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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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional independent adviser.

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



李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8221)

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE AND CONNECTED TRANSACTIONS

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



信 達 國 際 融 資 有 限 公 司
CINDA INTERNATIONAL CAPITAL LIMITED

The notice convening the EGM of the Company to be held at Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Thursday, 31 December 2009 at 11:00 a.m. is set out on pages 63 and 65 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy and return the same to the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th 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 the meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) if you so wish.

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

* For identification purpose only

CHARACTERISTICS OF THE GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

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DEFINITIONS

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

“Acquisition”	the acquisition of the Purchased Assets from the Vendor pursuant to the Asset Purchase Agreement
“Asset Purchase Agreement”	an agreement dated 3 December 2009 entered into between PPI, Lee’s Pharma and the Vendor relating to the acquisition of the Purchased Assets
“associates”	having the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Cap”	the maximum aggregate annual value of the Continuing Connected Transactions to be carried on by the Company pursuant to the Distribution Agreement
“Capital Equipment”	any equipment related to manufacturing and testing of the Product
“CCT Products”	the Existing Products and the New Products
“China Opportunity”	China Opportunity S.A. Sicar, a company with limited liability and incorporated under the laws of Luxembourg
“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 activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to (a) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect)
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its issued Shares listed on GEM
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Completion”	Completion of the Subscription of the Subscription Shares and Milestone Shares in accordance with the terms and conditions of the Subscription Agreement

DEFINITIONS

“Component Materials”	all raw materials and components, work-in-progress, inventory and related materials, including, without limitation, items which the Vendor has possession of for the production of the Product, other than commercially available materials used in the normal production process
“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
“Defiante”	Defiante Farmacêutica S.A., a company with limited liability and incorporated under the laws of Portugal, a substantial Shareholder
“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
“Dr. Li”	Dr. Li Xiaoyi, an executive Director and member of future management of PPI
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and approve, if thought fit, among other thing, (a) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect)
“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
“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

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong from time to time
“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 Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, are third parties independent of and not connected with any director, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates
“Independent Shareholders”	the Shareholders, (a) 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, together with their respective associates (for the case of approving the resolutions for the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions); or (b) who are not involved in or interested in the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect) and are not required under the GEM Listing Rules to abstain from voting at the EGM, being all Shareholders except Defiante, together with its respective associates, and Dr. Li, together with his associates (for the case of approving the resolutions for the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect))
“Latest Practicable Date”	8 December 2009, being the latest practicable date prior to the printing of the circular for ascertaining certain information in this circular
“Lee’s International”	Lee’s Pharmaceutical International Limited, a company with limited liability and incorporated under the laws of British Virgin Islands, a wholly owned subsidiary of the Company
“Lee’s Pharma”	Lee’s Pharmaceutical (HK) Limited, a limited company incorporated in Hong Kong, a wholly owned subsidiary of the Company
“Macau”	Macau Special Administrative Region of the PRC
“Mr. Regan Jr.”	Mr. John X. Regan Jr., an Independent Third Party and member of future management of PPI

DEFINITIONS

“Mr. Tsui”	Mr. Victor Tsui, an Independent Third Party and member of future management of PPI
“Mr. Wu”	Mr. Vincent Wu, an Independent Third Party and member of future management of PPI
“New Products”	<p>include:</p> <ul style="list-style-type: none">(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

DEFINITIONS

“PPI”	Powder Pharmaceuticals Incorporated, a company with limited liability and incorporated under the laws of British Virgin Islands on 6 August 2009 and registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 11 September 2009
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Products”	Zingo (lidocaine hydrochloride monohydrate) powder intradermal injection system
“SFO”	the Security Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“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
“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
“Stage 1 Milestone Date”	2.5 years from the date of the Subscription Agreement
“Stage 2 Milestone Date”	3 years from the date of the Subscription Agreement or 6 months of the Stage 1 Milestone Date (whichever is earlier)
“Stage 3 Milestone Date”	3.5 years from the date of the Subscription Agreement or 6 months of the Stage 2 Milestone Date (whichever is earlier)
“Subscribers”	Lee’s International, Defiante, China Opportunity, Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr.
“Subscription”	Subscription of the Subscription Shares by the Subscribers as contemplated under the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 2 December 2009 among the Subscribers, PPI and the Company for the issuance and allotment of shares in PPI pursuant to the terms and conditions thereof

DEFINITIONS

“Vendor”	Anesiva Inc., to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor is an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	the PRC, Hong Kong and/or Macau
“Trademark”	include the trademarks: (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 CCT Products in the Territory
“Zingo”	Lidocaine Hydrochloride Monohydrate, a novel pharmaceutical product for pain management which is a combination drug device indicated for use on intact skin to provide local analgesia prior to veni-puncture and intravenous cannulation
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong from time to time
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	Per cent

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

HK\$11.5 = 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.

LETTER FROM THE BOARD



李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8221)

Executive Directors:

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Non-executive Director:

Mr. 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, Uglan House

South Church Street, George Town

Grand Cayman, Cayman Islands

Principal place of business

in Hong Kong:

Units 110-111, Bio-Informatics Centre

No. 2 Science Park West Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

14 December 2009

To Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE AND CONNECTED TRANSACTIONS

A. INTRODUCTION

In the announcement dated 24 November 2009, the Directors announced that the Company had entered into the Distribution Agreements with Sigma-Tau Industrie on 24 November 2009 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 CCT Products in the Territory for three years commencing on 1 January 2010 and ending on 31 December 2012.

In the announcement dated 4 December 2009, the Directors announce that PPI, Lee's International, China Opportunity, Defiante, Dr. Li, Mr. Tsui, Mr. Wu, Mr. Regan Jr. and the Company had entered into the Subscription Agreement on 2 December 2009, pursuant to which (a) PPI agreed to allot and issue, and Lee's International, China Opportunity, Defiante, Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr., agreed to subscribe for an aggregate of 40,499 shares in PPI; and (b) PPI agreed to further issue and allot, and Lee's International agreed to further subscribe for and hold as nominee the Milestone Shares, subject to the terms and conditions of the Subscription Agreement.

* For identification purpose only

LETTER FROM THE BOARD

In addition, after the Subscription Agreement was entered into, PPI and Lee's Pharma entered into the Asset Purchase Agreement with the Vendor on 3 December 2009 for the purchase of certain assets and interests that comprise Zingo and the platform together with the accompanying powder intra-dermal injection system at the consideration of US\$2,715,000.

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante, a substantial shareholder of the Company which holds 132,350,000 ordinary shares in the Company, representing approximately 29.43% of its entire issued shares as at the Latest Practicable Date. Sigma-Tau Industrie is an associate of Defiante and therefore a connected person of the Company within the meaning of the GEM Listing Rules. In addition, as Defiante is a substantial Shareholder and Dr. Li is an executive Director, each of Defiante and Dr. Li is a connected person of the Company within the meaning of the GEM Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, has been established to advise the Independent Shareholders in respect of (a) the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect).

Cinda International, the independent financial adviser, has been appointed to advise the Independent Board Committee and Independent Shareholders as to (a) whether or not the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned; and (b) whether or not the terms of the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned.

The purpose of this circular is:

- (a) to provide the Shareholders with details of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions;
- (b) to set out the opinion of Cinda International, the independent financial adviser in respect of the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions addressed to the Independent Board Committee and the Independent Shareholders, and to recommend the Independent Shareholders to vote for or against the resolution approving the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions by poll at the EGM;
- (c) to set out the recommendation of the Independent Board Committee in respect of the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions and to recommend the Independent Shareholders to vote for or against the resolutions approving the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions by poll at the EGM;

LETTER FROM THE BOARD

- (d) to provide the Shareholders with details of the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect);
- (e) to set out the opinion of Cinda International, the independent financial adviser in respect of the terms of the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) addressed to the Independent Board Committee and the Independent Shareholders, and to recommend the Independent Shareholders to vote for or against the resolutions approving the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) by poll at the EGM;
- (f) to set out the recommendation of the Independent Board Committee in respect of the terms of the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect), and to recommend the Independent Shareholders to vote for or against the resolutions approving the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) by poll at the EGM;
- (g) to give the Shareholders the notice of the EGM to be convened for the Independent Shareholders to consider and, if thought fit, to approve (i) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions (at which Defiante, being the substantial Shareholder, together with its associates are required to abstain from voting); and (ii) the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) (at which Defiante, being the substantial Shareholder, together with its associates, and Dr. Li, being the Director, together with his associates are required to abstain from voting); and
- (h) other disclosure requirements under the GEM Listing Rules.

