability worldwide, with the number of fatalities projected to increase to more than 20 million a year and to more than 24 million a year by 2030. Given that Carnitene® is a drug for curing cardiovascular disease and the projected increasing trend of the number of death and disability which will be brought along by the cardiovascular diseases, we are of the view that the growth trend in the sales of Carnitene® would continue. We consider that we have taken all reasonable steps to satisfy ourselves that we have performed the duties to assess the transactions and have a reasonable basis for forming our opinions. On the above basis, and taking into account further discussions below, we are of the opinion that it is a fair expectation of the Directors that the respective Cap of the Continuing Connected Transactions for each of the forthcoming two years ending 31 December 2006 is fair and reasonable after taking into account of the historical sales of and expected demand for Carnitene® in the PRC.

Having regard to the fact that the Continuing Connected Transactions are conditional upon the compliance by the Company with all relevant requirements under the GEM Listing Rules (as set out in the following paragraph headed "Conditions of the Continuing Connected Transactions"), including but not limited to, annual review by the auditors and independent non-executive Director, which is regarded as a mechanism to protect the interest of the Independent Shareholders and the Continuing Connected Transactions are subject to the requirements of reporting, announcement and independent Shareholders' approval in the event that the Cap is exceeded or the Distribution Agreement is renewed or there is a material change in the terms of the Distribution Agreement, we consider that the Cap, is acceptable for the purpose of accommodating the estimated sales volume of Carnitene® in the forthcoming years. We are of the opinion that the basis on which the Cap is determined is fair and reasonable.

(iv) Conditions of the Continuing Connected Transactions

The Company will seek the approval by the Independent Shareholders by way of a poll at the EGM in respect of the Agreement and the respective Cap in relation to the Continuing Transactions for the two years ending 31 December 2006 on the following conditions:

- (a) the amount of sale of Carnitene® to the Company by the Sigma-Tau Group for each of the financial years ending 31 December 2005 and 2006 will not exceed HK\$11,813,100 and HK\$16,376,100 respectively;

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- (b) the Continuing Connected Transactions will be reviewed by the independent non-executive Directors who will confirm in the Company's annual report and accounts that the transactions have been entered into in compliance with the following:
 - (i) the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group;
 - (ii) the Continuing Connected Transactions will be conducted either on normal and commercial terms, or if there is no sufficient comparable transactions, on terms no less favourable to the Group than terms available from independent third parties;
 - (iii) the Continuing Connected Transactions will be entered into in accordance with the terms of the Distribution Agreement that are fair and reasonable and in the interests of the Shareholders as a whole;
- (c) the Company must re-comply with GEM Listing Rules 20.35(3) and (4) in the following circumstances: (i) if the Cap in (a) above is exceeded; or (ii) when the relevant agreement is renewed or there is a material change to the terms of the agreement; and
- (d) each year the auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report in accordance with GEM Listing Rule 20.38, confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
 - (iii) have been entered into in accordance with the relevant agreement governing the transactions; and
 - (iv) have not exceeded the Cap disclosed in (a) above.
- (e) Compliance by the Company with all other relevant requirements under the GEM Listing Rules.

Taking into account of the conditions precedent attached to the Continuing Connected Transactions, in particular (i) the respective limit imposed on the Cap for each of the two years ending 31 December 2006; and (ii) the compliance by the Company with all relevant requirements under the GEM Listing Rules, inter alia, ongoing review by the independent non-executive Directors and auditors of the Company during the terms of the Continuing Connected Transactions, we consider that the Company has taken appropriate measures to govern the Company in carrying out the Continuing Connected Transactions, thereby safeguarding the interests of the Shareholders thereunder.

LETTER FROM HANTEC CAPITAL

RECOMMENDATIONS

Having considered the factors set out above, in particular,

- (i) the commercial justification for carrying out the Continuing Connected Transactions including, amongst others, (i) the Continuing Connected Transactions are part of the principal business of the Group; and (ii) the Continuing Connected Transactions are to be carried out on normal commercial terms and the price is not less favourable than the Company can obtain from independent third parties; and
- (ii) the basis of estimating the Cap after taking into consideration various factors set out above,

we consider that the Continuing Connected Transactions are in the interest of the Company and its shareholders as a whole and the Cap are fair and reasonable so far as the Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the ordinary resolution approving the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Andrew Tang

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors 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:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' interests and short positions in the shares and underlying shares

As the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons had interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or the chief executives were taken or deemed to have under such provisions of SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest			Total	Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Lee Siu Fong	(1)	2,334,375	163,290,625	–	165,625,000	47.84%
Leelalertsuphakun Wanee	(2)	–	163,290,625	–	163,290,625	47.16%
Li Xiaoyi	(3)	–	–	16,000,000	16,000,000	4.62%

Notes:

- (1) 2,334,375 Shares are held personally by Ms. Lee Siu Fong and 163,290,625 Shares are held through Huby Technology Limited and Dynamic Achieve Investments Limited. Each of Huby Technology Limited and Dynamic Achieve Investments Limited is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
- (2) 163,290,625 Shares are held through Huby Technology Limited and Dynamic Achieve Investments Limited. Each of Huby Technology Limited and Dynamic Achieve Investments Limited is an investment holding company jointly owned by Ms. Leelalertsuphakun Wanee and Ms. Lee Siu Fong.
- (3) These shares are held by High Knowledge Investments Limited which is wholly owned by Ms. Lue Shuk Ping, Vicky, the spouse of Dr. Li Xiaoyi. The interest held by Ms. Lue Shuk Ping is deemed to be part of the interest of Dr. Li Xiaoyi.

Long positions in underlying Shares of equity derivatives

Pursuant to the written resolutions passed by all shareholders of the Company on 26 June 2002, the Company, among others, adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”), an executive Director was granted share options to subscribe for Shares of the Company, details of which were as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options outstanding as at the Latest Practicable Date	Percentage to issued share capital
Lee Siu Fong	26.06.2002	HK\$0.280	26.06.2004 – 25.06.2012	1,600,000	0.46%

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Pursuant to the written resolutions passed by all shareholders of the Company on 26 June 2002, the Company, among others, adopted a share option scheme (the “Share Option Scheme”), certain executive and independent non-executive Directors were granted share options on 13 January 2003 and 25 June 2004 to subscribe for Shares of the Company, details of which are as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options outstanding as at the Latest Practicable Date	Percentage to issued share capital
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Executive Directors

Leelalertsuphakun Wanee	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	289,000	0.08%
Li Xiaoyi	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	2,890,000	0.83%

Independent Non-executive Directors

Chan Yau Ching, Bob	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	100,000	0.03%
Chan Yau Ching, Bob	25.06.2004*	HK\$0.218	25.12.2004 – 24.06.2014	300,000	0.09%

* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25 December 2004 to 24 June 2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25 September 2005 to 24 June 2014 (both days inclusive).

