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## 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, 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.

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李 氏 大 藥 廠

**LEE'S PHARMACEUTICAL HOLDINGS LIMITED**

**李 氏 大 藥 廠 控 股 有 限 公 司\***

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

(Stock Code : 8221)

### CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee  
and  
the Independent Shareholders**



Hantec Capital Limited

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The notice convening the extraordinary general meeting of the Company to be held at Unit 110-111, Bio-Informatics Centre, No.2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Friday, 26 January 2007 at 3:00 p.m. is set out on pages 29 to 30 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](http://www.hkgem.com) on the "Latest Company Announcement" page for at least 7 days from the date of its publication.

\* For identification purpose only

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## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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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.

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## DEFINITIONS

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

“Board”	the board of directors of the Company
“Cap”	the maximum aggregate annual value of the Continuing Connected Transactions to be carried on by the Company pursuant to the Distribution Agreements
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its issued Shares listed on GEM
“connected person”	as defined in the GEM Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions to be entered into between the Company and Sigma-Tau Industrie contemplated under the Distribution Agreements
“Director(s)”	the director(s) of the Company
“Distribution Agreements”	the two distribution agreements both dated 13 December 2006 and entered into between the Company and Sigma-Tau Industrie
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of approving the Continuing Connected Transactions
“EUR”	European Union euro
“Existing Products”	Carnitene® (L-Carnitine) injectables of 1 gram 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
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hantec Capital”	Hantec Capital Limited, an independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, and a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 Laws of Hong Kong)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“HK\$”	Hong Kong dollars
“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
“Independent Shareholders”	the Shareholders who are not involved in or interested in the Continuing Connected Transactions and are not required under the GEM Listing Rules to abstain from voting at the EGM, being all Shareholders except members of the Sigma-Tau Group and their respective associates
“Latest Practicable Date”	3 January 2007, being the latest practicable date prior to the printing of the circular for ascertaining certain information in this circular
“New Products”	Carnitene® (L-Carnitine) injectables of 2 grams and Carnitene® (L-Carnitine) drinking vials of 1 gram and 2 grams which are used for secondary deficiencies, myocardial metabolic damage due to coronary heart disease angina, acute myocardial infarction, severe hypoperfusion conditions due to cardiogenic shock
“Old Distribution Agreement”	the distribution agreement dated 1 October 2004 entered into between the Company and Sigma-Tau Industrie in relation to the supply of the Existing Products by Sigma-Tau Industrie to the Company
“PRC” or “China”	The People’s Republic of China
“Products”	the Existing Products and the New Products
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of HK\$0.05 each
“Shareholder(s)”	the shareholder(s) of the Company
“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

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## DEFINITIONS

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“Territory”	the PRC (excluding Hong Kong)
“Trademark”	the trademark Carnitene® and its Chinese version 可益能® as registered in the Territory in the name of Sigma-Tau Industrie and/or any other trademark(s) also in the form of Chinese characters chosen at the sole discretion and registered in the name of Sigma-Tau Industrie in the Territory to be used to identify the Products in the Territory
“%”	per cent

*Unless otherwise specified in this circular and for the purpose of illustration only, translation rates have been used as follows:*

HK\$10.3 = EUR1.00

*No representation is made that any amounts in EUR or HK\$ have been or could be converted at the above rates or any other rates or at all.*

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## LETTER FROM THE BOARD

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李 氏 大 藥 廠

**LEE'S PHARMACEUTICAL HOLDINGS LIMITED**

**李 氏 大 藥 廠 控 股 有 限 公 司\***

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

(Stock Code : 8221)

*Executive Directors:*

Ms. Lee Siu Fong (*Chairperson*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

*Non-executive Director:*

Dr. Mauro Bove

*Independent non-executive Directors:*

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

*Registered office:*

PO Box 309 GT, Ugland House

South Church Street

Grand Cayman, Cayman Islands

*Principal place of business*

*in Hong Kong:*

Unit 110-111, Bio-Informatics Centre

No.2 Science Park West Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

4 January 2007

*To Shareholders*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

In the announcement dated 13 December 2006, the Directors announced that the Company had entered into the Distribution Agreements with Sigma-Tau Industrie on 13 December 2006 pursuant to which Sigma-Tau Industrie agreed to supply and the Company agreed to procure and/or maintain the registration and importation, and to provide the marketing and sales structure for the commercialization of the Products in the Territory for three years commenced on 1 January 2007 and ending on 31 December 2009.

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante Farmaceutica, Lda, a substantial shareholder of the Company which holds 57,000,000 ordinary shares in the Company, representing approximately 16.46% of its entire issued shares as at the date hereof. Sigma-Tau Industrie is an associate of Defiante Farmaceutica, Lda and therefore a connected person of the Company within the meaning of the GEM Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The Independent Financial Adviser, Hantec Capital, has been appointed to advise the Independent Board Committee and Independent Shareholders as to whether or not the terms of the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions are fair and reasonable so far as the Company and its Independent Shareholders are concerned.

The purpose of this circular is:

- (i) to provide the Shareholders with details of the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the terms of the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions and to recommend the Independent Shareholders to vote for or against the resolution approving the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions by poll at the EGM;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions and to recommend the Independent Shareholders to vote for or against the resolution approving the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions by poll at the EGM; and
- (iv) to give the Shareholders the notice of the EGM to be convened (at which Defiante Farmaceutica, Lda together with its associates with interest in the Continuing Connected Transactions who control or are entitled to exercise control over the voting rights in respect of the Shares as at the Latest Practicable Date will abstain from voting) for the Independent Shareholders to consider and, if thought fit, to approve the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions.