B. CONTINUING CONNECTED TRANSACTIONS – THE DISTRIBUTION AGREEMENTS

BACKGROUND

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante, a substantial Shareholder which then holds 132,350,000 ordinary Shares, representing approximately 29.43% of its entire issued shares as at the Latest Practicable Date. Sigma-Tau Industrie is an associate of Defiante and is 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.

LETTER FROM THE BOARD

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 were 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 CCT 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 circular, the principal terms of the Distribution Agreement are identical to the terms of the Old Distribution Agreements.

Date

24 November 2009

Parties

- (a) Sigma-Tau Industrie
- (b) 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 CCT 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 CCT 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 CCT Products into the Territory.

LETTER FROM THE BOARD

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 CCT 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 CCT Products in the Territory.

Minimum Purchase Amounts

The Company undertakes to purchase from Sigma-Tau Industrie the following minimum amount of the CCT 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 CCT 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 CCT 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 CCT Products in the Territory, thereby increasing its competitive advantage and hence its profitability.

LETTER FROM THE BOARD

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 Industries is entitled to terminate the relevant Distribution Agreement at any time at its sole discretion.

Free CCT Products and Promotional Allowance Granted by Sigma-Tau Industrie

In addition to the above, Sigma-Tau Industrie will offer free CCT Products to the Company as promotional allowance equal to 3% to 20% of the CCT Products ordered and paid for by the Company to Sigma-Tau Industrie, depending on the quantity of the CCT Products purchased by the Company during the term of the Distribution Agreement.

For some of the CCT Products, Sigma-Tau Industrie will reduce 5% of the prices if the Company orders and purchases 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
Total	8,879,719	18,897,483	13,910,229	26,777,770
Approved Annual Cap	16,376,100	20,218,900	28,475,895	41,134,935

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% and the annual consideration is more than HK\$10,000,000, 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.

LETTER FROM THE BOARD

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 (EUR)	2011 (EUR)	2012 (EUR)
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 CCT 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 CCT 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.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATIONS FOR THE CONTINUING CONNECTED TRANSACTIONS

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, the compliance of such requirements shall be regarded as a mechanism to protect the interest of the Independent Shareholders. Having regard to the reasons as set out in the Section headed “Reasons for the Continuing Connected Transaction” below, 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 CCT 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 Agreement and the Cap in relation to the Continuing Connected Transactions for the three years ending 31 December 2012 on the following conditions:

- (a) the sales volume of the CCT Products to the Company by Sigma-Tau Industrie for each of the three financial years ending 31 December 2012 will not exceed EUR2,533,160 (approximately HK\$29,131,340), EUR6,037,827 (approximately HK\$69,435,011) and EUR9,875,641 (approximately HK\$113,569,872), respectively;
- (b) the Continuing Connected Transactions will in each year 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 Agreement 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 Distribution Agreement is renewed or there is a material change to the terms of the Distribution Agreement;

LETTER FROM THE BOARD

- (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;
 - (iii) have been entered into in accordance with the Distribution Agreement; and
 - (iv) have not exceeded the Cap mentioned in (a) above;
- (f) 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 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% and the annual consideration is more than HK\$10,000,000, 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. The Independent Board Committee has been 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 and Independent Shareholders on the fairness and reasonableness of the terms of the Distribution Agreement and the Cap.

Defiante, being the substantial Shareholder, together with its associates are required to abstain from voting with respect to each of the resolutions regarding the Continuing Connected Transactions at the EGM.

LETTER FROM THE BOARD

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

According to the audited account of the Group for the year ended 31 December 2008, sale 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. As a result, in conducting the Continuing Connected Transactions, there is a disadvantage that there is over-reliance to Sigma-Tau Industrie by the Group. The sale performance and the profit of the Group may be reduced if Sigma-Tau Industrie is failed to supply the products to the Group under the Distribution Agreement. However, the Directors considered the entering into of the Continuing Connected Transactions contemplated under the Distribution Agreement and the purchase of the CCT Products from Sigma-Tau Industrie is necessary after due consideration of the following reasons:

- (a) 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;
- (b) the termination of the transactions contemplated under the Old Distribution Agreements 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, and thus, the renewal of agreement for Existing Products is important for the continuous growth of the Group; and
- (c) 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 (including the independent non-executive Directors) consider that the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

C. DISCLOSEABLE AND CONNECTED TRANSACTIONS – THE SUBSCRIPTION AGREEMENT AND THE ASSET PURCHASE AGREEMENT

PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

Date

2 December 2009

Parties

- (a) PPI as issuer, which, as at the Latest Practicable Date, is currently an indirect wholly owned subsidiary of the Company;
- (b) Lee's International, a wholly owned subsidiary of the Company which holds one share in PPI, representing the current entire issued share capital of PPI;

LETTER FROM THE BOARD

- (c) China Opportunity;
- (d) Defiante, a substantial Shareholder;
- (e) Dr. Li, an executive Director;
- (f) Mr. Tsui;
- (g) Mr. Wu;
- (h) Mr. Regan Jr.; and
- (i) the Company, as warrantor of certain representations, warranties and undertakings given by PPI and Lee's International.

Parties (b) to (h) are collectively referred to as "**Subscribers**".

To the best of knowledge, information and belief of the Directors having made all reasonable enquiries, each of parties (c), (f), (g) and (h) and their respectively ultimate beneficial owners (where applicable), are Independent Third Parties.

The Subscription

- (a) Subscription Shares

Pursuant to the Subscription Agreement, PPI shall allot and issue an aggregate of 40,499 shares in PPI (the "**Subscription Shares**") to the respective Subscribers in the following manner:

- (i) 21,570 Subscription Shares to be allotted and issued to China Opportunity, representing approximately 43.14% of the entire issued shares in PPI after Completion*, at the cash subscription price of US\$3,500,000;
- (ii) 6,160 Subscription Shares to be allotted and issued to Defiante, representing approximately 12.32% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$1,000,000;
- (iii) 10,269 Subscription Shares to be allotted and issued to Lee's International, which shares (together with the 1 share in PPI already held by it), represent 20.54% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500,000;
- (iv) 1,000 Subscription Shares to be allotted and issued to Dr. Li, representing approximately 2% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$1,000;

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- (v) 500 Subscription Shares to be allotted and issued to Mr. Tsui, representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500;
- (vi) 500 Subscription Shares to be allotted and issued to Mr. Wu, representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500; and
- (vii) 500 Subscription Shares to be allotted and issued to Mr. Regan Jr., representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500.

Note:

* *The total number of issued shares in PPI after Completion (i.e. after the allotment of the Subscription Shares and the Milestone Shares (as described below)) shall be 50,000 in total.*

(b) **Milestone Shares**

Pursuant to the Subscription Agreement, PPI shall further issue and allot, and Lee's International shall further subscribe for and hold as nominee 9,500 shares in PPI (the "**Milestone Shares**") in the issued share capital of PPI for the consideration of US\$9,500.

Upon issuance and allotment of the Milestone Shares, Lee's International shall hold them as nominee for the benefits of the Subscribers collectively and in proportion to their respective shareholding of the Subscription Shares pending the fulfillment of certain conditions relating to the milestone development of the Products of PPI in each of the Stage 1 Milestone Date, Stage 2 Milestone Date and Stage 3 Milestone Date, and thereafter, transfer the legal and beneficial interests in all of the Milestone Shares in pursuant to the manner set out in the Subscription Agreement.

The conditions relating to the milestone development of the Products of PPI as set out in the Subscription Agreement are:

- (i) completion of the first qualification lot by the Stage 1 Milestone Date (the "**Stage 1 Milestone**");
- (ii) passing of the Food and Drug Administration inspection of the Chinese manufacturing facility for the Product by the Stage 2 Milestone Date (the "**Stage 2 Milestone**"); and
- (iii) the sale of the Products to the United States by the Stage 3 Milestone Date (the "**Stage 3 Milestone**", together with Stage 1 Milestone and Stage 2 Milestone, are collectively known as the "Milestones").