A total of 7,750,000 share options had been granted to certain employees of the Company as at the Latest Practicable Date.

Save as disclosed above, no option was granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

Short positions in Shares

No short positions of Directors and chief executives in the Share of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in underlying Shares of equity derivatives

No short positions of Directors and chief executives in the underlying Share of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' Rights to Acquire Shares

Apart from as disclosed under the paragraph headed "Directors and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares" above and the share option scheme disclosures, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of Lee's Group.

Long positions in Shares

Name	Notes	Number of Shares beneficially held	Nature of interest	Percentage of shareholding
Lee Siu Fong		2,334,375	Personal	0.68%
Lee Siu Fong	(i)	<u>163,290,625</u>	Corporate	<u>47.16%</u>
		165,625,000		47.84%
Huby Technology Limited		155,290,625	Corporate	44.85%
Leelalertsuphakun Wanee	(ii)	163,290,625	Corporate	47.16%
The Subscriber	(iii)	57,000,000	Corporate	16.46%
High Knowledge Investments Limited	(iv)	16,000,000	Corporate	4.62%
Lue Shuk Ping, Vicky	(iv)	16,000,000	Corporate	4.62%

Notes:

- (i) Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology Limited and 8,000,000 Shares are held by Dynamic Achieve Investments Limited, and in both companies, 50% of their respective entire issued capitals are legally and beneficially owned by Ms. Lee Siu Fong.
- (ii) Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology Limited and 8,000,000 Shares are held by Dynamic Achieve Investments Limited, and in both companies, 50% of their respective entire issued capitals are legally and beneficially owned by Ms. Leelalertsuphakun Wanee.
- (iii) Upon completion of the Subscription on 17 August 2004, 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.
- (iv) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky.

Long positions in underlying Shares of equity derivatives

Name	Nature of interest	Number and description of equity derivatives	Number of underlying shares
Lee Siu Fong	Personal	Pre-IPO share option to subscribe for 1,600,000 Shares pursuant to the Pre-IPO Share Option Scheme	1,600,000
Leelalertsuphakun Wanee	Personal	Share option to subscribe for 289,000 Shares pursuant to the Share Option Scheme	289,000
Lue Shuk Ping, Vicky	Family	Dr. Li Xiaoyi, husband of Ms. Lue Shuk Ping, Vicky, has been granted share option to subscribe for 2,890,000 Shares under Share Option Scheme, therefore Ms. Lue Shuk Ping, Vicky is deemed to be interested in such number of Shares	2,890,000

Short positions in Shares

No short positions of other persons and substantial shareholders in the Shares were recorded in the register.

Short positions in underlying Shares of equity derivatives

No short positions of other persons and substantial shareholders in the underlying Share of the equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the directors or chief executive of the Company, no person had interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings any other member of Lee's Group.

(c) Other interests

Hantec Capital did not have any shareholdings of any members of the Lee's Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Lee's Group as at the Latest Practicable Date.

3. LITIGATION

As at the Latest Practicable Date, no member of the Lee's Group was engaged in any litigation or arbitration of material importance and the Directors are not aware of any litigation, arbitration or claims of material importance pending or threatened against any member of the Lee's Group.

4. CONSENT

Hantec Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

5. QUALIFICATION OF EXPERT

Hantec Capital, a licensed corporation to carry out type 1 and 6 regulated activities under the SFO, has given its advice which is contained in this Circular.

6. SERVICE CONTRACTS

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a director's service agreement both dated 14 January 2002 with the Company under which she has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing, or by payment of three months' salary in lieu of such notice.

Dr. Li Xiaoyi has entered into a director's service agreement dated 1 September 2003 with the Company under which he has been appointed to act as an executive Director for an initial term of three years and has the right to renew for an additional period of three years upon mutual agreement.

Save as disclosed therein, none of the Directors has any existing or proposed service contracts with any member of the Lee's Group which is expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. INTERESTS IN CONTRACTS AND ASSETS

There is no contract or arrangement entered into by any member of the Lee's Group subsisting at the date thereof in which any Director is materially interested and which is significant in relation to the business of the Lee's Group.

None of the Directors or Hantec Capital has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, any members of the Lee's Group since 31 December 2003, the date to which the latest published audited financial statements of the Lee's Group was made up.

8. MATERIAL ADVERSE CHANGE

The Director are not aware of any material adverse change in the financial or trading position of the Lee's Group since 31 December 2003, the date to which the latest audited financial statements of Lee's Group were made up.

9. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Lee's Group, or have or may have any other conflicts of interest with Lee's Group pursuant to the GEM Listing Rules.

10. MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and are or may be material:

- (a) A tenancy agreement dated 21 June 2003 made between (1) 謝德明、高淑嫻 (as landlord); and (2) 合肥兆峰科大藥業有限公司廣州分公司 (as tenant) in relation to leasing a property at 廣州市東風東路836號東峻廣場第1座2502室 at a monthly rent of RMB5,000.
- (b) A tenancy agreement dated 14 October 2003 made between (1) Reco Grand Limited (as landlord); and (2) Lee's Pharmaceutical (HK) Limited (as tenant) in relation to leasing a property at Room 1905, Grand Millennium Plaza (lower block), 181 Queen's Road Central, Hong Kong at a monthly rent of HK\$30,632.
- (c) A tenancy agreement dated 22 October 2003 made between (1) Reco Grand Limited (as landlord); and (2) Lee's Pharmaceutical (HK) Limited (as tenant) in relation to leasing a property at Room 1905A, Grand Millennium Plaza (lower block), 181 Queen's Road Central, Hong Kong at a monthly rent of HK\$11,682.
- (d) A banking facility letter dated 13 July 2004 made between (1) Nanyang Commercial Bank Limited (the "Bank"); and (2) Lee's Pharmaceutical (HK) Limited, whereby the bank agreed to provide overdraft facility and trade line.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Lee's Group within two years immediately preceding the date of this circular which are or may be material.