### THE DISTRIBUTION AGREEMENTS

#### BACKGROUND

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante Farmaceutica, Lda, a substantial shareholder of the Company which holds 57,000,000 ordinary shares in the Company, representing approximately 16.46% of its entire issued shares as at the date hereof. Sigma-Tau Industrie is an associate of Defiante Farmaceutica, Lda and therefore a connected person of the Company within the meaning of the GEM Listing Rules.

The Company has been carrying on certain continuing connected transactions with the Sigma-Tau Group on an ongoing basis whereby the Sigma-Tau Group supplies pharmaceutical products to the Company for distribution in the Territory. On 1 October 2004, the Company entered into the Old Distribution Agreement with Sigma-Tau Industrie whereby the Existing Products were supplied by Sigma-Tau Industrie to the Company for a term expired on 31 December 2006.

As the Directors intend that the Company's existing business relationship with Sigma-Tau shall continue beyond expiration of the Old Distribution Agreement, on 13 December 2006, the Company entered into the Distribution Agreements with Sigma-Tau Industrie, pursuant to which the Old Distribution Agreement was renewed and the New Products would be supplied by Sigma-Tau Industrie to the Company for registration, importation, marketing and distribution in the Territory for a term of three years. The



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## LETTER FROM THE BOARD

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supply of the Products by Sigma-Tau Industrie to the Company pursuant to each of the Distribution Agreements on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules.

### PRINCIPAL TERMS OF THE DISTRIBUTION AGREEMENTS

The principal terms of the Distribution Agreements, which are substantially identical, are summarized as follows. Save as disclosed in this circular, the principal terms of the Distribution Agreements are identical to the terms of the Old Distribution Agreement.

#### **Date**

13 December 2006

#### **Parties**

- (i) Sigma-Tau Industrie
- (ii) The Company

#### **Principal terms**

##### *Duration*

The Distribution Agreements shall be effective for three years commenced on 1 January 2007 and ending on 31 December 2009 and upon their expiration, subject to compliance with the GEM Listing Rules, renewable by agreement between the parties thereto.

##### *Distribution Rights*

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

##### *Purchases and Sales*

Sigma-Tau Industrie agrees to sell exclusively to the Company in the Territory and the Company agrees to purchase the Products from Sigma-Tau Industrie or any company designated by Sigma-Tau Industrie.

The Company agrees to arrange, at its own care and expenses, directly or through a government approved entity in the Territory, for the importation of the Products into the Territory.

##### *Government Approvals*

The relevant import drug permits will be obtained in the name of Sigma-Tau Industrie. The Company agrees to use its best efforts to obtain and/or maintain on Sigma-Tau Industrie's behalf, in Sigma-Tau Industrie's name and at the Company's cost and expense the relevant import drug permits, and any other marketing authorisations, 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 any applicable law for the appointment of the Company as the distributor of the Products in the Territory.

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## LETTER FROM THE BOARD

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### *Minimum Purchase Amounts*

The Company undertakes to purchase from Sigma-Tau Industrie the following minimum amount of Products per year:

- (a) during the first year from 1 January 2007 to 31 December 2007, the equivalent of an aggregate of EUR1,950,000.00 (approximately HK\$20,085,000.00), of which EUR1,250,000.00 (approximately HK\$12,875,000.00) is attributable to the Existing Products and EUR700,000.00 (approximately HK\$7,210,000.00) is attributable to the New Products;
- (b) during the second year from 1 January 2008 to 31 December 2008, the equivalent of an aggregate of EUR2,550,000.00 (approximately HK\$26,265,000.00), of which EUR1,500,000.00 (approximately HK\$15,450,000.00) is attributable to the Existing Products and EUR1,050,000.00 (approximately HK\$10,815,000.00) is attributable to the New Products; and
- (c) during the third year from 1 January 2009 to 31 December 2009, there is no minimum purchase amount.

The minimum purchase amounts for each of the three years ending 31 December 2009 were arrived at after arm's length negotiations between the Company and Sigma-Tau Industrie, taking into account of actual purchase volume of the Existing Products from 2004 to 2006, actual growth in sales in the Territory during the past years, market expectation in the coming years, and projected sales volume of the New Products in the Territory. Compared to the minimum purchase amounts of the Existing Products pursuant to the Old Distribution Agreement of HK\$10,140,000.00 and HK\$13,182,000.00, respectively, for the two years ended 31 December 2006, the increase in the minimum purchase amounts for the two years ending 31 December 2008 is mainly due to an expected growth in sales of the Existing Products in the Territory and introduction of the additional New Products. The nil minimum purchase amount for the year ending 31 December 2009 is a result of arm's length commercial negotiations between the Company and Sigma-Tau Industrie.

Pursuant to the Distribution Agreements, no fee is payable by Sigma-Tau Industrie to the Company for marketing the Products, as well as procuring and/or maintaining their registration and importation, in the Territory. However, the provision of such services by the Company to Sigma-Tau Industrie will enable the Company to be granted the sole and exclusive right to distribute the Products in the Territory, thereby increasing its competitive advantage and hence its profitability.