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Assuming if the relevant Milestones are fulfilled, the following number of Milestone Shares shall be transferred to Lee's International and to certain members of the future management of PPI, namely, Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr. in pursuant to the manner set out in the Subscription Agreement:

Name of shareholders of PPI	Number of shares to be transferred if Stage 1 Milestone is fulfilled	Number of shares to be transferred if Stage 2 Milestone is fulfilled	Number of shares to be transferred if Stage 3 Milestone is fulfilled	Total
Lee's International	1,000	1,500	1,500	4,000
Dr. Li	750	500	500	1,750
Mr. Tsui	250	500	500	1,250
Mr. Wu	250	500	500	1,250
Mr. Regan Jr.	250	500	500	1,250

If the Stage 1 Milestone has not been met by the Stage 1 Milestone Date, and/or the Stage 2 Milestone has not been met by the Stage 2 Milestone Date, and/or the Stage 3 Milestone has not been met by the Stage 3 Milestone Date, then in each of such case the Milestone Shares shall be legally and beneficially vested in China Opportunity, Defiante and Lee's International in pro rata to their respective shareholding in PPI at the transfer price of US\$1 per share.

After Completion and assuming that the relevant Milestones are respectively fulfilled in each of the Stage 1 Milestone Date, Stage 2 Milestone Date and Stage 3 Milestone Date, the shareholding of PPI in each of such stage are set out as follows:

Name of shareholders of PPI	As at Stage 1 Milestone Date		As at Stage 2 Milestone Date		As at Stage 3 Milestone Date	
	(number of shares in PPI)	(% of the total issued share of 50,000)	(number of shares in PPI)	(% of the total issued share of 50,000)	(number of shares in PPI)	(% of the total issued share of 50,000)
China Opportunity	21,570	43.14	21,570	43.14	21,570	43.14
Defiante	6,160	12.32	6,160	12.32	6,160	12.32
Lee's International	11,270	22.54	12,770	25.54	14,270	28.54
Dr. Li	1,750	3.5	2,250	4.5	2,750	5.5
Mr. Tsui	750	1.5	1,250	2.5	1,750	3.5
Mr. Wu	750	1.5	1,250	2.5	1,750	3.5
Mr. Regan Jr.	750	1.5	1,250	2.5	1,750	3.5

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After Completion and assuming that the relevant Milestones are not fulfilled in each of the Stage 1 Milestone Date, Stage 2 Milestone Date and Stage 3 Milestone Date, the shareholding of PPI in each of such stage are set out as follows:

Name of shareholders of PPI	As at Stage 1 Milestone Date		As at Stage 2 Milestone Date		As at Stage 3 Milestone Date	
	(number of shares in PPI)	(% of the total issued share of 50,000)	(number of shares in PPI)	(% of the total issued share of 50,000)	(number of shares in PPI)	(% of the total issued share of 50,000)
China Opportunity	22,989	45.978	24,976	49.952	26,963	53.926
Defiante	6,565	13.13	7,132	14.264	7,699	15.398
Lee's International	10,946	21.892	11,892	23.784	12,838	25.676
Dr. Li	1,000	2	1,000	2	1,000	2
Mr. Tsui	500	1	500	1	500	1
Mr. Wu	500	1	500	1	500	1
Mr. Regan Jr.	500	1	500	1	500	1

Basis of Subscription Price

Each of the subscription prices was determined after arm's length negotiation between PPI and the Subscribers, with reference to, among other things, the business strength of the Subscribers and prospective contributions that each Subscriber will bring to the business of PPI. In view of the knowledge and experience of Lee's International's knowledge and experience in manufacturing of drug and in view of the fact that Lee's International shall be responsible for the management of PPI, the subscription price to be paid by Lee's International is less than the subscription price to be paid by China Opportunity and Defiante. To provide incentive to the management of PPI (i.e. Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr.), the parties to the Subscription Agreement agree that the subscription price to be paid by the management of PPI would be nominal value of the shares of PPI.

Conditions to the Subscription

Major conditions to the Subscription are as follows:

- (a) the passing of the necessary resolutions of the board of directors of PPI approving the Subscription Agreement and the transactions contemplated thereunder;
- (b) compliance by PPI and the Company with all applicable securities laws relating to the transactions contemplated in the Subscription Agreement;
- (c) the obtaining by the parties to the Subscription Agreement of all other necessary consents, authorization or other approvals in connection with the Subscription and the entering into and performance of all transactions and agreements contemplated thereunder;

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- (d) the absence of any law, regulation or other government action on the part of any relevant government authority which would prohibit PPI from conducting its business, or from completing the proposed issue and allotment of the Subscription Shares to the Subscribers, respectively, and the issue and allotment of the Milestone Shares to Lee's International;
- (e) the warranties under the Subscription Agreement remaining true and accurate; and
- (f) PPI duly entering into a legally binding Asset Purchase Agreement, which was entered into on 3 December 2009.

Completion

Completion shall take place on the date within 60 calendar days after the date of the Subscription Agreement (or such later date as agreed between PPI and the Subscribers in writing).

After the Completion, the Company will have an indirect interest in approximately 28.54% of the entire issued share of PPI (assuming that all the Milestones are fulfilled) or an indirect interest in approximately 25.676% of the entire issued share capital of PPI (assuming that all the Milestones are not fulfilled). In both of the above cases, PPI will cease to be a subsidiary of the Company.

EFFECT OF COMPLETION

Shareholders' Agreement

Upon Completion, PPI, Lee's International, China Opportunity, Defiante, Dr. Li, Mr. Tsui, Mr. Wu, Mr. Regan Jr. and the Company shall enter into a shareholders' agreement (the "**Shareholders' Agreement**") to regulate their conduct of business in PPI. The form of the Shareholders' Agreement to be entered into contained, inter alia, that during each of the Relevant Periods (as defined below), the shareholders of PPI (except Lee's International) shall subject to the terms and conditions stated in the Shareholders' Agreement, be entitled to elect (a) to sell all (and not part) of its shares of PPI to Lee's International at the sale value of 1.5 times of the revenue according to the latest financial statements of PPI (the "**Buy-back by Lee's International**"); or (b) to convert (the "**Conversion**") all of its shares of PPI to shares of the Company at the valuation of HK\$1.80 per share with the formulas of (i) Cost of Investment (in US\$) x 7.8/HK\$1.8 (in the case of Conversion of the Subscription Shares to the shares of the Company); or (ii) percentage of the Milestone Shares over the total issued share of PPI x Subscription Monies (in US\$) x 7.8/HK\$1.8 (in the case of Conversion of the Milestone Shares to the shares of the Company), and in the event that the Company prior to the Conversion issues any shares (save as to any share option scheme which has been adopted by the Company as at the date of the Shareholders' Agreement) which would result in an increase of more than 20% of the total issued share capital of the Company as at the date of the Shareholders' Agreement, subject to downward adjustments in the same proportion that the total issued share capital as at the date of the Shareholders' Agreement bears to the then total issued share capital of the Company (the "**Right to Elect**").

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For the above formulas, “**Cost of Investment**” shall refer to the par (and if applicable premium) paid by any Subscriber for all shares of PPI pursuant to the Subscription Agreement, while “**Subscription Monies**” shall refer to the aggregate par (and if applicable premium) paid or payable to PPI in respect of all of the issued shares of PPI.

The “Relevant Periods” shall refer to each of the following periods:

- (a) from the day after the 3rd anniversary and ending on the day immediately before the 5th anniversary of the date of the Shareholders’ Agreement;
- (b) from the date upon which Lee’s International commits an event of default as set out in the Shareholders’ Agreement and ending on the date falling 60 business days after Defiante and China Opportunity both have actual knowledge of such default;
- (c) from the date upon which Lee’s International agrees to sell any shares of PPI which it holds at the date of the Shareholders’ Agreement, or acquires thereafter, and ending on the date falling 60 business days after Defiante and China Opportunity both have actual knowledge of such agreement to sell; and
- (d) from the date upon which the Company indicates its intention to de-list and take private the shares of the Company from GEM and/or the Stock Exchange until 60 business days after Defiante and China Opportunity both have actual knowledge of such proposal.