11. PROCEDURES FOR DEMANDING POLL BY SHAREHOLDERS

Pursuant to Article 76 of Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required by the GEM Listing Rules. A poll may be demanded by :

- (a) the Chairman of the meeting; or

- (b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meeting of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

In addition, pursuant to Article 77 of the Articles of Association of the Company, if a poll is demanded as aforesaid, it shall (subject as provided in Article 78 of the Articles of the Association of the Company) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting at which the poll was demanded or the taking of the poll, whichever is earlier. The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

Pursuant to Articles 86 and 92 of the Articles of Association of the Company, a demand by a person as proxy for a member or, in the case of a member being a corporation, by its duly authorized representative shall be deemed to be the same as a demand by a member.

12. GENERAL

- (a) As at the Latest Practicable Date, the authorized share capital of the Company is HK\$25,000,000 divided into 500,000,000 shares of HK\$0.05 each of which 346,225,000 Shares have been issued and fully paid up.
- (b) The secretary and qualified accountant of the Company is Ms. Mok Sau Man, Joanna.
- (c) The share registrar and transfer office of the Company in Hong Kong is located at Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Arculli and Associates, 2012, Hutchison House, Central, Hong Kong during normal business hours as from the date of this circular up to and including the date of the EGM.

- (i) the memorandum and articles of association of the Company;
- (ii) the annual report of the Company for the year ended 31 December 2003;
- (iii) the Subscription Agreement dated 30 July 2004;
- (iv) the draft Warrant Instrument;
- (v) letter from the Independent Board Committee dated 24 February 2005;
- (vi) letter from the Hantec Capital dated 24 February 2005;
- (vii) the director's service agreement of each of the executive Directors referred to in the paragraph headed "Service Contracts" in this Appendix; and
- (viii) the written consent referred to in the paragraph headed "Consent" in this Appendix.

THE SUBSCRIPTION AGREEMENT

Date: 30 July 2004

Completion date: 17 August 2004

Parties: (i) the Company; and

(ii) the Subscriber, a wholly-owned subsidiary of Sigma-Tau Group headquartered in Rome, Italy, and to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber and the ultimate beneficial owner of the Subscriber are third parties and independent of the Company and connected person of the Company (as defined in the GEM Listing Rules) nor did it hold or interested in any Shares immediately before the entering into of the Subscription Agreement.

Subscription for Shares*Number of Shares to be subscribed for*

The Subscription Shares (i.e. a total of 57,000,000 new Shares) representing approximately 19.71% of the Company's issued share capital as at the date of the announcement dated 5 August 2004 and approximately 16.46% of the Company's entire issued Shares as enlarged by the allotment and issue of the Subscription Shares (but disregarding any Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants).

The Subscription Shares will be allotted and issued under the general mandate granted to the Board at the annual general meeting of the Company held on 18 May 2004. Immediately prior to the date of the announcement dated 5 August 2004, no Shares had been issued pursuant to the aforesaid general mandate.

Subscription Price

The Subscription Price of HK\$0.202 for each Subscription Share represents approximately a 10% discount to the average closing price per Share for the five consecutive trading days ended on 23 July 2004 and represents a premium of about 1% to the closing price per Share of HK\$0.200 as quoted on GEM on 23 July 2004.

The Subscription Price has been arrived at after arm's length negotiations between the Company and the Subscriber, and the Board considers that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ranking of Subscription Shares

The Subscription Shares, when allotted and issued, will 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 as from the date of allotment and issue of the Subscription Shares.

Condition of the Subscription

Completion of the Subscription is conditional only upon the GEM Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the Subscription Shares. The Company will apply to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. Upon fulfilment of such condition, completion of the Subscription took place on 17 August 2004.

Note: The following conditions are extracted from Warrant Instrument. Unless otherwise defined, capitalized terms and expressions used in this Appendix III shall have the meaning as defined herein.

The Warrants will be issued subject to and with the benefit of the Warrant Instrument. The Warrants will be issued in registered form and will form one class and rank pari passu in all respects with each other.

The principal terms and conditions of the Warrants (the “Conditions”) will be set out on the Warrant Certificate(s) which include provisions to the effect as set out below. Holders of the Warrants will be entitled to the benefit of, and will be bound by, and be deemed to have notice of all the provisions contained in the Warrant Instrument (and any instruments supplemental thereto), copies of which are available for inspection by Warrantheolders at, and may be obtained by them at, the principal place of business for the time being of the Company in Hong Kong and the office of the Registrar of the Company for the time being of the Company in Hong Kong throughout the Exercise Period.

CONDITIONS

1. INTERPRETATION

1.1 In these Conditions, unless the context otherwise requires, the following words and expressions shall have the following meaning:

“Approved Merchant Bank”	an independent reputable merchant bank or other reputable financial institution in Hong Kong selected by the directors of the Company
“Auditors”	the auditors for the time being of the Company
“Business Day”	a day (excluding Saturdays) on which banks are open for business in Hong Kong
“CCASS”	Central Clearing and Settlement System established and operated by Hongkong Clearing
“Company”	Lee’s Pharmaceutical Holdings Limited
“Companies Ordinance”	Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“Conditions”	terms and conditions endorsed on the Warrant Certificate as modified from time to time in accordance with the provisions set out herein, and “Condition” refers to the relative numbered paragraph of the Conditions
“Directors”	directors of the Company

“Equity Share Capital”	issued share capital of the Company excluding any part thereof which does not either with respect to dividends or with respect to capital, carry any right to participate beyond a specified amount or beyond an amount calculated by reference to a specified rate in distributions
“Exercise Moneys”	in relation to any Warrant(s), the amount stated on the Warrant Certificate issued in respect of the Warrant(s) as the amount in cash which the Warrantholder is entitled to subscribe upon the exercise of the Subscription Rights represented thereby
“Exercise Period”	the period between the date of fulfilment of all conditions governing the issue of the Warrants which is expected to be the date of the EGM on which date the relevant resolution regarding the issue of Warrants will be passed (i.e. on 11 March 2005) and the day immediately before the expiry of 30 months from the date of fulfillment of the conditions of the Warrants (both days inclusive) and if the last day should be a Saturday or a public holiday, then the next Business Day shall be treated as the last day of the Exercise Period accordingly
“Exercise Price”	HK\$0.224
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“HK\$”, “cent”	Hong Kong dollars and cents
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Instrument”	the instrument mentioned on the face hereof including the schedules thereto any instrument executed in accordance with the provisions of the instrument and expressed to be supplemental thereto
“Last Dealt Price”	in relation to a Share, the closing price for one Share as shown in the daily quotation issued by the Stock Exchange
“Notice”	a notice given or to be given in accordance with Condition 15
“Record Date”	the date fixed by the articles of association of the Company or otherwise specified by the Company for the purpose of determining an entitlement to dividends or other distributions to, or rights of, holders of Shares