In the event that the Company fails to purchase the relevant minimum amount for two consecutive years during the term of the Distribution Agreements, Sigma-Tau Industrie is entitled to terminate the relevant Distribution Agreement at any time at its sole discretion.

### *Free Products and Promotional Allowance Granted by Sigma-Tau Industrie*

Sigma-Tau Industrie will grant free Products to the Company equal to 7% of the quantity of Products ordered and paid for by the Company to Sigma-Tau Industrie.

In addition to the above, Sigma-Tau Industrie will offer free Products to the Company as promotional allowance equal to 5% to 10% of the Products ordered and paid for by the Company to Sigma-Tau Industrie, depending on the quantity of Products purchased by the Company during the term of the Distribution Agreements.

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## LETTER FROM THE BOARD

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### HISTORICAL TRANSACTION VALUES AND THE CAP

The aggregate value of purchases made by the Company from Sigma-Tau Industrie for the two years ended 31 December 2006 amounted to approximately HK\$6,066,255.00 and HK\$8,879,718.80, respectively.

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 Transactions. The amount of purchase by the Company pursuant to the Distribution Agreements for the three years ending 31 December 2009 shall not exceed EUR1,963,000.00 (approximately HK\$20,218,900.00), EUR2,764,650.00 (approximately HK\$28,475,895.00) and EUR3,993,683.00 (approximately HK\$41,134,934.90), respectively. The above maximum aggregate annual values are determined based on the following factors:

- (a) minimum quantities to be purchased by the Company from Sigma-Tau Industrie pursuant to the Distribution Agreements as mentioned above;
- (b) historical amounts of purchases of the Existing Products by the Company from Sigma-Tau Industrie;
- (c) market expectation in the coming years;
- (d) forecast growth rate of about 25% for sales of the Products in the Territory;
- (e) increase of the level of buffer stock to safeguard the Company from being adversely affected by any unforeseen events;
- (f) the plan of the Company to source and engage new distributors in 2007 to expand the geographical coverage of sales of the Products in the Territory;
- (g) approximate time required to obtain import drug permits and government approvals for the New Products. The Directors expect that the relevant import drug permit and government approvals for each of the New Products, namely Carnitene® injectables of 2 grams, Carnitene® drinking vials of 1 gram and Carnitene® drinking vials of 2 grams, will be obtained in July 2007, January 2009 and January 2009, respectively. Upon obtaining the relevant import drug permits and government approvals, a broader variety of products may be sold by the Company in the Territory to satisfy different demands. The Directors therefore expect a gradual and exponential increase in the maximum aggregate annual value for purchases of the Products from the year ending 31 December 2007 to 31 December 2009, as reflected in the Cap. The forecast sales volume of Carnitene® injectables of 2 grams for the three years ending 31 December 2009 is projected from the existing patient consumption level for the Existing Products. The forecast sales volumes of Carnitene® drinking vials of 1 gram and 2 grams are estimated by reference to the existing patient population and out-patient consumption level.

The Directors (including the independent non-executive Directors) consider that the terms of the Continuing Connected Transactions were entered into in the usual and ordinary course of businesses of the Company, were arrived at after arm's length negotiations between the Company and Sigma-Tau Industrie, which are fair and reasonable, on normal commercial terms, no less favourable than those offered by Sigma-Tau Industrie to independent third parties, and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### GEM LISTING RULES IMPLICATIONS

Having regard to the fact that the Continuing Connected Transactions are conditional upon compliance by the Company with all relevant requirements under the GEM Listing Rules, including but not limited to, annual review by the auditors and independent non-executive Directors 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 the Products 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 Distribution Agreements and the Cap in relation to the Continuing Connected Transactions for the three years ending 31 December 2009 on the following conditions:

- (a) the sales volume of the Products to the Company by Sigma-Tau Industrie for each of the three financial years ending 31 December 2009 will not exceed EUR1,963,000.00 (approximately HK\$20,218,900.00), EUR2,764,650.00 (approximately HK\$28,475,895.00) and EUR3,993,683.00 (approximately HK\$41,134,934.90), 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 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 Group than those available from independent third parties;
  - iii. the Continuing Connected Transactions will be entered into in accordance with the terms of the Distribution Agreements that are fair and reasonable and in the interests of the Shareholders as a whole;
- (c) the Company shall provide to the Stock Exchange an undertaking and shall procure that the counterparties to the Continuing Connected Transactions that, for so long that the Shares are listed on the Stock Exchange, it will provide the Company's auditors with sufficient access to the relevant records for the purpose of the auditors' review of the Continuing Connected Transactions referred to in paragraph (e) below;
- (d) the Company must re-comply with the 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 either of the Distribution Agreements is renewed or there is a material change to the terms of either of the Distribution Agreements; and
- (e) each year the auditors must review the Continuing Connected Transactions and 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 rule 20.38 of the GEM Listing Rules, confirming that the Continuing Connected Transactions:
  - i. have been approved by the Board;
  - ii. are in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company;

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## LETTER FROM THE BOARD

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- iii. have been entered into in accordance with the Distribution Agreements; and
  - iv. have not exceeded the Cap mentioned in (a) above.
- (e) Compliance by the Company with all other relevant requirements under the GEM Listing Rules.