The Company guarantees to each of the Subscribers (except Lee’s International) and their successors, transferees and assignees the due and punctual performance of all present and future obligations, including the financial obligations of Lee’s International under the Shareholders’ Agreement (i.e. the obligations to pay when the shareholders of PPI (except Lee’s International) elect to sell all (and not part) of its shares of PPI to Lee’s International).

In addition, pursuant to the Subscription Agreement, the Company shall provide certain warranties, representations and undertaking, which includes:

- (a) each of the Subscription Shares and Milestone Shares shall be issued and allotted by PPI free from all encumbrances and rank pari passu with the existing 1 share in all respect;
- (b) to procure the fulfillment and/or satisfaction of all the conditions to the Subscription with their best endeavors; and
- (c) general warranties in relation to, among other matters, the incorporation, shareholding structure and business activities of PPI, the absence of litigation of PPI, the capacity of PPI to enter into the Subscription Agreement and the power of PPI to issue the Subscription Shares and Milestone Shares.

LETTER FROM THE BOARD

Shareholders' approval for the exercise of the Buy-back by Lee' International or the Conversion will be obtained in compliance with the GEM Listing Rules at the time when the Buy-back by Lee's International or the Conversion is exercised (if necessary). The Company will make the necessary announcement and circular in compliance with the GEM Listing Rules.

Under the Shareholders' Agreement, the Company undertakes to provide consultation services to PPI and its wholly owned subsidiary to develop and promote the business for the mutual benefit of PPI and its shareholders at no cost. As the subscription price to be paid by Lee's International is less than the subscription price to be paid by China Opportunity and Defiante, therefore the Company agrees to provide such consultation services at no cost.

The Directors estimated that, upon completion of the Subscription, the Group will record a gain of approximately HK\$15,891, which is calculated based on the unaudited book value of PPI and the gain will be recognized in the income statement of the Company.

Profit and Loss Sharing

The profit and loss of PPI will be shared by the shareholders of PPI in proportion to their respective shareholdings in PPI.

PRINCIPAL TERMS OF THE ASSET PURCHASE AGREEMENT

Date

3 December 2009

Parties

- (a) Vendor as vendor, to the best of knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties;
- (b) Lee's Pharma, a wholly owned subsidiary of the Company, as guarantor; and
- (c) PPI as the purchaser.

The Acquisition

Pursuant to the Asset Purchase Agreement, the Vendor has agreed to sell, assign and transfer, and PPI has agreed to purchase of and acquire certain assets and interests that comprise Zingo and the platform together with the accompanying powder intra-dermal injection system (the "**Purchased Assets**"). The Asset Purchase Agreement shall become effective upon signing.

LETTER FROM THE BOARD

Consideration

The total consideration for the Purchased Assets is US\$2,715,000, which comprise (i) US\$2,665,000 to intangibles; and US\$50,000 to tangibles (i.e. the available Component Materials and requested Capital Equipment).

The total consideration for the Purchased Assets shall be payable by PPI in the following manners:

- (a) upon signing of the Asset Purchase Agreement, PPI shall pay to the Vendor an initial payment of US\$50,000;
- (b) upon receipt of certain documents as set out in the Asset Purchase Agreement, including, among others, the letter of notification to the Food and Drug Administration of the transfer of the Product New Drug Application to PPI or its affiliate and certain Component Materials and requested Capital Equipment as set out in the Asset Purchase Agreement free from encumbrances and in working condition, PPI shall pay to the Vendor the second payment of US\$1,865,000 (the “**Second Payment**”);
- (c) PPI shall pay the escrow agent appointed by PPI the final payment of US\$800,000 at the same time when the Second Payment is made, and the final payment of US\$800,000 shall be released by the escrow agent appointed by PPI upon the delivery by the Vendor of certain Component Materials and requested Capital Equipment as set out in the Asset Purchase Agreement free from encumbrances and in working condition, and such delivery by the Vendor shall be made before 31 January 2010.

The consideration for the Acquisition as contemplated under the Asset Purchase Agreement was determined after arm’s length negotiation between PPI and the Vendor having regard to a number of relevant factors including, among others, the research & development expenditure for the Product which was around US\$38 million for three years from 2006 to 2008, the market potential and long term growth prospect of the Product, the fact that approval from Food and Drug Administration in the United States has been obtained, and the prevailing market price for the tangibles.

The Purchased Assets

The Purchased Assets includes certain assets and interests that comprise Zingo and the platform together with the accompanying powder intra-dermal injection system, which include, among other thing, (a) all rights and obligations under certain contracts previously entered into by the Vendor (the “**Assigned Contracts**”); (b) the intellectual property rights and technology information related to the Product; (c) sales and marketing information related to the product; (d) regulatory items related to the Product; (e) available Component Materials and requested Capital Equipment; and (f) production records for the Product.

PPI shall assume and become responsible for, from the date of payment of the Second Payment, the Vendor’s rights and obligations arising under the Assigned Contracts.

LETTER FROM THE BOARD

PPI shall bear all costs associated with transportation of the Purchased Assets, and shall also obtain insurance for transporters of the Purchased Assets.

Guarantee

Lee's Pharma represents, warrants and guarantees to the Vendor that PPI has or shall have at the requested time the financial resources in place to effect all payment under the Asset Purchase Agreement.

GEM LISTING RULES IMPLICATIONS OF THE SUBSCRIPTION

As the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Subscription are more than 5% but less than 25%, the Subscription constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. In addition, as Defiante is a substantial Shareholder and Dr. Li is an executive Director, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the transaction involves the issue of new securities by PPI, an indirect wholly-owned subsidiary of the Company to a connected person, the Subscription is a connected transaction. Accordingly, the Subscription is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapters 19 and 20 of the GEM Listing Rules.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE ACQUISITION

The considerations payable by the Subscribers represent their respective investment in PPI, which will after Completion become a joint venture of the Subscribers. The Subscription will provide the funding for the Acquisition and the business and development of PPI, introducing strategic investors, and retaining and rewarding key members of its future management. The transfer of the Milestone Shares to certain members of the future management of PPI based on the milestone development of certain products of PPI will provide incentive and rewards for their contribution to PPI and to promote the success of the products thereof.

The Acquisition will enable PPI to acquire the necessary assets to carry the business of producing, developing and sales of, inter alia, Zingo and the platform together with the accompanying powder intra-dermal injection system. As the investment in the interest of PPI is a medium to long term investment, such investment may not have an immediate profit impact to the Group in short run. However, the Board expects that the business of the joint venture (i.e. PPI) will start to grow in the medium to long run, which represents a good investment opportunity for the Company.

The considerations for the Subscription were determined after arm-length's negotiation among the parties to the Subscription Agreement based on the estimated capital expenditure necessary for carrying the business by PPI (including the consideration for the Acquisition). Lee's International will settle the consideration for its Subscription by internal resources.

Having taken the above factors into account, the Directors (including the independent non-executive Directors) consider that the terms of each of the Subscription are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

D. 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.

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.

E. INFORMATION OF PPI

PPI, incorporated in the British Virgin Islands on 6 August 2009, is an investment holding company and is indirectly wholly owned by the Company prior to the Completion. Since the date of its incorporation to the Latest Practicable Date, PPI has not conducted any business and the unaudited book value of PPI is net liabilities of HK\$19,992.

As one of the conditions of the Subscription, PPI shall enter into the Asset Purchase Agreement for the purchase of the Purchased Assets.

Subject to the entering into and completion of the Asset Purchase Agreement, PPI will carry on the business of producing, developing and sales of, inter alia, Zingo and the platform together with the accompanying powder intra-dermal injection system.

F. INFORMATION ON CHINA OPPORTUNITY AND DEFIANTE

China Opportunity is a fund controlled by Sopaf S.p.A., and is dedicated to investment in Chinese companies with potential for international development. The company has approximately 48 million Euro in assets (as of 30 September 2008), and is authorized to operate for a period of 6 years. China Opportunity has made its first investments in the energy, financial services, media and manufacturing/shipbuilding sectors.

Defiante is an indirect wholly owned subsidiary of Sigma-Tau Finanziaria SpA, a company organized and existing under the laws of Italy, 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.

LETTER FROM THE BOARD

G. INFORMATION OF THE VENDOR

The Vendor is a company incorporated under the laws of the United States and whose shares are listed on Nasdaq. The Vendor is a late-stage biopharmaceutical company focused on the development and commercialization of novel pharmaceutical products for pain management, including the Product using a powder intradermal injection system.