“Register”	the register of Warrantholders required to be maintained pursuant to Condition 5
“Registrars”	Computershare Hong Kong Investor Services Limited, or such other person, firm or company as for the time being maintains in Hong Kong the branch register of members and the register of Warrantholders of the Company
“Shares” or “Ordinary Capital”	ordinary shares of HK\$0.05 each in the capital of the Company issued on the date hereof, and all other shares from time to time issued ranking pari passu therewith and all other shares in the Equity Share Capital resulting from any sub-division, consolidation or re-classification of Shares
“Share Option Scheme”	any option scheme approved in general meeting by the shareholders of the Company for the grant of options to directors and/or employees of the Company and/or any Subsidiary to subscribe for Shares
“Special Resolution”	as defined in paragraph 17 of Schedule II of the Instrument
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Date”	in relation to any Warrant, the close of business on any Business Day falling during the Exercise Period on which any of the Subscription Rights represented by the Warrant are duly exercised by delivery of the Warrant Certificate in respect thereof to the Registrars with the Subscription Form duly completed, together with a remittance for the Exercise Moneys or (in the case of partial exercise) the relevant portion thereof and otherwise in accordance with Condition 2 provided that if any Subscription Rights are exercised during a period when the register of or branch register of members of the Company maintained in the territory in which the Stock Exchange for the time being is situate is closed the Subscription Date in relation to such exercise shall be the next following Business Day on which the register of holders of Shares is open
“Subscription Form”	in relation to any Warrant, the form endorsed on each Warrant Certificate in respect thereof (or a separate form obtained from the office of the Registrars which the Company shall in its discretion permit to be used for the purpose of exercise of Subscription Rights) and includes also, where the context admits or requires, a consolidated Subscription Form in relation to (inter alia) that Warrant which may be obtained from the office of the Registrars

“Subscription Rights”	the rights of the Warrantholders represented by the Warrants to subscribe (subject to adjustment according to the Conditions) for Shares pursuant to the Warrants and, in relation to each Warrant, means the right of the relevant Warrantholder to subscribe the Exercise Moneys (or a relevant portion thereof) for Shares pursuant to such Warrant) in accordance with and subject to the Conditions
“Subsidiary”	a company which is for the time being and from time to time a subsidiary within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) of the Company
“Warrant Certificates”	the certificates (in registered form) issued in respect of the Warrants as from time to time modified in accordance with the provisions set out in the Instrument
“Warrantholder(s)”	in relation to any Warrant, the person(s) who is/are for the time being registered in the Register as the holder or joint holders of that Warrant
“Warrants”	the rights created by the Instrument and any deed poll supplemented thereto and entitling the registered holders hereof to exercise Subscription Rights on the terms set out in the Instrument and in these Conditions

- 1.2 Words importing the singular include the plural, words importing any gender include every gender and words incorporating persons include bodies corporate and unincorporate; and in each case vice versa.

2. EXERCISE OF SUBSCRIPTION RIGHTS

- 2.1 Subject to the provisions hereof and to compliance with all exchange control, fiscal and other laws and regulations applicable hereto, the Warrantholder of the Warrant represented by the Warrant Certificate shall have the right, which may be exercised in whole or in part (but subject to the restrictions set out in Condition 2.3) at any time during the Exercise Period, to subscribe in Hong Kong dollars in respect of each Warrant represented by this Warrant Certificate for fully paid Shares at the Exercise Price per Share.
- 2.2 In order to exercise in whole or in part the Subscription Rights represented by this Warrant Certificate, the Warrantholder must complete and sign the Subscription Form or a separate subscription form which the Company permits to be used (both of which, once signed and completed, shall be irrevocable) and deliver this Warrant Certificate (together with the separate subscription form, if appropriate) to the Registrars, together with a remittance for the Exercise Moneys (or, in the case of a partial exercise, the relevant portion of the Exercise Moneys) being the amount of the Exercise Price for the Shares in respect of which the Warrantholder is exercising his Subscription Rights. In each case, compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.

- 2.3 The following restrictions apply when exercising the Subscription Rights:
- (a) the number of Shares to be allotted on exercise of the Subscription Rights shall be calculated by dividing the amount specified in the relevant Subscription Form and duly remitted by the Exercise Price applicable on the Subscription Date, and no fraction of a Share will be allotted but any balance representing fractions of the Exercise Moneys paid on exercise of the Subscription Rights represented by this Warrant Certificate will be paid by the Company to the Warrantholder and regard shall be paid, where applicable, to the provisions of Clause 6.3 of the Instrument;
 - (b) partial exercise of the Subscription Rights may be effected provided that the relevant portion of the Exercise Moneys payable as a result of such partial exercise shall be no less than HK\$1,000,000 and thereafter, in multiples thereof and that it shall not result in the balance value of the Warrant(s) be less than HK\$1,000,000, but in case it happens, the Company shall be entitled to treat it as an exercise by the Warrantholder of all the Subscription Rights attaching to that Warrant, and
- provided that for the purposes of Condition (a) and (b) above, if the Subscription Rights represented by this Warrant Certificate and any one or more other Warrant Certificates are exercised on the same Subscription Date by the same Warrantholder, then the Subscription Rights represented by the Warrants shall be aggregated.
- 2.4 The Company has undertaken in the Instrument that any Shares falling to be issued upon the exercise of any of the Subscription Rights represented by this Warrant Certificate will be allotted and issued, subject to any shorter period as prescribed or required by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date and will rank *pari passu* with the fully paid Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made after the relevant Subscription Date unless adjustment thereof has been made as provided in Condition 3 and other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the Record Date therefor shall be on or before the relevant Subscription Date and notice of the amount and Record Date therefor shall have been given to the Stock Exchange prior to the relevant Subscription Date.
- 2.5 As soon as practicable after the relevant allotment and issue of Shares under this Condition (and, subject to any shorter period as prescribed by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date) there will be issued free of charge to the Warrantholder of the Warrant represented by this Warrant Certificate upon his exercise of any Subscription Rights:
- (a) a certificate (or certificates) for the relevant Shares in the name of the Warrantholder;
 - (b) (if applicable) a balancing Warrant Certificate in registered form in the name of the Warrantholder in respect of any Subscription Rights represented by this Warrant Certificate and remaining unexercised;

- (c) (if applicable) a cheque representing the payment made in respect of the fractional entitlement to Shares not allotted as mentioned in Condition 2.3; and
- (d) (if applicable) a Deficiency Certificate (as defined in the Instrument).