As the Company will carry on the Continuing Connected Transactions with Sigma-Tau Industrie on an ongoing basis, such transactions will constitute continuing connected transactions of the Company under Rule 20.14 of the GEM Listing Rules. On the basis that each of the applicable percentage ratios for the Continuing Connected Transactions calculated on an annual basis by reference to the estimated aggregate annual purchases for each of the three years ending 31 December 2009 is expected to be equal to or more than 25%, the Continuing Connected Transactions will be subject to the approval of Independent Shareholders at an EGM pursuant to Rule 20.35(4) of the GEM Listing Rules. The Independent Board Committee has been formed to consider the terms of the Distribution Agreements and the Cap to be imposed pursuant to the requirements of the GEM Listing Rules. Hantec Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms of the Distribution Agreements and the Cap.

### REASONS FOR THE TRANSACTION

The Directors considered the renewal of the Continuing Connected Transactions contemplated under the Old Distribution Agreement subsequent to the expiry of its term, and the purchase of the New Products from Sigma-Tau Industrie as necessary after due consideration of the following reasons:

- (1) the termination of the transactions contemplated under the Old Distribution Agreement would directly affect the normal course of business of the Company due to their ongoing nature and would have an adverse effect on the operation of the Company;
- (2) the Directors foresee the future growth potential of the demand of the Products in the Territory and intend to expand the Company's product base and variety to capitalize on such growth with the aim of increasing its sales and improving its long-term profitability; and
- (3) the New Products consist of Carnitene® injectables of 2 grams which are administered in the hospital by doctors to treat in-patients with more serious symptoms requiring a higher dosage, and Carnitene® drinking vials which can be more conveniently consumed by patients outside the hospital and are prescribed to out-patients or patients who have been discharged from the hospital; the Directors see the existing demand for the New Products in the Territory and intend to capitalize on such demand with a view to raising the Company's sales volume.

Having taken the above factors into account, the Directors consider that the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### INFORMATION ON THE GROUP AND THE SIGMA-TAU GROUP

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

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## LETTER FROM THE BOARD

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Sigma-Tau Industrie is part of the Sigma-Tau Group which is a leading research-based Italian pharmaceutical company 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. The 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.

### EGM

The notice convening the EGM to be held at 3:00 p.m. on Friday, 26 January 2007 at Unit 110-111, Bio-Informatics Centre, No.2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, at which an ordinary resolution will be proposed to approve the Distribution Agreements and the Cap in relation to the Continuing Connected Transactions, is set out on pages 29 to 30 of this circular.

A form of proxy for use by the Independent Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event, not less than 48 hours before the time appointed for holding the EGM. Such form of proxy for use at the EGM is also published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). Completion and return of the form of proxy will not preclude the Shareholder from attending and voting in person at the EGM or any adjournment thereof should he or she so wishes.

### RECOMMENDATIONS

The Independent Board Committee has been established to advise the Independent Shareholders on the Continuing Connected Transactions. Hantec Capital has been appointed to advise the Independent Board Committee and Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee as set out on page 12 of 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 Distribution Agreements and the Cap in relation to the Continuing Connected Transactions are in the interests of the Company and the 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 the Continuing Connected Transactions and the Cap.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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李 氏 大 藥 廠

**LEE'S PHARMACEUTICAL HOLDINGS LIMITED**

**李 氏 大 藥 廠 控 股 有 限 公 司\***

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

(Stock Code : 8221)

4 January 2007

*To the Independent Shareholders*

Dear Sir or Madam

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 4 January 2007 ("Circular") of which this letter forms a part. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as given to them in the section headed "Definitions" of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether or not 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 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 resolution to be proposed at the EGM to approve, inter alia, the Continuing Connected Transactions, and the proposed annual caps for the Continuing Connected Transactions.

Independent Board Committee

**Chan Yau Ching, Bob**

**Lam Yat Cheong**

**Tsim Wah Keung, Karl**

*Independent non-executive Directors*

\* For identification purpose only



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## LETTER FROM HANTEC CAPITAL

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*The following is the full text of a letter of advice from Hantec Capital to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the Cap, which has been prepared for the purpose of inclusion in this circular:*



Hantec Capital Limited  
45th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

4 January 2007

*To the Independent Board Committee and the Independent Shareholders of  
**Lee's Pharmaceutical Holdings Limited***

Dear Sirs and Madams,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Distribution Agreements and the Cap, details of which are contained in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 4 January 2007, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante Farmaceutica, Lda, a substantial shareholder of the Company which holds 57,000,000 ordinary shares in the Company, representing approximately 16.46% of its entire issued shares as at the Latest Practicable Date. Sigma-Tau Industrie is an associate of Defiante Farmaceutica, Lda and therefore a connected person of the Company under the GEM Listing Rules. The supply of the Products by Sigma-Tau Industrie to the Company pursuant to each of the Distribution Agreements on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules.

The Independent Board Committee, comprising the independent non-executive Directors, namely Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, has been formed to advise the Independent Shareholders on the Continuing Connected Transactions and the Cap.

#### BASIS OF OUR ADVICE

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions



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which have been provided by the Directors and the management of the Company for which they are solely responsible, were true and accurate at the time they were made and continue to be accurate at the date of the despatch of the Circular.

