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If you have sold or transferred all your shares in Lee’s Pharmaceutical Holdings Limited (the “Company”), you should at once hand this circular 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)

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING
ACQUISITION OF INTERESTS IN
A SINO-FOREIGN EQUITY JOINT VENTURE COMPANY**

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 more 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.

DEFINITIONS

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

“Board”	board of Directors
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“connected person(s)”	as defined in the GEM Listing Rules
“Director(s)”	Director(s) of the Company
“Equity Transfer Agreement”	an agreement dated 10 May 2005 entered into between 合肥中科大 and Lee’s HK regarding the acquisition of 30% equity interest in Zhaoke from 合肥中科大 to Lee’s HK at a consideration of US\$500,000 (or approximately HK\$3.9 million)
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	20 September 2005, being the latest practicable date for the Company prior to the printing of this circular for ascertaining certain information contained herein
“Lee’s Group” or “Group”	the Company and its subsidiaries
“Lee’s HK”	Lee’s Pharmaceutical (HK) Limited, a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“PRC” or “China”	People’s Republic of China
Share(s)	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company, and “Shareholders” shall be construed accordingly
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“USTC Biotech”	中國科學技術大學生物技術公司 (University of Science and Technology of China Biotechnology Company) is an associate of University of Science and Technology of China. It held 30% shareholding interest of Zhaoke in its formation on 7 February 1994 and such shareholding interest was subsequently transferred to 合肥中科大 on 6 September 1999
“Zhaoke”	合肥兆峰科大藥業有限公司 (Hefei Siu-Fung USTC Pharmaceutical Company Limited), a Sino-foreign equity joint venture established in the PRC on 7 February 1994, the registered capital of which is currently held as to 70% by Lee’s HK and as to 30% by 合肥中科大
“HK\$”	Hong Kong dollars
“US\$”	United States dollars
“%”	per cent.
“合肥中科大”	合肥中科大生物技術有限公司, which is owned by independent third parties not connected with the Directors, chief executives, management shareholders, substantial shareholders of the Company and their respective associates

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, Uglan House

South Church Street

Grand Cayman, Cayman Islands

Non-executive Director:

Dr. Mauro Bove

Principal place of business

in Hong Kong:

Room 1905, Grand Millennium Plaza

Lower Block

181 Queen's Road Central

Hong Kong

Independent non-executive Directors:

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

20 September 2005

To Shareholders

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING
ACQUISITION OF INTERESTS IN
A SINO-FOREIGN EQUITY JOINT VENTURE COMPANY**

INTRODUCTION

In the announcement dated 30 August 2005, the Directors announced that on 10 May 2005, Lee's HK entered into an Equity Transfer Agreement with 合肥中科大 pursuant to which Lee's HK agreed to acquire the 30% equity interest in Zhaoke, which is currently held as to 30% equity interest by 合肥中科大 and as to 70% equity interest by Lee's HK. The acquisition of 30% interest in Zhaoke was completed in June 2005 and Zhaoke transformed from a Sino-foreign equity joint venture company to a wholly foreign-owned enterprise owned by Lee's HK.

* For identification purpose only

LETTER FROM THE BOARD

The acquisition contemplated under the Equity Transfer Agreement constitutes a discloseable and connected transaction of the Company pursuant to Rules 19.06 and 20.32 of the GEM Listing Rules. As each of the percentage ratios is more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the transaction is only subject to reporting and announcement requirements set out in Rules 20.45 to 20.47 and it is exempt from the independent shareholders' approval requirements. The purpose of this circular is to provide you with further information in relation to the acquisition.

PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT

- Parties:*
- (i) 合肥中科大(as transferor) which is a substantial shareholder, holding 30% of Zhaoke, a subsidiary of the Company and is therefore connected person of the Company
 - (ii) Lee's HK (as transferee)

Principal Conditions:

30% equity interest in Zhaoke

Pursuant to the terms of the Equity Transfer Agreement, 合肥中科大 has agreed to transfer, and Lee's HK has agreed to acquire 30% equity interests in the registered capital in Zhaoke. Upon completion of the acquisition of 30% interest in Zhaoke, Zhaoke will be a wholly foreign-owned enterprise owned by Lee's HK.

The aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is US\$500,000 (approximately HK\$3.9 million) which was arrived at after arm's length negotiation between 合肥中科大 and Lee's HK with reference to the prospects of Zhaoke. It represents a discount of 16.67% from the US\$600,000 technology contribution paid by USTC Biotech (a predecessor of 合肥中科大) on 7 February 1994 in the formation of Zhaoke. The technology contribution represented USTC Biotech's total commitment in Zhaoke. Zhaoke is the main profit generating company of the Group selling proprietary products. As disclosed in the segmental information notes of annual reports for 2003 and 2004, the group had segment profit of HK\$823,000 and HK\$3,567,000 generated from the sales of proprietary products (excluding intergroup charges and before finance cost). Zhaoke also made a record high segment profit of HK\$1,426,000 (excluding intergroup charges and before finance cost) for the first quarter of 2005, represented an increase of 93% compared with the segment profit of HK\$739,000 for the first quarter of 2004. The increase in turnover and segment profit by Zhaoke was attributable to the ever intensified knowledge-based promotion with numbers of seminars held in hospitals all over PRC. The Board anticipates that with regard to the track record of Zhaoke, the acquisition consideration of US\$500,000 (approximately HK\$3.9 million) represents an attractive investment. Moreover, Zhaoke is the flagship of the Group accounting for more than 90% of the Group's turnover derived from its activities since 2002 and therefore the acquisition of interests in Zhaoke, which by then will be wholly-owned by Lee's HK, provides an opportunity for the Group to increase its profit generating power and concentrate its management resources. Given this, the fairness and reasonableness of the amount of the acquisition consideration should therefore be assessed within this context as the acquisition will enable the Group to consolidate full control of Zhaoke and its future profits. The Board therefore considers that the aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is fair and reasonable and in the interests of the Company and the shareholders as a whole.

LETTER FROM THE BOARD

The aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is US\$500,000(HK\$3,900,000). US\$400,000(HK\$3,120,000) has been paid from internal resources of Lee's Group in May and June 05 and the balance of US\$100,000 will be paid in December 2005 in accordance with the term of Equity Transfer Agreement. The payment of acquisition cost does not have significant adverse effect to the Group's cash position as the Group had cash and bank balances of around HK\$6 million as at 30 June 2005 after payment of US\$400,000 of the acquisition cost as disclosed in 2005 interim report.

The transfer of 30% equity interest in Zhaoke was completed in June 2005 as the following conditions as stipulated in the Equity Transfer Agreement were fulfilled.

1. the Equity Transfer Agreement, the amendment of memorandum and articles of association of Zhaoke, change of company name, the resignation of all directors nominated by 合肥中科大, and authorization of person(s) to sign all relevant documents were approved unanimously by the board of director of Zhaoke; and
2. the transfer of the 30% equity interest in Zhaoke was approved by Economic and Trade Bureau of Hefei State New & High Technology Industrial Development Zone on 3 June 2005;

Information on the Group

The Lee's Group is a research-driven and market-oriented bio-pharmaceutical company focused on the PRC market. Through its operating subsidiary in China (i.e. Zhaoke), the Group develops, manufactures and markets proprietary pharmaceutical products in China. It has established a sales and distribution network for pharmaceuticals covering most of the provinces and cities in China, marketing both self-developed products and licensed products from abroad.

Information on 合肥中科大

合肥中科大 is an associate company of 科大實業總公司 which is wholly owned by University of Science and Technology of China (中國科學技術大學) and its ultimate holding organization is China Science Academy (中國科學院). 合肥中科大 principally engages in research and development of drugs and health supplements and provides technology consultancy.

To the best of knowledge and belief of the Directors and having made all reasonable enquiry, 合肥中科大 and the ultimate beneficial owner of 合肥中科大 are third parties independent of the Company and connected persons of the Company.

Information of Zhaoke

Zhaoke was established in 1994 as a Sino-foreign equity joint venture and has been owned as to 70% by Lee's HK since Zhaoke's establishment and 30% by USTC Biotech (now changed to another shareholder 合肥中科大). Both the total amount of investment and the registered capital of Zhaoke are US\$2 million (equivalent to approximately HK\$15.6 million) and they are fully paid up by Lee's HK and

LETTER FROM THE BOARD

USTC Biotech in accordance to their percentage of shareholding interest in Zhaoke. The respective share of the registered capital of Zhaoke had been paid up by Lee's HK as to US\$1.4 million (equivalent to approximately HK\$10.92 million) in the form of cash and by USTC Biotech (now changed to 合肥中科大) as to US\$0.6 million (equivalent to approximately HK\$4.68 million) in the form of technology of protein extraction and purification from snake venom with enzymatic activities. Located in Hefei, Anhui Province, the PRC, Zhaoke is an integrated research-driven and market-oriented pharmaceutical company engaged in the development, manufacturer and sales of quality bio-pharmaceutical products that focus on combating cardiovascular diseases and viral sexually transmitted diseases. Since its establishment in 1994, Zhaoke has developed three technology platforms, namely, (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system. The Group carries out its sales and distribution activities through Zhaoke's sales offices located in Guangzhou, Shanghai and Beijing. The Group's proprietary products are all sold in the PRC under the brand name of "Zhaoke" and registered under Zhaoke.