The certificate(s) for Shares arising on the exercise of Subscription Rights, the balancing Warrant Certificate (if any), the cheque in respect of fractional entitlement (if any) and the Deficiency Certificate (if any) will be sent by post at the risk of the Warrantholder to the address of the Warrantholder as set out in the Register (or in the case of a joint holding to that one of them whose name stands first in the Register). If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Registrars to await collection by the relevant Warrantholder.

3. ADJUSTMENT OF EXERCISE PRICE

Note: The Instrument contains detailed provisions relating to the adjustment of the Exercise Price and the following is only a summary of, and is subject to, the provisions of Clause 4 of the Instrument.

- 3.1 The Exercise Price shall (except as mentioned in Conditions 3.2, 3.3 and 3.4) be adjusted as provided in the Instrument in each of the following cases (but shall however not be adjusted below the nominal value of Shares until the Subscription Right Reserve (as defined in the Instrument) is maintained pursuant to Clause 6 thereof):
- (a) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision or reclassification;
 - (b) an issue by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (c) a Capital Distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares in their capacity as such;
 - (d) a grant by the Company to the holders of Shares (in their capacity as such) of rights to acquire for cash any assets of the Company or any of its Subsidiaries;
 - (e) an offer or grant of new Shares for subscription by way of rights or grant of options or warrants to subscribe for Shares at a price which is less than 90% of the market price (calculated as provided in the Instrument) being made by the Company to holders of Shares (in their capacity as such);

- (f) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration per Share (as defined in the Instrument) is less than 90% of the market price (calculated as provided in the Instrument), or the terms including the conversion, exchange or subscription rights of any such issue are altered so that the total Effective Consideration per Share is less than 90% of the market price;
 - (g) an issue being made wholly for cash of Shares (other than pursuant to a Share Option Scheme) at a price less than 90% of the market price (calculated as provided in the Instrument);
 - (h) the purchase by the Company of Shares in circumstances where the total Effective Consideration per Share (as defined in the Instrument) is more than 110% of the Last Dealt Price of one Share on the Stock Exchange (calculated as provided in the Instrument); and
 - (i) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares in any other circumstance where the Directors shall consider that it may be appropriate to make an adjustment to the Exercise Price.
- 3.2 Except as mentioned in Condition 3.3, no such adjustment as is referred to in Condition 3.1 shall be made in respect of:
- (a) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;
 - (b) an issue of Shares, or other securities of the Company or any Subsidiary, wholly or partly convertible into, or carrying rights to subscription for Shares pursuant to a Share Option Scheme;
 - (c) an issue by the Company of Shares or by the Company or any Subsidiary of securities wholly or partly convertible into or carrying rights to acquire Shares, in consideration in whole or in part for the acquisition of any other securities, assets or business;
 - (d) an issue of fully-paid Shares by way of capitalisation of all or part of the Subscription Right Reserve which has been or may be established in certain circumstances pursuant to the terms and conditions contained in the Instrument (or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into or rights to acquire Shares); or
 - (e) an issue of Shares in lieu of a cash dividend where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Instrument) of the Shares is not more than 110% of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash.

- 3.3 Notwithstanding the provisions referred to in Conditions 3.1 and 3.2 in any circumstances where the directors consider that an adjustment to the Exercise Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Exercise Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with effect from a different time from that provided for under the said provisions, the Company may appoint either the Auditors or an Approved Merchant Bank to consider whether for any reason whatsoever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the Auditors or such an Approved Merchant Bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in the manner (including, without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from the other date and/or time certified by the Auditors or the Approved Merchant Bank to be in its opinion appropriate.
- 3.4 Any adjustment to the Exercise Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up. No adjustment shall be made to the Exercise Price in any case in which the amount by which the Exercise Price would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. No adjustment may be made (except on a consolidation of Shares of a larger nominal amount each) which would increase the Exercise Price.
- 3.5 Every adjustment to the Exercise Price shall be certified to be fair and reasonable by the Auditors or an Approved Merchant Bank and notice of each adjustment (giving the relevant particulars) shall be given to the Warrantholders. In giving any certificate or making any adjustment hereunder, the Auditors or the Approved Merchant Bank shall be deemed to be acting as experts and not as arbitrators and, in the absence of manifest error, their decision shall be conclusive and binding on the Company and the Warrantholders and all persons claiming through or under them respectively. Any certificates of the Auditors and/or Approved Merchant Bank shall be available for inspection at the principal place of business of the Company for the time being in Hong Kong where copies may be obtained.

4. REGISTERED WARRANTS

The Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or as required by law, be bound to recognise any equitable or other claim to or interest in a Warrant on the part of any other person, whether or not the Company has express or other notice thereof.

5. TRANSFER, TRANSMISSION AND REGISTER

- 5.1 No transfer or assignment (whether in whole or in part) of the Warrants may be made unless such transfers is made from the Warrantholder to its holding company or subsidiary (for this purpose, the terms “holding company” and “subsidiary” shall have the same meaning as defined in the Companies Ordinance) and that Warrantholder having given a written notification to the Company at least 14 Business Days prior to each proposed transfer or assignment confirming that the proposed assignee or transferee satisfies this requirement.
- 5.2 Title to the Warrants passes only upon the cancellation of the existing Warrant Certificate issued and the issue of a new Warrant Certificate in accordance with the procedures provided herein. Accordingly, upon receipt of the existing Warrant Certificate and confirmation from the Warrantholder, the Company shall cancel the existing Warrant Certificate, issue a new Warrant Certificate under the common seal of the Company in favour of the assignee(s) or transferee(s).
- 5.3 The Company shall maintain a full and complete Register from time to time and in the case of the Warrant being transferred, the assignee(s) or transferee(s) of the Warrant, the details of any cancellation and destruction of the Warrant Certificate(s), replacement the Warrant Certificate(s) issued in substitution for any defaced, lost, stolen or destroyed Warrant Certificate(s) and of details and addresses of the Warrantholders and/or the assignee(s) or transferee(s) (as the case may be) from time to time. The Warrantholders and/or the assignee(s) or transferee(s) (as the case may be) will (except as otherwise required by law) be treated as the absolute owner of the relevant Warrants for all purposes (whether or not overdue and regardless of any notice of ownership, trust or any interest in it or any writing on) and no person will be liable for so treating the Warrantholders and/or the assignee(s) or transferee(s) (as the case may be). The Company shall make available the Register to Warrantholders and/or the assignee(s) or transferee(s) (as the case may be) for inspection at all reasonable times.