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 that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have preformed all necessary steps as required under Rule 17.92 of the GEM Listing Rules, including the notes thereto, to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regards to the terms of the Distribution Agreements and the Cap, we have considered the following principal factors and reasons:

#### 1. Background and reason 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 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 products and licensed products from abroad. Currently, the Company is the sole distributor of Sigma-Tau's Carnitene® for the PRC and the Company had helped to establish Carnitene® as one of the leading brands of L-Carnitine in the PRC during a period of less than one year.

Sigma-Tau Industrie is part of the Sigma-Tau Group which is a leading research-based Italian pharmaceutical company 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. The 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.

The Company has been carrying on certain continuing connected transactions with the Sigma-Tau Group on an ongoing basis whereby the Sigma-Tau Group supplies pharmaceutical products to the Company for distribution in the Territory. On 1 October 2004, the Company entered into the Old Distribution Agreement with Sigma-Tau Industrie whereby the Existing Products were supplied by Sigma-Tau Industrie to the Company for a term expiring on 31 December 2006. For the two years ended 31 December 2005 and the ten months ended 31 October 2006, the turnover generated from sale of the Existing Products amounted to approximately HK\$8.7 million, HK\$12.3 million and HK\$15.2 million respectively, representing approximately 28.7%, 32.0% and 43.4% of the total turnover of the Group

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during the respective period. As the Directors intend that the Company's existing business relationship with Sigma-Tau shall continue beyond expiration of the Old Distribution Agreement, on 13 December 2006, the Company entered into the Distribution Agreements with Sigma-Tau Industrie, pursuant to which the Old Distribution Agreement was renewed and the New Products would be supplied by Sigma-Tau Industrie to the Company for registration, importation, marketing and distribution in the Territory for a term of three years.

The Directors considered the renewal of the continuing connected transactions contemplated under the Old Distribution Agreement subsequent to the expiry of its term, and the purchase of the New Products from Sigma-Tau Industrie as necessary after due consideration of the following reasons: (i) the termination of the transactions contemplated under the Old Distribution Agreement would directly affect the normal course of business of the Company due to their ongoing nature and would have an adverse effect on the operation of the Company; (ii) the Directors foresee the future growth potential of the demand of the Products in the Territory and intend to expand the Company's product base and variety to capitalize on such growth with the aim of increasing its sales and improving its long-term profitability; and (iii) the New Products consist of Carnitene® injectables of 2 grams which are administered in the hospital by doctors to treat in-patients with more serious symptoms requiring a higher dosage, and Carnitene® drinking vials which can be more conveniently consumed by patients outside the hospital and are prescribed to out-patients or patients who have been discharged from the hospital; the Directors see the existing demand for the New Products in the Territory and intend to capitalize on such demand with a view to raising the Company's sales volume. Having taken the above factors into account, the Directors consider that the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Considering the business nature of each of the Group and Sigma-Tau Industrie, we consider that the Continuing Connected Transactions have been conducted in the usual and ordinary course of business of the Group. Moreover, the sale of the Existing Products represents a significant proportion of the total turnover of the Group. In light of the above reasons and given that the Continuing Connected Transactions provide the Group a stable supply of Existing Products and New Products, we consider that the entering into the Distribution Agreements is in the interests of the Group and the Shareholders as a whole.

## **2. Principal terms of the Distribution Agreements**

### *Term and termination*

The Distribution Agreements shall be effective for three years commencing on 1 January 2007 and ending on 31 December 2009 and upon their expiration, subject to compliance with the GEM Listing Rules, renewable by agreement between the parties thereto. We note that such three-year term is in compliance with the Listing Rules.

### *Pricing and payment*

#### **(i) Pricing**

Pursuant to the Distribution Agreements, the prices of the Existing Products and New Products to be produced and supplied by Sigma-Tau Industrie to the Group are fixed which set forth in the Distribution Agreements.

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The Group is the exclusive distributor of the Products 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. Moreover, as pharmaceutical products are unique, it is not possible to compare the price of the Products with other pharmaceutical products purchased by the Group from independent third parties. To assess whether the price of the Existing Products offered by Sigma-Tau Industrie under the Distribution Agreements is fair and reasonable, we have compared the profit margin generated from sale of the Existing Products with those of another five licensed medicine which have been purchased by the Group from independent third parties for the ten months ended 31 October 2006. We found that the gross profit margins generated from sale of the Existing Products in the Territory during the same period fall within the range of the gross profit of the comparable products. We also found the price of the Existing Products under the Distribution Agreements is approximately the same as that under the Old Distribution Agreement. Accordingly, the price of the Existing Products under the Distribution Agreements allow the Group to obtain a gross profit which is comparable to other licensed products of the Group.

To assess whether the prices of the New Products are fair and reasonable, we have discussed with the management of the Company and understand that the price of each of the New Products is determined based on the price of the Existing Products considering that both the Existing Products and the New Products are composed of Carnitene® but with different concentration and that production cost of drinkable form is lower than injectable form.

Pursuant to the Distribution Agreements, Sigma-Tau Industrie will grant free Products to the Company equal to 7% of the quantity of Products ordered and paid for by the Company to Sigma-Tau Industrie. Furthermore, Sigma-Tau Industrie will offer free Products to the Company as promotional allowance equal to 5% to 10% of the Products ordered and paid for by the Company to Sigma-Tau Industrie, depending on the quantity of Products purchased by the Company during the term of the Distribution Agreements. In other words, the Company will enjoy a discount in the purchase of the Products depending on the quantity of Products ordered and paid for by the Company to Sigma-Tau Industrie. We have compared the above benefit terms with those under the Old Distribution Agreement and found that under the Old Distribution Agreement, Sigma-Tau Industrie only offered free products to the Company equal to 5% to 10% of the products ordered and paid for by the Company. Accordingly, the Distribution Agreements offer better benefit, being 7% free products, to the Group.