H. EGM

The notice convening the EGM to be held at 11:00 a.m. on Thursday, 31 December 2009 at Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, at which ordinary resolutions will be proposed to approve by way of poll in relation to, among other thing, (a) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect), is set out on pages 63 to 65 of this circular. Independent shareholders (or their proxies) will vote by poll in the EGM.

Defiante, being the substantial Shareholder, together with its associates are required to abstain from voting under the GEM Listing Rules with respect to each of the resolutions regarding the Continuing Connected Transactions at the EGM.

Defiante, being the substantial Shareholder, together with its associates and Dr. Li, being the Director, together with his associates are required to abstain from voting under the GEM Listing Rules with respect to each of the resolutions regarding the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) at the EGM.

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 share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th 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 or any adjournment thereof. Such form of proxy for use at the EGM is also published on the website of the Stock Exchange (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.

LETTER FROM THE BOARD

I. RECOMMENDATIONS

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, has been established to advise the Independent Shareholders in respect of (a) the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect).

Cinda International, the independent financial adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders as to (a) whether or not the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned; and (b) whether or not the terms of the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned.

Your attention is drawn to the letter from the Independent Board Committee as set out on page 29 of this circular. Independent Shareholders are urged to read carefully the opinion of Cinda International and the advice of the Independent Board Committee before making the voting decision.

Having considered the reasons above, we consider that (a) the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the terms of the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders and/or the Shareholder to vote in favour of the resolutions to be proposed at the EGM for approving (a) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (b) the Subscription and the transaction as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect).

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

14 December 2009

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE AND CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 14 December 2009 (“the **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 fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned.

Having considered the principal reasons and factors considered by, and the advice of, Cinda International 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 and are in the interests of the Company and its Shareholders as a whole 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.

In addition, we have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether or not the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned.

Having considered the principal reasons and factors considered by, and the advice of, Cinda International as set in its letter of advice, we are of the opinion that the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve, inter alia, the Subscription and the transaction as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect).

Independent Board Committee

Chan Yau Ching, Bob

Lam Yat Cheung

Tsim Wah Keung, Karl

Independent non-executive Directors

* For identification purpose only

LETTER FROM CINDA INTERNATIONAL

The following is the text of a letter prepared by Cinda International for the purposes of inclusion in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (ii) the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect).



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

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

14 December 2009

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

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with (i) the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions; and (ii) the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 14 December 2009, 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.

(A) THE CONTINUING CONNECTED TRANSACTIONS

On 24 November 2009, the Company had 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 CCT Products in the Territory for three years commencing on 1 January 2010 and ending on 31 December 2012.

Sigma-Tau Industrie is a subsidiary of Sigma-Tau, which wholly owns Defiante, a substantial shareholder of the Company which holds 132,350,000 ordinary shares in the Company, representing approximately 29.43% of its entire issued shares as at the Latest Practicable Date. Sigma-Tau Industries is

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an associate of Defiante and therefore a connected person of the Company within the meaning of the GEM Listing Rules. The supply of the CCT Products by Sigma-Tau Industrie to the Company pursuant to each of the Distribution Agreement on an ongoing basis will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules.

(B) THE SUBSCRIPTION

On 2 December 2009, the Subscribers, PPI and the Company entered into the Subscription Agreement, pursuant to which (i) PPI agreed to allot and issue, and the Subscribers agreed to subscribe for an aggregate of 40,499 shares in PPI; and (ii) PPI agreed to further issue and allot, and Lee's International agreed to further subscribe for and hold as nominee the Milestone Shares, subject to the terms and conditions of the Subscription Agreement.

As the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Subscription are more than 5% but less than 25%, the Subscription constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. In addition, as Defiante is a substantial shareholder of the Company and Dr. Li is an executive Director, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the transaction involves the issue of new securities by PPI, an indirect wholly owned subsidiary of the Company to a connected person, the Subscription is a connected transaction.

An Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, has been established to advise Independent Shareholders on (a) whether the terms of the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions and the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (b) whether the Continuing Connected Transactions and the Subscription are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole; and (c) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Distribution Agreement and the Cap in relation to the Continuing Connected Transactions and the Subscription Agreement and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) at the EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in all these respects.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and 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 which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

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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. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Subscription, we have taken the following principal factors and reasons into consideration:

(A) THE CONTINUING CONNECTED TRANSACTIONS

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 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 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. For the two years ended 31 December 2008 and the ten months ended 31 October 2009, the turnover generated from sale of the Existing Products amounted to approximately

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HK\$35.2 million, HK\$48.5 million and HK\$45.2 million respectively, representing approximately 45.9%, 38.7% and 32.5% of the total turnover of the Group 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 Agreements, on 24 November 2009, the Company entered into the Distribution Agreement with Sigma-Tau Industrie, pursuant to which the Old Distribution Agreements 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 entering into of the Continuing Connected Transactions contemplated under the Distribution Agreement and the purchase of the CCT Products from Sigma-Tau Industrie as necessary after due consideration of the following reasons:

- (i) 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;
- (ii) the termination of the transactions contemplated under the Old Distribution Agreements 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
- (iii) 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.

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. Having taking into account 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 Agreement is in the interests of the Group and the Shareholders as a whole.

2. Principal terms of the Distribution Agreement

Term and termination

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. We note that such three-year term is in compliance with the GEM Listing Rules.

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Pricing and payment

(i) Pricing

Pursuant to the Distribution Agreement, the prices of the Existing Products and the New Products to be produced and supplied by Sigma-Tau Industrie to the Group are fixed which set forth in the Distribution Agreement. As advised by the management of the Company, the Group is the exclusive distributor of the CCT Products in the Territory and there is no similar transaction in the Territory for us to assess whether the terms offered by Sigma-Tau Group is not less favourable than it offered to other independent third parties. Furthermore, as the pharmaceutical products are unique, it is not possible to compare the price of the CCT Products with other pharmaceutical products purchased by the Group from independent third parties. As advised by the Directors, Sigma-Tau Industrie also supplies CCT Products to other companies in other markets. However, Sigma-Tau Industrie was unwilling to provide further information in relation to the terms offered by Sigma-Tau Group (including the pricing) to other independent third parties to the Company.

To assess whether the price of the Existing Products offered by Sigma-Tau Industrie under the Distribution Agreements is fair and reasonable, we have reviewed and compared the gross profit margin generated from sale of the Existing Products with those of another five licensed pharmaceutical products which have been purchased by the Group from independent third parties in 2009. As advised by the Directors, those licensed pharmaceutical products that were purchased by the Group from independent third parties are different from the Existing Products in terms of chemical component and treatment of disease. Despite the fact that there are differences in the chemical component and treatment of disease between the licensed pharmaceutical products from independent third parties and the Existing Products, we noted 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 other pharmaceutical products.

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, save and except for the New Products, namely Natulan® and Nicetile®, the price for 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 the same chemical component, namely L-Carnitene, but with different concentration and form for different indications and treatments.

As advised by the Directors, the Company had entered into two amendment agreements (the “**Amendment Agreements**”) with Sigma-Tau Industrie in February and April 2008 respectively in relation to the terms of the Old Distribution Agreements, pursuant to which (i) the unit purchase price of the Existing Products has been reduced by an aggregate average of approximately 27%, and (ii) the promotional allowance of the Existing Products granted by Sigma-Tau Industrie to the Company has been revised such that the overall benefits received by the Company was more favourable than the Old Distribution Agreements. As advised by the Directors, the reason of reduction in the price of the Existing

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Products was due to the appreciation of the EUR in the first half of 2008. Pursuant to the Amendment Agreements, Sigma-Tau Industrie offered free Existing Products to the Company as promotional allowance equal to 3% to 5% of the Existing Products ordered and paid for by the Company to Sigma-Tau Industrie, given that the minimum purchase amounts is reached for that particular calendar year. We have reviewed and compared with the above sale price and the benefit terms of the Existing Products under the Distribution Agreement with those under the Old Distribution Agreements and noted that the sale price and the benefit terms under the Distribution Agreement of the Existing Products are materially the same as those under the Old Distribution Agreements.

