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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 advisor to the Independent Board Committee
and the Independent Shareholders**



信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

The Company has been carrying on certain continuing connected transactions with the Sigma-Tau Group on an ongoing basis whereby the Sigma-Tau Group supplied pharmaceutical products to the Company for distribution in the Territory. On 24 November 2009, the Company entered into the Distribution Agreement with Sigma-Tau Industrie, 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 commencing on 1 January 2010 and ending on 31 December 2012. The particulars of the Distribution Agreement are set out in this announcement.

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante Farmaceutica S.A., a substantial shareholder of the Company which holds 132,350,000 ordinary shares in the Company, representing approximately 29.46% of its entire issued shares as at the date hereof. Sigma-Tau Industrie is an associate of Defiante Farmaceutica S.A. and therefore a connected person of the Company within the meaning of the GEM Listing Rules. The supply of the Products by Sigma-Tau Industrie to the Company pursuant to the Distribution Agreement on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules. The Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Rule 20.35 of the GEM Listing Rules.

The Company will seek the approval of the Independent Shareholders of the Continuing Connected Transactions (including the Cap). Members of the Sigma-Tau Group and their respective associates will abstain from voting on these matters at the EGM. A circular containing, among other things, (i) further details of the Continuing Connected Transactions (including the Cap); (ii) a letter from the independent board committee to the Independent Shareholders; (iii) a letter of advice from Cinda International to the independent board committee and the Independent Shareholders containing their recommendation and advice on the Continuing Connected Transactions (including the Cap); and (iv) a notice of an EGM for the purpose of considering and if thought fit approving the Continuing Connected Transactions will be dispatched to the Shareholders as soon as practicable.

Shareholders and potential investors should note that the Distribution Agreement is subject to conditions precedent. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

BACKGROUND

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante Farmaceutica S.A., a substantial shareholder of the Company which holds 132,350,000 ordinary shares in the Company, representing approximately 29.46% of its entire issued shares as at the date hereof. Sigma-Tau Industrie is an associate of Defiante Farmaceutica S.A. 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 13 December 2006, the Company entered into the Old Distribution Agreements with Sigma-Tau Industrie whereby the Existing Products were supplied by Sigma-Tau Industrie to the Company for a term expiring on 31 December 2009.

As the Directors intend that the Company's existing business relationship with Sigma-Tau shall continue beyond expiration of the Old Distribution Agreements, on 24 November 2009, the Company entered into the Distribution Agreement 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 supply of the Products by Sigma-Tau Industrie to the Company pursuant to the Distribution Agreement on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules.

PRINCIPAL TERMS OF THE DISTRIBUTION AGREEMENT

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

Date

24 November 2009

Parties

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

Principal terms

Duration

The Distribution Agreement shall be effective for three years commencing on 1 January 2010 and ending on 31 December 2012 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.

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 2010 to 31 December 2010, the equivalent of an aggregate of EUR1,188,500 (approximately HK\$13,667,750), of which EUR1,155,000 (approximately HK\$13,282,500) is attributable to the Existing Products and EUR33,500 (approximately HK\$385,250) is attributable to the New Products;
- (b) during the second year from 1 January 2011 to 31 December 2011, the equivalent of an aggregate of EUR1,427,820 (approximately HK\$16,419,930), of which EUR1,155,000 (approximately HK\$13,282,500) is attributable to the Existing Products and EUR272,820 (approximately HK\$3,137,430) is attributable to the New Products; and
- (c) during the third year from 1 January 2012 to 31 December 2012, the equivalent of an aggregate of EUR1,764,300 (approximately HK\$20,289,450), of which EUR1,155,000 (approximately HK\$13,282,500) is attributable to the Existing Products and EUR609,300 (approximately HK\$7,006,950) is attributable to the New Products.

The minimum purchase amounts for each of the three years ended 31 December 2012 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 2007 to 2009, 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 Agreements of EUR924,000 (approximately HK\$10,626,000) and EUR1,001,000 (approximately HK\$11,511,500), respectively, for the two years ending 31 December 2009, the increase in the minimum purchase amounts for the three years ending 31 December 2012 is mainly due to an expected growth in sales of the Existing Products in the Territory and introduction of the additional New Products.

Pursuant to the Distribution Agreement, payments by the Company for the Products shall be made in EUR within 90 days from the date of the relevant invoices and 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 three consecutive years during the term of the Distribution Agreement, 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

In addition to the above, Sigma-Tau Industrie will offer free Products to the Company as promotional allowance equal to 3% to 20% 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 Agreement.

For some of the Products, Sigma-Tau Industrie will reduce 5% of the prices if the Company order and purchase from Sigma-Tau quantities of which higher than the minimum purchase quantities.

HISTORICAL TRANSACTION VALUES AND THE CAP

The aggregate value of purchases made by the Company from Sigma-tau Industrie for the past three financial years and ten months ended 31 October 2009 are set out below:

	2006	2007	2008	Ten months ended 31 October 2009
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
Purchase of Existing Products from Sigma-Tau Industrie	8,879,719	18,897,483	13,421,215	26,583,098
Purchase of New Products from Sigma-Tau Industrie	—	—	489,014	194,672
	<u>8,879,719</u>	<u>18,897,483</u>	<u>13,910,229</u>	<u>26,777,770</u>
Total	<u>8,879,719</u>	<u>18,897,483</u>	<u>13,910,229</u>	<u>26,777,770</u>
Approved Annual Cap	<u>16,376,100</u>	<u>20,218,900</u>	<u>28,475,895</u>	<u>41,134,935</u>

The annual cap for each of the years had not been exceeded.