6. CLOSURE OF REGISTER OF WARRANTHOLDERS

The registration of transfers may be suspended and the Register may be closed for any period(s) as the directors of the Company may from time to time direct, provide that the Register may not be closed for a period of more than 30 days in any one year. Any transfer or exercise of the Subscription Rights attached to his Warrants, made while the Register is closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the Warrantholder who has exercised the Subscription Rights attached to his Warrants (but not otherwise), be considered as made immediately after the re-opening of the Register.

7. PURCHASE AND CANCELLATION

7.1 The Company may at any time purchase Warrants:

- (a) in the open market or by tender (available to all Warrantholders alike) at any price; or
- (b) by private treaty at a price, exclusive of expenses, not exceeding 110% of the Last Dealt Price prior to the date of purchase of the Warrants;

but not otherwise. All Warrants purchased shall be cancelled forthwith and may not be re-issued or re-sold.

8. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS

8.1 The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interest of Warrantholders, including the modification by Special Resolution of the provisions of the Instrument and/or these Conditions. A Special Resolution duly passed at any meeting of Warrantholders shall be binding on the Warrantholders, whether present or not.

8.2 All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up) be altered or abrogated (including but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any or the provisions of these Conditions and/or the Instrument) and the sanction of a Special Resolution shall be necessary and sufficient to effect the alteration or abrogation.

8.3 A quorum for a meeting of Warrantholders shall be two or more persons (or their proxies) representing in aggregate the holders of not less than 10% (thirty-three and one third per cent. for the passing of a Special Resolution) of the Warrants for the time being outstanding present in person or by proxy. Where a Warrantholder is a corporation, it may authorise such person(s) as it thinks fit to act as its representative(s) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. The person(s) so authorised shall be entitled to exercise the same powers on behalf of the recognised the corporation as if such person were an individual Warrantholder.

8.4 Where the Warrantholder is a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise if it were an individual Warrantholder.

9. REPLACEMENT OF WARRANT CERTIFICATES

9.1 If a Warrant Certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the office of the Registrars, for the time being on payment of any costs incurred in connection therewith and on any terms as to evidence, indemnity and/or security which the Company may require and on payment of a fee not exceeding HK\$2 (or any higher fee as may from time to time be permitted under the rules prescribed by the Stock Exchange) as the Company may determine. Mutilated or defaced Warrant Certificates must be surrendered before replacements will be issued.

9.2 In the case of lost Warrant Certificates, section 71A sub-sections (2), (3), (4), (6), (7) and (8) of the Companies Ordinance shall apply as if “shares” referred to therein include Warrants.

10. PROTECTION OF SUBSCRIPTION RIGHTS

The Instrument contains certain undertakings by and restrictions on the Company designed to protect the Subscription Rights.

11. CALL

If at any time the aggregate of the amount of Exercise Moneys in respect of unexercised Subscription Rights attached to the Warrants is equal to or less than HK\$1,000,000 then the Company may, on giving not less than three months’ Notice, require Warrantholders either to exercise their Subscription Rights or to allow them to lapse. On expiry of such Notice, all unexercised Warrants will be automatically cancelled without compensation to holders of such Warrants.

12. FURTHER ISSUES

After obtaining the consent by way of a Special Resolution and subject to due compliance with all relevant requirements in the GEM Listing Rules, the Company shall be at liberty to issue further subscription warrants subject to applicable restrictions contained in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.

13. UNDERTAKINGS BY THE COMPANY

13.1 In addition to the undertakings given by it in relation to the grant and exercise of the Subscription Rights and the protection thereof the Company has undertaken in the Instrument that:

- (a) it will use its best endeavours to ensure that all Shares allotted on exercise of Subscription Rights shall be admitted to listing on the Stock Exchange (and on any other stock exchange on which the Shares may at that time be listed) provided that no admission shall be obtained in the event that the Shares cease to be listed on the Stock Exchange (or any other stock exchange) as a result of an offer being made to the holders of Shares (or to holders excluding the offeror and/or its nominee(s)) to acquire all or a proportion of the Shares;

- (b) it will send to each Warrantholder, at the same time as the same are sent to the holders of Shares, its audited accounts and all other notices, reports and communications despatched by it to the holders of the Shares generally;
- (c) it will pay all Hong Kong and Cayman Islands stamp duties (if payable), registration fees or similar charges in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of Shares upon exercise of the Subscription Rights;
- (d) it will keep available for issue sufficient Ordinary Capital to satisfy in full all rights for the time being outstanding of subscription for and conversion into Shares;
- (e) it will ensure that no event occurs as a result of which the Exercise Price would be reduced below the nominal amount of the Shares unless at that time the Subscription Right Reserve would permit the fulfilment by the Company of its obligations under the Conditions; and
- (f) subject to Condition 5.3, it will use its best endeavours to procure that at all times during the Exercise Period, the Warrants may be dealt in on the Stock Exchange.

14. WINDING UP OF THE COMPANY

- 14.1 In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering, and if thought fit approving, a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to each Warrantholder and thereupon, every Warrantholder shall be entitled by irrevocable surrender of his Warrant Certificate(s) to the Company (such surrender to occur not later than two Business Days prior to the proposed shareholders' meeting referred to above) with the Subscription Form(s) duly completed, together with payment of the Exercise Moneys or the relative portion thereof, to exercise the Subscription Rights represented by such Warrant and the Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed shareholders' meeting allot such number of Shares to the Warrantholder which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Warrant. The Company shall give notice to the Warrantholders in accordance with these conditions to the last known place of business or residence, or if there be none, by posting the same for three days at the principal place of business for the time being of the Company in Hong Kong, of the passing of such resolution within seven days after the passing thereof.
- 14.2 If an effective resolution is passed during the Exercise Period for the voluntary winding-up of the Company for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some persons designated by them for such purpose by Special Resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders.