During the terms of the Distribution Agreement, Sigma-Tau Industrie will offer free New Products to the Company as promotional allowance equal to 3% to 20% of the New Products ordered and paid for by the Company to Sigma-Tau Industrie, depending on the quantity of New Products purchased by the Company during the term of the Distribution Agreement. In other words, the Company will enjoy a discount in the purchase of the New Products depending on the quantity of New Products ordered and paid for by the Company to Sigma-Tau Industrie. We have compared the above overall benefit terms taking into account the unit purchase price and the promotional discount with the Existing Products under the Distribution Agreement and found that Sigma-Tau Industrie will only offered free Existing Products to the Company equal to 3% to 5% of the products ordered and paid for by the Company. Accordingly, the New Products under the Distribution Agreement offer better benefit to the Group as compared with the Existing Products under the Distribution Agreement.

(ii) Payment

According to the Distribution Agreement, payments by the Company for the CCT Products shall be made in EUR within 90 days from the date of the relevant invoices. 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 Agreement are generally longer than the terms available from independent suppliers with an average of approximately 75 days which is favourable to the Group. We have also reviewed the payment terms under the Old Distribution Agreements and found that the payment terms under the Distribution Agreement are the same as that under the Old Distribution Agreements.

(iii) Minimum Purchase Amounts

The Company undertakes to purchase from Sigma-Tau Industrie the following minimum amount of CCT 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;

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- (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 ending 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. 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. In this regard, we noted the Group will have a negative impact on its turnover and gross profits given that the products supplied by Sigma-Tau Industrie during the year 2008 represented over 30% to total sales amount and gross profits of the Group. Nevertheless, we understand from the management of the Company that it had successfully met the minimum purchase amounts of the Existing Products for the two years ended 31 December 2008 pursuant to the Old Distribution Agreements. In light of the above, we are of the view that the risk of failure of meeting the minimum purchase amount pursuant to the Distribution Agreement for the Company is low.

We have also 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 after taking into consideration of various factors, including actual purchase volume of the Existing Products, actual growth in sales in the Territory and projected sales volume of the New Products. Having considered the above, we are of the view that the principal terms of the Distribution Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Distribution Agreement is in the interests of the Company and its Independent Shareholders as a whole.

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3. Basis of determination of the Cap

The following table sets forth the actual purchase amounts made by the Company from Sigma-Tau Industrie for the past three financial years and the ten months ended 31 October 2009, the existing annual caps for the three years ending 31 December 2009 and the Cap for the three years ending 31 December 2012:

	For the year ended/ending 31 December						
	2006 (HK\$)	2007 (HK\$)	2008 (HK\$)	2009 (HK\$)	2010 (HK\$)	2011 (HK\$)	2012 (HK\$)
Purchase of Existing Products (Approximate)	8,879,719	18,897,483	13,421,215	26,583,098 <i>(Note)</i>	n/a	n/a	n/a
Purchase of New Products (Approximate)	-	-	489,014	194,672 <i>(Note)</i>	n/a	n/a	n/a
Total amount (Approximate)	8,879,719	18,897,483	13,421,215	26,777,770 <i>(Note)</i>	n/a	n/a	n/a
Existing annual cap	16,376,100	20,218,900	28,475,895	41,134,934	-	-	-
The Cap	-	-	-	-	29,131,340	69,435,011	113,569,872

Note: These figures represented the sales up to 31 October 2009

As set out in the Letter from the Board, the basis of the Cap for the three years ending 31 December 2012 is determined with reference to:

- (i) historical amounts of purchases of the Existing Products by the Company from Sigma-Tau Industrie;
- (ii) market expectation in the coming years;
- (iii) forecast growth rates based on the historical growth rate in past years and the expected continuous economic growth in the Territory;
- (iv) the plan of the Company to expand marketing manpower and cooperation with new distributors to increase geographical coverage of sales of the CCT Products; and
- (v) 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 permits 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

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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 CCT Products from the year ending 31 December 2011 to 31 December 2012, as reflected in the Cap.

In accessing the fairness and reasonableness of the Cap under the Distribution Agreement, we have discussed with the management of the Company and understand from the Company that the Cap is determined based on (i) the general growth rate of each of the product in recent years; (ii) the economic environment in the PRC; (iii) the expected demand of the new products to be launched by the Company; and (iv) Directors' experiences of launching new products in previous years.

(i) *The Existing Products*

In this regard, we have reviewed the calculation of the projected purchase of the Existing Products for the three years ending 31 December 2012 prepared by the Company, which is determined based on the historical sale of the Existing Products for the three years ended 31 December 2008 and the ten months ended 31 October 2009.

As advised by the Directors, the estimated growth rate of the sales of Carnitene[®] injectables of 1 gram was determined with reference to the sales performance of such product. We noted that the historical sales volume of Carnitene[®] injectables of 1 gram for each of the three years ended 31 December 2008 amounted approximately 971,000 vials, 1,666,000 vials and 1,847,000 vials, representing an annual growth rate of approximately 71% and 11% respectively and a compound annual growth rate of approximately 38%. The management believes that the substantial decrease in the growth rate for the year 2008 was mainly due to (i) the severe global economic downturn in the second half of 2008; and (ii) the delay in the processing time of State Food & Drug Administration of the PRC (the "SFDA") in reviewing the renewal of relevant import drug permits for the Existing Products in the PRC. As advised by the Directors, the processing time of SFDA in reviewing the renewal of import license was longer than the usual official timeline as they listed out (i.e. six months). As a result, the Company was temporarily not allowed to import the Existing Products in the PRC for a few months in 2008 pending the release and approval of the import drug permits. Given that (i) the world economic recovery taking place, particularly in the PRC; and (ii) the new import license for the Existing Products has been granted during 2008, the management estimated that the growth rate of the sales of Carnitene[®] injectables of 1 gram will pick up and the projected sales will increase from approximately 1,875,000 vials in 2009 to approximately 2,813,000 vials in 2010. Moreover, it will further increase the sale volume of Carnitene[®] injectables of 1 gram to approximately 3,657,000 vials and 4,754,000 vials in 2011 and 2012 respectively, which represents a compound annual growth rate of approximately 36.4% for the three years ending 31 December 2012.

We also noted that the historical sales volume of Carnitene[®] injectables of 2 grams for the year ended 31 December 2008 and the ten months ended 31 October 2009 amounted approximately 12,500 vials and 136,700 vials respectively. The estimated sale volume for the year ending 31 December 2009 will be approximately 151,000 vials, which represents

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an expected annual growth rate of approximately 1100%. As advised by the Company, the substantial increase in the growth rate for the year 2009 is mainly due to the full launching of the said product during the year 2009. The management believes the growth rate of the sales of Carnitene® injectables of 2 grams for the year ending 31 December 2010 will maintain at a high level of 200% due to the first 2 years of the product launch and the annual growth rate for the two years ending 31 December 2012 will be stabilized at 40%. We have reviewed the sales records that were provided by the Company which indicates the historical growth rate of new products that previously introduced by the Group in the PRC during the past years and noted that the annual growth rate for the sales of Carnitene® injectables of 2 grams for the year ending 31 December 2010 is in line with the annual growth rate of new products that previously introduced by the Group in the PRC in the first, second and third year after launching.

In view of the Group's historical sales performance and the Directors' experiences of launching new products in previous years in the PRC, we consider that the estimated growth rates of sales for the three years ending 31 December 2012 are in line with the Group's growth trend and therefore are fair and reasonable.

According to the Company, Carnitene® injectables of 1 gram and 2 grams are administered in the hospital by doctors but they are to treat in-patients with more serious symptoms requiring a higher dosage. On the other hand, Carnitene® drinking vials of 1 gram and 2 grams are drinking form which is a more convenient way to be consumed by patients after discharge from hospital. As advised by the Company, the estimated sales volume of Carnitene® drinking vials of 1 gram and 2 grams, which are expected to obtain relevant import drug permits and government approvals in the PRC in January 2011, was determined with reference to the estimated number of patients discharged from the hospitals 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 understood that 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. We have reviewed the recent number of patients discharged from the hospitals annually provided by the Company and the assumption made by the Company of those who need to take Carnitene® drinking vials and noted that the growth rate of sales of Carnitene® drinking vials of 1 gram and 2 grams are acceptable.

In view of the above, we are of the view that the Directors have used fair and reasonable methodologies and assumptions to determine the forecasted purchase of Carnitene® drinking vials of 1 gram and 2 grams, given that there were no historical sales.