Regarding the 30% equity interest in Zhaoke which is the subject of the transaction, the book value of total net liabilities (including amount due to Lee's HK of approximately HK\$18.76 million) of such portion was HK\$ 1.25 million as at 31 December 2004. Based on the Company's audited account, the results of Zhaoke was as follows:

	Financial year ended	
	31 December	
	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Turnover	<u>21,503,000</u>	<u>17,421,000</u>
Profit before intergroup charges	3,567,000	823,000
Intergroup management fees payable to Lee's HK	<u>(2,018,000)</u>	<u>(415,000)</u>
Profit before finance cost	1,549,000	408,000
Finance cost payable to outsiders	(426,000)	(476,000)
Finance cost payable to Lee's HK	<u>(1,188,000)</u>	<u>(1,071,000)</u>
Loss before taxation	(65,000)	(1,139,000)
Tax credit	<u>48,000</u>	<u>48,000</u>
Loss after taxation	<u><u>(17,000)</u></u>	<u><u>(1,091,000)</u></u>

LETTER FROM THE BOARD

As at 31 December 2004 and 30 June 2005, assets and liabilities of Zhaoke included:

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Property, plant and equipment	11,354	13,960
Intangible assets	6,522	6,297
Lease premium for land	1,131	–
Current assets	4,552	4,207
Current liabilities	(8,568)	(8,994)
Non-current liabilities	(624)	(851)
	<u>14,367</u>	<u>14,619</u>
Amount due to Lee's HK	(18,479)	(18,776)
Net liabilities	<u>(4,112)</u>	<u>(4,157)</u>

Unaudited results of Zhaoke for the first and second quarter of 2005 and 2004 are as follows:

	First quarter 2005 HK\$	Second quarter 2005 HK\$	First quarter 2004 HK\$	Second quarter 2004 HK\$
Turnover	<u>6,339,000</u>	<u>6,820,000</u>	<u>4,497,000</u>	<u>5,731,000</u>
Profit before intergroup charges	1,426,000	1,384,000	739,000	1,133,000
Intergroup management fees payable to Lee's HK	<u>(368,000)</u>	<u>(421,000)</u>	<u>(483,000)</u>	<u>(532,000)</u>
Profit before finance cost	1,058,000	963,000	256,000	601,000
Finance cost payable to outsiders	(119,000)	(96,000)	(119,000)	(114,000)
Finance cost payable to Lee's HK	<u>(298,000)</u>	<u>(298,000)</u>	<u>(270,000)</u>	<u>(270,000)</u>
Profit (loss) before taxation	641,000	569,000	(133,000)	217,000
Tax credit	<u>11,000</u>	<u>15,000</u>	<u>2,000</u>	<u>12,000</u>
Profit (loss) after taxation	<u>652,000</u>	<u>584,000</u>	<u>(131,000)</u>	<u>229,000</u>

After acquisition of 30% equity interest in Zhaoke, the results from Zhaoke will be 100% consolidated in the Company's consolidated account.

LETTER FROM THE BOARD

Reasons for the acquisition of 30% equity interest in Zhaoke

Zhaoke is the flagship of Lee's Group with more than 90% of the Group's turnover derived from its activities. With the persistent growth in sales, Zhaoke recorded turnover of HK\$6.3 million in the first quarter of 2005 which was historical high and Zhaoke recorded a net profit in first quarter of 2005 representing a turn-around. In fact Zhaoke is the main profit making company for Lee's Group since 2004 and the Group recorded profitable results in the first quarter of 2005 as disclosed in the results announcement dated 12 May 2005. The increase in turnover and segment profit by Zhaoke was attributable to the ever intensified knowledge-based promotion with numbers of seminars held in hospitals all over PRC. The Directors expect that Zhaoke will continue to generate profit in the coming period. The acquisition of interests in Zhaoke, which by then will be wholly owned by Lee's HK, provides an opportunity for the Group to increase its profit earning power and concentrate its management resources. The Directors consider that that upon completion of the acquisition of interests in Zhaoke, the Company will still be continuing its existing business activities.