### (ii) Payment

Pursuant to the Distribution Agreements, the amount of the sale price will be payable by the Company by wire transfer to the bank account designated by Sigma-Tau Industrie within 90 days from the date of the relevant invoice. We have reviewed the payment terms offered by independent suppliers in respect of other licensed pharmaceutical products and found that the payment terms under the Distribution Agreements are more favourable than that offered by the independent suppliers.

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### (iii) Minimum Purchase Amounts

The Company undertakes to purchase from Sigma-Tau Industrie the following minimum amount of Products per year:

- (a) during the first year from 1 January 2007 to 31 December 2007, the equivalent of an aggregate of EUR1,950,000.00 (approximately HK\$20,085,000.00);
- (b) during the second year from 1 January 2008 to 31 December 2008, the equivalent of an aggregate of EUR2,550,000.00 (approximately HK\$26,265,000.00); and
- (c) during the third year from 1 January 2009 to 31 December 2009, there is no minimum purchase amount.

The minimum purchase amounts for each of the three years ending 31 December 2009 were arrived at after arm's length negotiations between the Company and Sigma-Tau Industrie, taking into account of actual purchase volume of the Existing Products from 2004 to 2006, actual growth in sales in the Territory during the past years, market expectation in the coming years, and projected sales volume of the New Products in the Territory. Compared to the minimum purchase amounts of the Existing Products pursuant to the Old Distribution Agreement of HK\$10,140,000.00 and HK\$13,182,000.00, respectively, for the two years ending 31 December 2006, the increase in the minimum purchase amounts for the two years ended 31 December 2008 is mainly due to an expected growth in sales of the Existing Products in the Territory and introduction of the additional New Products. The nil minimum purchase amount for the year ending 31 December 2009 is a result of arm's length commercial negotiations between the Company and Sigma-Tau Industrie. In the event that the Company fails to purchase the relevant minimum amount for two consecutive years during the term of the Distribution Agreements, Sigma-Tau Industrie is entitled to terminate the relevant Distribution Agreement at any time at its sole discretion. We have discussed with the management of the Company and understand that the minimum purchase amounts are determined between the Company and Sigma-Tau with an aim to set a purchase target. Given (i) the relationship between the Group and Sigma-Tau Industrie; (ii) Sigma-Tau did not terminate the Old Distribution Agreement when the Group was unable to meet the minimum purchase amounts as stated in the Old Distribution Agreement; and (iii) the Group will not be liable to the difference between the minimum purchase amounts and the actual purchase amounts, accordingly, we are of the view that this term has no unfavourable impact on the Group. For the year ending 31 December 2009, there is no minimum purchase amount requirement which is definitely favourable to the Group.

In view of the above analysis, we are of the view that the terms of the Distribution Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

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### 3. The Cap

The following table summarises the historical figures of the relevant Continuing Connected Transactions for the two years ended 31 December 2005 and from 1 January 2006 to 13 December 2006, the date of the Announcement, and the Cap:

	Total transaction amounts	Increase from the preceding year
<b>Historical transaction amounts:</b>		
2004	approximately HK\$5.6 million	N/A
2005	approximately HK\$6.1 million	approximately 8.9%
2006 (up to 13 December 2006)	approximately HK\$8.9 million	approximately 46.4%
<b>The Cap:</b>		
2007	EUR1,963,000 (approximately HK\$20,218,900)	approximately 127.7%
2008	EUR2,764,650 (approximately HK\$28,475,895)	approximately 40.8%
2009	EUR3,993,683 (approximately HK\$41,134,935)	approximately 44.5%

As set out in the Letter from the Board, the basis of the Cap for the three years ending 31 December 2009 is determined with reference to: (i) minimum quantities to be purchased by the Company from Sigma-Tau Industrie pursuant to the Distribution Agreements; (ii) historical amounts of purchases of the Existing Products by the Company from Sigma-Tau Industrie; (iii) market expectation in the coming years; (iv) forecast growth rate of about 25% for sales of the Products in the Territory; (v) increase of the level of buffer stock to safeguard the Company from being adversely affected by any unforeseen events; (vi) the plan of the Company to source and cooperate with new distributors in 2007 to expand the geographical coverage of sales of the Products in the Territory; and (vii) approximate time required to obtain import drug permits and government approvals for the New Products. The Directors expect that the relevant import drug permit and government approvals for each of the New Products, namely Carnitene® injectables of 2 grams, Carnitene® drinking vials of 1 gram and Carnitene® drinking vials of 2 grams, will be obtained in July 2007, January 2009 and January 2009, respectively. Upon obtaining the relevant import drug permits and government approvals, a broader variety of Products may be sold by the Company in the Territory to satisfy different demands. The Directors therefore expect a gradual and exponential increase in the maximum aggregate annual value for purchases of the Products from the year ending 31 December 2007 to 31 December 2009, as reflected in the Cap. The forecast sales volume of Carnitene® injectables of 2 grams for the three years ending 31 December 2009 is projected from the existing patient consumption level for the Existing Products. The forecast sales volumes of Carnitene® drinking vials of 1 gram and 2 grams are estimated by reference to the existing patient population and out-patient consumption level.