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 certain 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 2012 is expected to exceed 2.5%, 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.

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 following table sets out the Cap for the Continuing Connected Transactions contemplated under the Distribution Agreement for the three years ending 31 December 2012:

	2010 <i>(EUR)</i>	2011 <i>(EUR)</i>	2012 <i>(EUR)</i>
Cap	2,533,160 (approximately HK\$29,131,340)	6,037,827 (approximately HK\$69,435,011)	9,875,641 (approximately HK\$113,569,872)

The Cap is determined based on the following factors:

- (a) historical amounts of purchases of the Existing Products by the Company from Sigma-Tau Industrie;
- (b) market expectation in the coming years;
- (c) forecast growth rates based on the historical growth rate in past years and the expected continuous economic growth in the Territory;
- (d) the plan of the Company to expand marketing manpower and cooperation with new distributors to increase geographical coverage of sales of the Products; and
- (e) approximate time required to obtain import drug permits and government approvals for the launch of the New Products. The Directors expect that the relevant import drug permit and government approvals for each of the New Products, namely Nicetile[®] and Natulan[®] in the Territory will be obtained in or around July 2011 and after 2012, 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 2011 to 31 December 2012, as reflected in the Cap.

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 business 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.

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

REASONS FOR THE TRANSACTION

The Directors considered the entering into of the Continuing Connected Transactions contemplated under the Distribution Agreement and the purchase of the Products from Sigma-Tau Industrie as necessary after due consideration of the following reasons:

- (1) sales and gross profits of the products supplied by Sigma-Tau Industrie during the year 2008 represented over 30% to total sales amount and gross profits of the Group;
- (2) 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, the renewal of agreement for Existing Products is important for the continuous growth of the Group; and
- (3) the Directors foresee the future growth potential of the demand for the New Products in the Territory and the sales of New Products supplied by Sigma-Tau Industrie will broaden the product portfolio and revenue base of the Group and the New Products may become new profit driver of the Group in the future.

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.

GENERAL

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 supply of the Products by Sigma-Tau Industrie to the Company pursuant to the Distribution Agreement on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules. As certain 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 2012 is expected to exceed 2.5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and will be subject to the approval of Independent Shareholders at an EGM pursuant to Rule 20.35(4) of the GEM Listing Rules.

A circular containing, among other things, (i) further details of the Continuing Connected Transactions (including the Cap); (ii) a letter from the independent board committee to the Independent Shareholders; (iii) a letter of advice from Cinda International to the independent board committee and the Independent Shareholders containing their recommendation and advice on the Continuing Connected Transactions (including the Cap); and (iv) a notice of an EGM for the purpose of considering and if thought fit approving the Continuing Connected Transactions will be dispatched to the Shareholders as soon as practicable.

Definitions

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

“Cap”	the maximum aggregate annual value of the Continuing Connected Transactions to be carried on by the Company pursuant to the Distribution Agreement
“Cinda International”	Cinda International Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the independent board committee and the Independent Shareholders in relation to the Continuing Connected Transactions
“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”	has the meaning ascribed to it under 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 Agreement
“Directors”	the director(s) of the Company
“Distribution Agreement”	the distribution agreement dated 24 November 2009 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 and 2 grams, 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
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong from time to time
“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

“Macau”

Macau Special Administrative Region of the PRC

“New Products”

include:

- (a) Carnitene[®] (L-Carnitine) 30% oral sol. of 20 ml 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;
- (b) Carnitor[®] (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;
- (c) Carnitor[®] (L-Carnitine) 90 tablets of 330 mg 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;
- (d) Natulan[®] (Procarbazine HCl) 50 tablets of 50 mg which is used for treatment of Hodgkin’s lymphoma and other malignant lymphomas;
- (e) Nicetile[®] (Acetyl L-Carnitine) 30 tablets 500 mg which is used for chemotherapy induced peripheral neuropathy; and
- (f) Nicetile[®] (Acetyl L-Carnitine) injectable of 500 mg which is used for chemotherapy induced peripheral neuropathy

“Old Distribution Agreements”

the distribution agreement dated 13 December 2006 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, as amended by two amendment agreements dated 14 February 2008 and 7 May 2008, respectively

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Products”	the Existing Products and the New Products
“SFO”	means the Security Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“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
“Shares”	ordinary share(s) in the share capital of the Company with a nominal value of HK\$0.05 each
“Shareholders”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	the PRC, Hong Kong and/or Macau
“Trademark”	include the trademarks: <ul style="list-style-type: none"> (a) Carnitene[®] and its Chinese version 可益能[®] as registered in the PRC; and (b) Carnitor[®] as registered in Hong Kong, 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

For reference only, an exchange rate of HK\$11.50 to EUR1.00 has been used for the conversion of EUR to HK\$ for the purpose of this announcement.

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

Hong Kong, 24 November 2009

* *For identification purpose only*

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

This announcement, 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 announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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