(ii) The New Products

As advised by the Company, the New Products, namely Carnitene® 30% oral sol. of 20 ml and Carnitor® 90 tablets of 330 mg, were launched by the Company in 2008 whereas Carnitor® injectables of 1 gram was launched by the Company in 2009. All of the abovementioned products are to be sold in Hong Kong's drug market only. We have reviewed the historical sales records for Carnitene® 30% oral sol. of 20 ml, Carnitor® 90 tablets of 330 mg and Carnitor® injectables of 1 gram (collectively, the "HK Products") for the year

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ended 31 December 2008 and the ten months ended 31 October 2009 and noted that the sales volume for each of the HK Products were relatively in low level comparing with the sales volume of Carnitene[®] injectables of 1 gram and 2 grams in the respective period. As advised by the Company, the low level of sales volume incurred in 2008 and 2009 were currently due to the first year in launching the HK Products. Nevertheless, the management of the Company estimated that the annual growth rate of the sales of the HK Products for each of the three years ending 31 December 2012 will be at 200% due to the low level base in 2009. We have reviewed the sales records that were provided by the Company which indicates the historical growth rate of new products that previously introduced by the Group in Hong Kong during the past years and noted that the annual growth rate for the sales of the HK Products for the three years ending 31 December 2012 is in line with the annual growth rate of new product that previously introduced by the Group in Hong Kong in the first, second and third year after launching. In view of the Directors' experiences of launching new products in previous years in Hong Kong, we consider that the estimated growth rates of sales of the HK Products for the three years ending 31 December 2012 are justifiable.

As set out in the Letter from the Board, the Directors expect that the relevant import drug permits 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. As advised by the Directors, the projected purchase can only be determined by the Directors based on their experiences of launching new products in previous years and the capability and manpower of the Group's marketing team as there have been no historical sales for Nicetile[®] and Natulan[®]. In light of the above, we are of the view that the Directors have used fair and reasonable basis to determine the forecasted purchase of the New Products.

According to the latest statistics published on the website of World Health Organization (http://www.who.int/cardiovascular_diseases/en/) in September 2009, cardiovascular diseases are the number one cause of death globally, account for 29% of all global deaths, or about 17.1 million people died in 2004. It is also predicated by World Health Organization that almost 23.6 million people will die from cardiovascular diseases by 2030, mainly from heart disease and stroke. The largest increase in number of deaths will occur in the South-East Asia Region. According to 《中國心血管病報告2007》 (Report on Cardiovascular Diseases in China 2007) published by 衛生部心血管病防治研究中心 (National Center for Cardiovascular Diseases, China), at present, cardiovascular is the leading cause of death in the PRC, an estimate of at least 230 million patients suffering from cardiovascular disease and approximately 3 million people die as a result of cardiovascular disease every year, representing approximately 33% of all deaths. As indicated by the report, the aggregate medicines purchase amount for cardiovascular diseases in 2007 was approximately RMB179.8 million, representing 11.87% of the total medicines purchase amount in the PRC. Moreover, the risk factors to cardiovascular disease are increasing. According to the report, about 200 million people are hypertensive, about 200 million people have abnormal cholesterol, 240 million people are over-weight, 70 million people are obesity, 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.

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In view of the 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.

4. Recommendation on the Continuing Connected Transactions

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 Agreement and the Cap are fair and reasonable so far as the Group and the Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Continuing Connected Transactions and the Cap.

(B) THE SUBSCRIPTION

1. Background of the parties involved

(a) Information on the 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.

(b) Information on PPI

As set out in the Letter from the Board, PPI as issuer, incorporated in the British Virgin Islands on 6 August 2009, is an investment holding company indirectly wholly owned by the Company prior to the Completion. Subject to the entering into and completion of the Asset Purchase Agreement, PPI will carry on the business of producing, developing and sales of, inter alia, Zingo and the platform together with the accompanying powder intra-dermal injection system. As advised by the Directors, PPI has not conducted any business operation since the date of its incorporation to the Latest Practicable Date.

(c) Information on China Opportunity and Defiante

China Opportunity is a fund controlled by Sopaf S.p.A. China Opportunity Fund is dedicated to investment in Chinese companies with potential for international development. The company has approximately 48 million Euro in assets (as of 30 September 2008), and is authorized to operate for a period of 6 years. China Opportunity has made its first investments in the energy, financial services, media and manufacturing/shipbuilding sectors.

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Defiante is an indirect wholly owned subsidiary of Sigma-Tau Finanziaria SpA, a company organized and existing under the laws of Italy, 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 Subscription Agreement and the Acquisition

On 2 December 2009, Lee's International, PPI, Defiante, China Opportunity, Dr. Li, Mr. Tsui, Mr. Wu, Mr. Regan Jr. (collectively, the "**Subscribers**") and the Company entered into the Subscription Agreement, pursuant to which (i) PPI agreed to allot and issue, and the Subscribers agreed to subscribe for an aggregate of 40,499 shares in PPI (the "**Subscription Shares**"); and (ii) PPI agreed to further issue and allot, and Lee's International agreed to further subscribe for and hold as nominee 9,500 shares in PPI (the "**Milestone Shares**") subject to the terms and conditions of the Subscription Agreement.

After the Subscription Agreement was entered into, PPI and Lee's Pharma entered into the Asset Purchase Agreement with the Vendor on 3 December 2009 for the purchase of certain assets and interests that comprise Zingo and the platform together with the accompanying powder intra-dermal injection system (the "**Purchased Assets**") at the consideration of US\$2,715,000.

2. Reasons for the entering into the Subscription Agreement

As set out in the 2008 annual report of the Company, during the year 2008, the Group has already been negotiating about the licensing and distribution agreement between the Group and the Vendor for its product Zingo in the PRC. We understand from the Company that the Group has been endeavoring to expand its business by manufacturing and/or distributing new pharmaceutical product in the PRC. Taking into account that the Acquisition will enable PPI to acquire the necessary assets to carry the business of producing, developing and sales of, inter alia, Zingo and the platform together with the accompanying powder intra-dermal injection system, we are of the view that the entering into of the Subscription Agreement is in line with the business strategy of the Group.

We understand from the Company that Defiante, one of the Subscribers and a substantial shareholder of the Company, has extensive experience and network in marketing and sales of drugs and related products in overseas market, particularly in Europe and the United States. We also understand from the Company that PPI will establish a new factory in the PRC and/or in Hong Kong, which will be up to Food and Drug Administration approved standard for the production of Zingo and the platform together with the accompanying powder intra-dermal injection system and will make sales to overseas markets including Europe and the United States. Accordingly, PPI can leverage the extensive network of Defiante in marketing and sales of drug and related products in overseas markets and hence Defiante can make prospective contribution to the PPI's business growth in the future.

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As set out in the Letter from the Board, the considerations payable by the Subscribers represent their respective investment in PPI, which will after Completion become a joint venture of the Subscribers. The Subscription will provide the funding for the Acquisition such that it will enable PPI to acquire the necessary assets for the business and development of PPI, introducing strategic investors, and retaining and rewarding key members of its future management. Accordingly, we concur with the view of the management of the Company that the entering into of the Subscription Agreement is in the interests of the Shareholders as a whole.

In view of the fact that: (i) the entering into the Subscription Agreement shall enhance and strengthen the future business of PPI and is in line with the business strategy of the Group; (ii) PPI can leverage the extensive experience and network of Defiante in marketing and sales of drug and related products in overseas markets; and (iii) the Subscription will enable the Group to provide the funding for Acquisition and the business and development of PPI, we concur with the Directors that the entering into the Subscription Agreement would be beneficial to the Company in which the business of PPI represents a good investment opportunity for the Company. Accordingly, we are of the view that the entering into the Subscription Agreement is in the interest of the Group and the Shareholders as a whole.