- 14.3 Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of the passing of such resolution shall lapse and each Warrant Certificate will cease to be valid for any purpose.

15. NOTICES

- 15.1 The Instrument contains provisions relating to the notices to be given to Warranholders.
- 15.2 A notice or other document may be served on or delivered to any Warranholder either personally or by sending it through the post in a prepaid letter (airmail in the case of an address outside of Hong Kong) addressed to such Warranholder at his registered address as appearing in the Register or by delivering it to or leaving it at such registered address addressed as aforesaid or (in the case of a notice) by advertisement in an official publication or newspaper circulating in Hong Kong as the rules for the time being of the Stock Exchange may stipulate and the directors of the Company may determine.
- 15.2 In the case of joint holders of a Warrant, service or delivery of any notice on or to that Warranholder whose name stands first in the Register shall be deemed a sufficient service on or delivery to all the joint holders.

16. GOVERNING LAW

The Instrument and the Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

1. GENERAL MANDATE TO REPURCHASE SHARES

This appendix serves as an explanatory statement, as required by the Rule 13.08 and other relevant provisions of the GEM Listing Rules, to provide requisite information to you for your consideration of the repurchase mandate.

2. GEM LISTING RULES RELATING TO THE REPURCHASE OF SHARES

The GEM Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their shares on GEM subject to certain restrictions, namely, Rule 13.04 to Rule 13.14, the more important of which are summarised below. The Company is empowered by its memorandum and articles of association to repurchase its own Shares.

(a) Shareholders' approval

All repurchase of Shares of the Company must be approved in advance by shareholders either by way of specific approval or a general mandate to the directors of the Company to make such purchase(s) by way of an ordinary resolution in accordance with Rule 13.09 of the GEM Listing Rules.

(b) Source of funds

Repurchase must be funded out of funds which are legally permitted to be utilised for such purpose and in accordance with the memorandum and articles of association of the Company and the laws of Hong Kong and the applicable Companies Law (2004 Revision) of the Cayman Islands (the "Companies Law"). A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(c) Connected persons

The GEM Listing Rules prohibit a company from knowingly repurchasing shares on GEM from a "connected person", that is, a director, chief executive, substantial shareholder or management shareholder of the company or any of its subsidiaries or any of their associates (as defined in the GEM Listing Rules) and a connected person is prohibited from knowingly selling his shares to the company on GEM.

As at the Latest Practicable Date, to the best knowledge of the Directors, no connected person of the Company has notified the Company that he has a present intention to sell any Shares to the Company nor has any such connected person undertaken not to sell any Shares held by him/her to the Company in the event that such mandate as proposed in the Ordinary Resolution no. 2(c)(ii) is approved by the shareholders of the Company.

3. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 346,225,000 shares of HK\$0.05 each.

Su Subject to the passing of the repurchase mandate and on the basis that no Shares are issued or repurchased by the Company prior to the EGM, the Company will be allowed under the repurchase mandate to repurchase a maximum of 34,622,500 Shares of HK\$0.05 each during the period from the date of passing of the Ordinary Resolution no. 2(d) up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by its memorandum and articles of association or any applicable laws to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

4. REASONS FOR THE REPURCHASES

Although the Directors have no present intention of repurchasing any Shares of the Company, they believe that the flexibility afforded by the repurchase mandate would be in the best interests of the Company and its shareholders. An exercise of the repurchase mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchase of Shares will benefit the Company and its shareholders.

5. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally permitted to be utilised for such purpose in accordance with its memorandum and articles of association, the laws of Hong Kong, the GEM Listing Rules and the applicable laws of the Cayman Islands.

Pursuant to the repurchase mandate, repurchase would be funded entirely from the Company's available cash flow or working capital facilities which will be funded legally available under applicable laws of the Cayman Islands for such purpose. The Company may not repurchase its own Shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

An exercise of the repurchase mandate in full could have a material adverse impact on the working capital and gearing position of the Company. The Directors do not, however, intend to make any repurchase in circumstances that would have a material adverse impact on the working capital requirement or gearing of the Company or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

6. SHARE PRICES

The highest and lowest prices at which the Shares have traded on the GEM in each of the previous twelve months before the Latest Practicable Date were are as follows:

Month	Prices of Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2004		
March	0.270	0.180
April	0.270	0.250
May	0.255	0.229
June	0.231	0.218
July	0.250	0.200
August	0.270	0.209
September	–	–
October	0.220	0.167
November	0.200	0.190
December	0.210	0.205
2005		
January	0.210	0.189
February (up to the Latest Practicable Date, 22 February 2005)	0.190	0.190

7. DISCLOSURE OF INTERESTS, THE CODE AND MINIMUM PUBLIC HOLDING

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates (as defined in the GEM Listing Rules) currently intends to sell any Shares to the Company or its subsidiaries under the repurchase mandate if such is approved by the shareholders of the Company.

8. DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchase pursuant to the Repurchase Mandate, if granted, in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws and regulations of the Cayman Islands.

APPENDIX IV EXPLANATORY STATEMENT OF REPURCHASE MANDATE

In the event that the substantial Shareholders do not dispose of their Shares, if the repurchase mandate were exercised in full, the percentage shareholding of the substantial Shareholders of the Company before and after such repurchase would be as follows:

Name	Before repurchase	After repurchase
Huby Technology Limited (<i>Note 1</i>)	44.85%	49.84%
Ms. Lee Siu Fong	47.84%	53.15%
Ms. Leelalertsuphakun Wanee	47.16%	52.40%
Defiante Farmaceutica, Lda (<i>Note 2</i>)	16.46%	18.29%

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. Defiante Farmaceutica, Lda is beneficially owned by Mr. Claudio Cavazza and Mr. Paolo Cavazza.

9. TAKEOVER CODE CONSEQUENCES

If a shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase its Shares pursuant to the repurchase mandate, such increase will be treated as an acquisition for the purpose of Rule 32 of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder or a group of shareholders acting in concert (within the meaning under the Code) could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Code.