The Directors, including the independent non-executive Directors, consider that the terms of the Equity Transfer Agreement and the transactions contemplated therein are entered into on normal commercial terms, and arrived at after arm's length negotiations between the parties and fair and reasonable insofar as the Shareholders are concerned. Accordingly, and having regard to the Group's potential increase in earning power based on the past results of Zhaoke for the first quarter of 2005 (with profit of HK\$652,000 compared with a loss of HK\$131,000 for the first quarter of 2004) and the second quarter of 2005 (with profit of HK\$584,000, increased by 155% compared with some period in 2004) as mentioned in previous sections of this circular and concentration of its management resources as aforesaid, each of the Directors considers that the acquisition of 30% equity interest in Zhaoke is in the commercial interest of the Company and its shareholders

In the second quarter of 2005 as announced on 12 August 2005, Zhaoke continued to record a growth in sales in the amount of HK\$6.8 million. Sales of Zhaoke for first six months of 2005 amounted to HK\$13,159,000 represented an increase of 28.7% compared with the same period in 2004. The Group continued to record an increase in profit in the second quarter of 2005 over the first quarter of 2005 which is stated in the unaudited interim report of the Company. These further substantiate the growing trend of Zhaoke.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the Appendix to this circular.

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

1. RESPONSIBILITY STATEMENT

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

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)	1,240,000	163,290,625	–	164,530,625	47.52%	
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) 1,240,000 Shares are held personally by Ms. Leelalertsuphakun Wanee 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. 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, 25 June 2004 and 11 July 2005 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%

Non-executive Director

Mauro Bove	11.07.2005**	HK\$0.159	11.01.2006 – 10.07.2015	500,000	0.14%
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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
<i>Independent Non-executive Directors</i>					
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%
Chan Yan Ching, Bob	11.07.2005**	HK\$0.159	11.01.2006 – 10.07.2015	100,000	0.03%
Lam Yat Cheong	11.07.2005**	HK\$0.159	11.01.2006 – 10.07.2015	300,000	0.09%
Tsim Wah Keung, Kaul	11.07.2005**	HK\$0.159	11.01.2006 – 10.07.2015	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).

** 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 11 January 2006 to 10 July 2015 (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 11 October 2006 to 10 July 2015 (both days inclusive).

A total of 10,450,000 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	<i>Notes</i>	Number of Shares beneficially held	Nature of interest	Percentage of shareholding
Huby Technology Limited		155,290,625	Corporate	44.85%
Defiante Farmaceutica, Lda		57,000,000	Corporate	16.46%
High Knowledge Investments Limited	(1)	16,000,000	Corporate	4.62%
Lue Shuk Ping, Vicky	(2)	16,000,000	Corporate	4.62%

Long positions in underlying Shares of equity derivatives

Name	Nature of interest	<i>Notes</i>	Kind of underlying share	Number of underlying shares
Defiante Farmaceutica, Lda	Corporate		Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky	Family	(2)	Share options	2,890,000

Notes:

- (1) 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.
- (2) 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.

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.

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. SERVICE CONTRACTS

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a service contract 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.

Dr. Li Xiaoyi has entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and has the right to renew for an additional period of three years upon mutual agreement. Both parties shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, holding less than 35% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

The service contract of an independent non-executive director, Dr. Chan Yau Ching, Bob, dated 14 January 2002, have no fixed term of office but are subject to the provisions of retirement and rotation of directors under the Articles of Association of the Company.

Each of Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl has entered into a service contract with the Company under which he has been appointed to act as an independent non-executive director for an initial term of three years commencing from 1 July 2004 and 20 September 2004 respectively.

Apart from the foregoing, 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).

Service contracts of directors are available for inspection in the Company's office located at Room 1905, Grand Millennium Plaza, Lower Block, 181 Queen's Road Central, Hong Kong as from the date of this Circular up to 14 days thereafter.

5. 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 GEM Listing Rules.

6. 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 2004, the date to which the latest audited financial statements of Lee's Group were made up.

7. 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 compliance officer of the Company is Ms. Lee Siu Fong, the chairperson of the Company.

- (c) The secretary and qualified accountant of the Company is Miss Luen Yee Ha, Susanne. Miss Luen is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (d) 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.
- (e) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.
- (f) Audit Committee

The audit committee comprises three members, Dr. Chan Yau Ching (Dr. Chan), Bob, Mr. Lam Yat Cheong (Mr. Lam) and Dr. Tsim Wah Keung, Karl, who are also independent non-executive directors of the Company. Dr. Chan has extensive experience in corporate development and financial management of high growth companies. Mr. Lam is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Lam is also an independent non-executive director of Perfectech International Holdings Limited, a company listed in Hong Kong. Mr. Karl Tsim currently serves as Associate Professor of Department of Biology at the Hong Kong University of Science and Technology.