We understand from the Company that the Cap is determined based on the projected purchase of the Existing Products and the New Products, which is in turn calculated based on the projected sales of the Existing Products and the New Products. Moreover, a three months' buffer stock has been taken into account in the calculation of the Cap, which is in line with the delivery lead time mentioned in the Distribution Agreements.

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We have reviewed the calculation of the projected purchase of the Existing Products for the three years ending 31 December 2009 prepared by the Company, which is determined based on the historical sale of the Existing Products in 2006 and estimated growth rates of the sales of the Existing Products ranging from 25% to 30% for the three years ending 31 December 2009. As advised by the Directors, the estimated growth rate of the sales of the Existing Products was determined with reference to the historical sales performance of the Existing Products. The sales volume of the Existing Products for the two years ended 31 December 2005 amounted to approximately 545,000 vials and 674,000 vials, representing an annual growth rate of approximately 24%. The sales volume of the Existing Products for the ten months ended 31 October 2006 was approximately 786,000 vials, representing a growth rate of approximately 41% of that for the ten months ended 31 December 2005 of approximately 559,000 vials. In view of the Group's historical sales performance, we consider that the estimated growth rates of sales for the years ending 31 December 2009 are consistent with the Group's growth trend and therefore are fair and reasonable.

For the New Products, the projected purchase can only be determined by the Directors based on their experiences and market knowledge as there have been no historical sales. We have reviewed the calculation of the projected purchase of the New Products for the three years ending 31 December 2009 prepared by the Company and discussed with the management of the Company in relation to the underlying assumptions thereof. As advised by the Company, the estimated sales volume of Carnitene® injectables of 2 grams, which is expected to obtain relevant import drug permit and government approvals in July 2007, in 2007 was determined with reference to the historical sales performance of the Existing Products. Thereafter, a growth rate of 28% and 25% is used respectively to determine the sales volume of Carnitene® injectables of 2 grams in 2008 and 2009, which is in line with the historical growth rate of sales volume of the Existing Products. According to the Company, Carnitene® injectables of 2 grams, same as the Existing Products, are administered in the hospital by doctors but they are to treat in-patients with more serious symptoms requiring a higher dosage. In this regard, the Directors expect that the demand for Carnitene® injectables of 2 grams shall be similar with the demand for the Existing Products. We are also advised by the management of the Company that the 2009 estimated sales amount of Carnitene® drinking vials of 1 gram and Carnitene® drinking vials of 2 grams, which is expected to obtain relevant import drug permit and government approvals in January 2009, was determined with reference to the estimated number of patients discharged from the hospital who need to take Carnitene® drinking vials and average dosage required per patient per day. In this regard, we have discussed with the management of the Company and noted the estimation was made by the Directors based on their experiences taking into account of the existing patient population and out-patient consumption level in the Territory. Based on the above, we are of the view that the Directors have used fair and reasonable methodologies and assumptions to determine the forecasted purchase of the New Products, given that there were no historical sales.

According to World Health Statistics 2006 published by World Health Organization, among the noncommunicable diseases, cardiovascular diseases are the leading cause of death, responsible for 30% of all deaths, or about 17.5 million people in 2005. According to a report published World Health Organization in 2005, namely "Preventing chronic diseases: a vital investment", there will be a total of 64 million deaths in 2015, among which, cardiovascular diseases will remain the single leading cause of death, with an estimated 20 million people dying, mainly from heart disease and stroke. According to 《中國心血管病報告二〇〇五》(The PRC Cardiovascular Disease Report 2005) published by 國家衛生部心血管病防治研究中心 (Cardiovascular Disease Prevention Centre of Ministry of Health of the PRC), at present, cardiovascular diseases is the leading cause of death in the PRC, about 2.5 million to 3 million people die as a result of cardiovascular disease, representing about 45% of all deaths. The annual medical treatment fee for cardiovascular disease amounts to about RMB130 billion, representing 22% of the total medical treatment fee in the PRC. Moreover, the risk factors to cardiovascular disease are



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increasing. As indicated by the report, about 160 million people are hypertensive, about 160 million people have abnormal cholesterol, over 200 million people are over-weight, 60 million people are obesity, 200 million people are diabetic, 350 million people are smokers and a number of people are large drinking consumption and being physical inactivity, all of them are potential with cardiovascular diseases. Given that Carnitene® is a drug for curing cardiovascular disease and the projected increasing trend of the number of death 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.

Taking into account the above factors, the Cap for the three years ending 31 December 2009 is set at EUR1,963,000 (approximately HK\$20,218,900), EUR2,764,650 (approximately HK\$28,475,895) and EUR3,993,683 (approximately HK\$41,134,935) respectively to cater for the expected demand and business growth of the Group.

Having considered the basis on which the Cap was determined as described above, we are of the view that the Cap is consistent with the Group's growth trend and provides flexibility for the Group to capture the demand of drug for curing cardiovascular disease in the Territory and therefore fair and reasonable as far as the Group and the Shareholders are concerned.

### RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the Continuing Connected Transactions are in the interests of the Group and the Shareholders as a whole and the terms of the Distribution Agreements and the Cap are fair and reasonable so far as the Group and the Shareholders are concerned. We therefore advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Hantec Capital Limited**  
**Thomas Lai**  
*Director*

## 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: (i) the information contained in this circular 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 circular misleading; and (iii) 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 at 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				Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest	Total	
Lee Siu Fong	(1)	2,334,375	163,290,625	–	165,625,000	47.84%
Leelalertsuphakun Wanee	(2)	1,140,000	163,290,625	–	164,430,625	47.49%
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) 1,140,000 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 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 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, 11 July 2005 and 2 June 2006 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%
	02.06.2006***	HK\$0.175	02.12.2006 – 01.06.2016	500,000	0.14%

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 Yau 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, Karl	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).

\*\*\* 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 2 December 2006 to 1 June 2016 (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 2 September 2007 to 1 June 2016.

A total of 10,650,000 share options had been granted to certain employees and a consultant 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 Shares 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 Shares 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 the Group.

*Long positions in Shares*

<b>Name</b>	<i>Notes</i>	<b>Number of Shares beneficially held</b>	<b>Nature of interest</b>	<b>Percentage of shareholding</b>
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	Notes	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 the Group.

**(c) Other interests**

Hantec Capital did not have any shareholdings of any members of the 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 Group as at the Latest Practicable Date.

**3. LITIGATION**

As at the Latest Practicable Date, no member of the 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 Group.

**4. CONSENT**

Hantec Capital has given and has not withdraw 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 service contract both dated 14 January 2002 with the Company under which each of them 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. Salaries and allowances are determined by the Board and their current salaries and allowances are both HK\$70,000.00 per month. Bonus will be paid at the absolute discretion of the Board.

Dr. Li Xiaoyi entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and the contract has been renewed for an additional period of one year from 1 September 2006. Salary and allowances is HK\$110,000 per month. Bonus will be paid at the absolute discretion of the Board. Both parties shall be entitled to terminated 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.

Each of Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive director for an initial term of three years. Director's fee is HK\$50,000 per annum and bonus will not be paid for each of the directors.

Dr. Chan Yau Ching, Bob has a two-year service contract with the Company from 12 October 2005. Director's fee is HK\$50,000 per annum and bonus will not be paid.

Dr. Mauro Bove has a three-year service contract with the Company commenced on 3 January 2006. Director's fee is HK\$50,000 per annum and bonus will not be paid.

Apart from the foregoing, none of the Directors has any existing or proposed service contracts with any member of the Group which is expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

**7. INTERESTS IN CONTRACT AND ASSETS**

There is no contract or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested and which is significant in relation to the business of the 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 Group since 31 December 2005, the date to which the latest published audited financial statements of the Group was made up.

## **8. 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 Group, or have or may have any other conflicts of interest with the Group pursuant to GEM Listing Rules.

## **9. MATERIAL ADVERSE CHANGE**

The Director are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited financial statements of the Group were made up.

## **10. 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.

## **11. GENERAL**

- (a) As at the Latest Practicable Date, the authorized share capital of the Company is HK\$50,000,000 divided into 1,000,000,000 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.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's office, Unit 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong during normal business hours as from the date of this circular up to and including the date of the EGM.

- (i) letter from the Independent Board Committee dated 4 January 2007;
- (ii) letter from the Hantec Capital dated 4 January 2007;
- (iii) the Distribution Agreements;
- (iv) the service contract of each of the Directors referred to in the paragraph headed "Service Contracts" in this Appendix; and
- (v) the written consent referred to in the paragraph headed "Consent" in this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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李 氏 大 藥 廠

**LEE'S PHARMACEUTICAL HOLDINGS LIMITED**

**李 氏 大 藥 廠 控 股 有 限 公 司\***

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

(Stock Code : 8221)

**NOTICE IS HEREBY GIVEN** that an extraordinary meeting of Lee's Pharmaceutical Holdings Limited ( the " Company") will be held at Unit 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Friday, 26 January 2007 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution (with or without modifications ) as an ordinary resolution of the Company:

### **ORDINARY RESOLUTION**

**"THAT**

- (1) the carrying on of the continuing connection transactions between the Company and Sigma-Tau Industrie Farmaceutiche Riunite SpA ("Sigma-Tau Industrie") in accordance with the terms of two distribution agreements both dated 13 December 2006 (the "Distribution Agreements") (the "Continuing Connected Transactions") be and are hereby approved and confirmed;
- (2) the terms and conditions of the Distribution Agreements entered into between the Company and Sigma-Tau Industrie (copies of which have been produced to this meeting and marked "A" & "B" and signed by the Chairperson in this meeting for the purpose of identification), be and are hereby approved, confirmed and ratified; and
- (3) the maximum aggregate annual value arising from the Continuing Connected Transactions under the Distribution Agreements for each of the three years ending 31 December 2007, 2008 and 2009, which is estimated to be EUR1,963,000.00 (approximately HK\$ 20,218,900.00), EUR2,764,650.00 (approximately HK\$28,475,895.00) and EUR3,993,683.00 (approximately HK\$ 41,134,934.90), respectively (the "Cap"), be and are hereby approved and confirmed; and

\* For identification purpose only



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (4) 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 Agreements.”

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

Hong Kong, 4 January 2007

*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:*

Unit 110-111, Bio-Informatics Centre  
No. 2 Science Park West Avenue  
Hong Kong Science Park  
Shatin, New Territories, Hong Kong

*Notes:*

1. Any 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 shares 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).

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