In the event that the Directors exercise in full the power to repurchase shares of the Company in accordance with the terms of the Ordinary Resolution no. 2(d) to be proposed at the EGM, the total interests of Huby Technology Limited, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Defiante Farmaceutica, Lda in the existing share capital of the Company would be proportionally increased to approximately 49.84%, 53.15%, 52.40% and 18.29% respectively. On the basis of the shareholdings held by the substantial Shareholders named above, an exercise of the repurchase mandate in full will give rise to an obligation on the part of the substantial Shareholders namely, Huby Technology Limited, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, to make a mandatory offer under Rule 26 of the Code. The Directors have no intention to exercise the repurchase mandate to an extent as may result in mandatory offer under the Code.

Assuming that there is no issue of Shares in the Company between the Latest Practicable Date and the date of repurchase, an exercise of the repurchase mandate whether in whole or in part will result in less than the relevant prescribed minimum percentage of the Shares of the Company being held by the public as required by the Stock Exchange. The Directors have no intention to exercise the repurchase mandate to an extent as may result in a public shareholding of less than such minimum percentage.

10. SHARE REPURCHASE MADE BY THE COMPANY

The Company had not repurchased any of its Shares (whether on GEM or otherwise) since 18 May 2004 (i.e. date of the last annual general meeting) up to the Latest Practicable Date.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Lee's Pharmaceutical Holdings Limited (the "Company") will be held on Friday, 11 March 2005 at 11:30 a.m. at Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **"THAT:**

- (a) the issue of Warrants to Defiante Farmaceutica, Lda, the form of the instrument by way of deed poll (the "Warrant Instrument") subject to and with the benefit of which the Warrants will be issued (a copy of which has been produced to this meeting and marked "A" and signed by the Chairperson of this meeting for the purpose of identification), and the terms and conditions of the Warrants (the "Conditions"), forming part of the Warrant Instrument, to be endorsed on the Warrant certificates, be and are hereby unconditionally approved;
- (b) two Directors be and are hereby generally and unconditionally authorized to affix and witness the affixing of the seal of the Company to the Warrant Instrument together with the Conditions forming part thereof, with such amendments, alterations or modifications as they consider expedient and desirable, on behalf of the Company and to do such act or execute such documents as they might in their discretion deem fit; and
- (c) the Directors be and are hereby generally and unconditionally authorised to allot and issue the Warrants, execute and deliver the Warrant certificates relating thereto with the Conditions endorsed thereon, and allot and issue the shares in the capital of the Company falling to be allotted and issued upon exercise of the Subscription Rights (as defined in the Warrant Instrument) attaching to the Warrants during the Exercise Period (as defined in the Warrant Instrument);
- (d) the transactions contemplated by the Subscription Agreement and the Warrant Instrument be and are hereby generally and unconditionally approved and that the Directors be and are hereby authorised in the best interest of the Company to do such act or execute such documents for and on behalf of the Company by hand or, in case of execution of documents under seal, to do so jointly with either the secretary of the Company, a second director of the Company or such other person appointed by the Directors for such purpose, as they considered necessary, appropriate, desirable or expedient for the implementation and completion of the Subscription Agreement and the transactions contemplated by the Subscription Agreement and the Warrant Instrument."

* *For identification purposes only*

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2. **“THAT:**

- (a) subject to paragraph (c) below, pursuant to the GEM Listing Rules, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time, shall not exceed the aggregate of 20% of the aggregate issued Shares of the Company at the date of the passing of this Resolution;
- (d) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution) and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (e) That conditional upon above Ordinary Resolution 2(a), (b), (c) and (d) being passed, the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Ordinary Resolution 2(d) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Ordinary Resolution 2(c), provided that the amount of share capital repurchased by the Company shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Ordinary Resolution.
- (f) for the purposes of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable laws to be held; and

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- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution; and

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

3. “**THAT** subject to the passing of Ordinary Resolution 2 above, the authority given to the directors of the Company to exercise all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to the Resolution 4 passed at the annual general meeting of the Company held on 18 May 2004 be and the same is hereby unconditionally revoked and cancelled.”
4. “**THAT** the authorized share capital of the Company be and is hereby increased from HK\$25,000,000 divided into 500,000,000 Shares of HK\$0.05 each to HK\$50,000,000 divided into 1,000,000,000 Shares of HK\$0.05 each by the creation of additional 500,000,000 Shares of HK\$0.05 each.”
5. “**THAT:**
- (a) the carrying on of the continuing connected transactions between the Company and/or its subsidiaries and Defiante Farmaceutica, Lda, Sigma-Tau Industrie Farmaceutiche Riunite SpA (“Sigma-Tau Industrie”) and/or Sigma-Tau Finanziaria SpA and its subsidiaries in accordance with the terms of a distribution agreement dated 1 October 2004 (the “Distribution Agreement”) (the “Continuing Connected Transactions”) be and are hereby approved and confirmed;
- (b) the terms and conditions of the Distribution Agreement to be entered into between the Company and Sigma-Tau Industrie (a copy of which has been produced to this meeting and marked “B” and signed by the Chairperson in this meeting for the purpose of identification), be and are hereby approved, confirmed and ratified; and
- (c) the maximum aggregate annual value arising from the Continuing Connected Transactions under the Distribution Agreement for each of the two years ending 31 December 2005 and 2006, which is estimated to be US\$1,514,500 (approximately HK\$11,813,100) and US\$2,099,500 (approximately HK\$16,376,100) respectively (the “Caps”), be and are hereby approved and confirmed; and

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- (d) any Director be and is hereby authorized to take such actions and execute such documents for and on behalf of the Company and in case of execution of documents under seal, to do so in the manner as stipulated in the memorandum and articles of association of the Company and for such purpose as the Directors see fit or consider necessary, desirable or expedient in relation to the Continuing Connected Transactions and the Distribution Agreement.”

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

Hong Kong, 24 February 2005

Registered office:
PO Box 309 GT,
Ugland House
South Church Street
Grand Cayman
Cayman Islands

*Head office and principal place
of business in Hong Kong :*
Room 1905
Grand Millennium Plaza
Lower Block
181 Queen's Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.
3. Completion and return of the accompanying form of proxy will not preclude a member of the Company from attending and voting in person at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.
4. Where there are joint holders of any share in the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto; but if more than one such joint holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof in person or by proxy (as the case may be).