3. Principal terms of the Subscription Agreement

(a) *Subscription Shares*

Pursuant to the Subscription Agreement, PPI shall allot and issue an aggregate of 40,499 shares in PPI (the “**Subscription Shares**”) to the respective Subscribers in the following manner:

- (i) 21,570 Subscription Shares to be allotted and issued to China Opportunity, representing approximately 43.14% of the entire issued shares in PPI after Completion*, at the cash subscription price of US\$3,500,000;
- (ii) 6,160 Subscription Shares to be allotted and issued to Defiante, representing approximately 12.32% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$1,000,000;
- (iii) 10,269 Subscription Shares to be allotted and issued to Lee’s International, which Shares (together with the 1 share in PPI already held by it), represent 20.54% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500,000;
- (iv) 1,000 Subscription Shares to be allotted and issued to Dr. Li, representing approximately 2% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$1,000;
- (v) 500 Subscription Shares to be allotted and issued to Mr. Tsui, representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500;

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- (vi) 500 Subscription Shares to be allotted and issued to Mr. Wu, representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500; and
- (vii) 500 Subscription Shares to be allotted and issued to Mr. Regan Jr., representing approximately 1% of the entire issued shares in PPI after Completion* at the cash subscription price of US\$500;

Note:

- * The total number of issued shares in PPI after Completion (i.e. after the allotment of the Subscription Shares and the Milestone Shares (as described below)) shall be 50,000 in total.

Each of the subscription prices was determined after arm's length negotiation between PPI and the Subscribers, with reference to, among other things, the business strength of the Subscribers and prospective contributions that each Subscriber will bring to the business of PPI.

We noted that the subscription prices which are payable by each of the Subscribers are different and can be divided them into three different payment groups as follows:

- (a) the subscription price to be paid by the management of PPI, namely Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr.;
- (b) the subscription price to be paid by Lee's International; and
- (c) the subscription price to be paid by China Opportunity and Defiante.

As advised by the Directors, in order to provide incentive to the management of PPI, the parties to the Subscription Agreement agree that the subscription price to be paid by the management of PPI would be at nominal value of the shares of PPI, being the lowest subscription price amongst other groups. Moreover, the subscription price to be paid by Lee's International will be less than the subscription price to be paid by China Opportunity and Defiante but higher than the management of PPI, given that the knowledge and experience of Lee's International in manufacturing of drug and in view of the fact that Lee's International shall be responsible for the management of PPI.

As mentioned above under the section "Reasons for the entering into the Subscription Agreement", Defiante (a substantial shareholder of the Company and hence a connected person) has extensive experience and network in marketing and sales of drug and related products in overseas market, particularly in Europe and the United States which could make contribution in relation to the business growth of PPI. As advised by the Directors, we also note that China Opportunity is a fund management company dedicated to make investments in Chinese companies from various industry sectors and is an Independent Third Party.

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Taken into consideration that (i) the subscription price to be paid by the management of PPI at nominal value will provide incentive for them such that each of the members of the management of PPI will make prospective contributions to the business of PPI in the future; (ii) the subscription price to be paid by Lee's International is less than the subscription price to be paid by China Opportunity and Defiante due to the business strength of Lee's International which has knowledge and experience in manufacturing of drug; (iii) the relationship between Defiante, China Opportunity and the Company as Defiante is a substantial shareholder of the Company and China Opportunity is an Independent Third Party; (iv) PPI can leverage the extensive network and experience of Defiante in marketing and sales of drug and related products in overseas markets; and (v) the subscription price to be paid by China Opportunity and Defiante are approximately the same; we concur with the view of the management of the Company that the subscription price of each of the Subscriber is fair and reasonable and is in the interest of the Group and the Shareholders as a whole.

(b) *Milestone Shares*

Pursuant to the Subscription Agreement, PPI shall further issue and allot, and Lee's International shall further subscribe for and hold as nominee 9,500 shares in PPI (the "Milestone Shares") in the issued share capital of PPI for the consideration of US\$9,500.

As set out in the Letter from the Board, upon issuance and allotment of the Milestone Shares, Lee's International shall hold them as nominee for the benefits of the Subscribers collectively and in proportion to their respective shareholding of the Subscription Shares pending the fulfillment of certain conditions relating to the milestone development of the Products of PPI in each of the Stage 1 Milestone Date, Stage 2 Milestone Date and Stage 3 Milestone Date, and thereafter, transfer the legal and beneficial interests in all of the Milestone Shares in pursuant to the manner set out in the Subscription Agreement.

Set out below are the conditions relating to the milestone development of the Products of PPI as set out in the Subscription Agreement:

- (a) completion of the first qualification lot by the Stage 1 Milestone Date (the "Stage 1 Milestone");
- (b) passing of the Food and Drug Administration inspection of the Chinese manufacturing facility for the Product by the Stage 2 Milestone Date (the "Stage 2 Milestone"); and
- (c) the sale of the Products to the United States by the Stage 3 Milestone Date (the "Stage 3 Milestone", together with Stage 1 Milestone and Stage 2 Milestone, are collectively known as the "Milestones").

As advised by the Directors, the Milestone Shares will only be transferred to Lee's International and to certain members of the management of PPI, namely, Dr. Li, Mr. Tsui, Mr. Wu and Mr. Regan Jr. after the relevant Milestones are fulfilled as mentioned above. The management of the Company further advised us that the transfer of the Milestone

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Shares to certain members of the management of PPI based on the milestone development of certain products of PPI will provide incentive and rewards for their contribution to PPI and to promote the success of the products thereof. Given that the knowledge and experience of Lee's International has in manufacturing of drug and hence relatively higher prospective contributions to the future business of PPI, we are of the view that transfer of the Milestone Shares to Lee's International is fair and reasonable.

Having considered that (i) the transfer of the Milestone Shares to the management of PPI will provide incentive and rewards for their contribution to PPI and to promote the success of the products thereof; and (ii) the shareholding interests in PPI of the Company will be increased from 20.54% to 28.54% upon Completion and assuming that all the relevant Milestones are fulfilled, we are of the view that the transfer of the Milestone Shares to Lee's International and the management of PPI is fair and reasonable and in the interests of the Independent Shareholders as a whole.

4. Shareholders' Agreement

Upon Completion, PPI, Lee's International, China Opportunity, Defiante, Dr. Li, Mr. Tsui, Mr. Wu, Mr. Regan Jr. and the Company shall enter into a shareholders' agreement (the "Shareholders' Agreement") to regulate their conduct of business in PPI.

(i) Terms of the Shareholders' Agreement

Pursuant to the Shareholders' Agreement, during each of the Relevant Periods, the shareholders of PPI (except Lee's International) shall be entitled to elect:

- (a) to sell all (and not part) of its shares of PPI to Lee's International at the sale value of 1.5 times of the revenue according to the latest financial statements of PPI (the "Buy-back by Lee's International"); or
- (b) to convert (the "Conversion") all of its shares of PPI to shares of the Company at the valuation of HK\$1.80 per share, and in the event that the Company prior to the Conversion issues any shares (save as to any share option scheme which has been adopted by the Company as at the date of the Shareholders' Agreement) which would result in an increase of more than 20% of the total issued share capital of the Company as at the date of the Shareholders' Agreement, subject to downward adjustments in the same proportion that the total issued share capital as at the date of the Shareholders' Agreement bears to the then total issued share capital of the Company (the "Right to Elect").

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(ii) *Right to Elect*

(a) Buy-back by Lee's International

We have discussed with the management of the Company and understand that the valuation of the Buy-back by Lee's International in which the enterprise value of PPI within the Relevant Periods equals to 1.5 times of the revenue according to the latest financial statements of PPI was arrived at after arm's length negotiation between the parties with reference to the prevailing market prices of the companies in pharmaceutical industry and on normal commercial terms. Given that the estimated valuation of PPI in the Relevant Periods will be equal to 1.5 times of the revenue according to the latest financial statements of PPI, the implied price to earnings ratio (the "P/E ratio") of PPI within the Relevant Periods will be approximately equal to 1.5 (which is the total consideration of acquiring PPI) divided by the net profit margin of PPI according to the latest financial statements of PPI. Since we do not have the forecast revenue and net profit data of PPI within the Relevant Periods, we will calculate the implied P/E ratio of PPI with the industry average net profit margin (as shown below) as a reference and for analytical purpose.

In order to assess the fairness and reasonableness of the valuation of the Buy-back by Lee's International, we have identified the following companies (the "Comparable Companies") listed on the Main Board or the Growth Enterprise Market of the Stock Exchange (including the Company itself) with a total of 20, which are principally engaged in manufacture and sale of pharmaceutical products, i.e. in similar line of principal business as PPI, and examined the net profit margin and the price to earning ratio (the "P/E ratio") of the Comparable Companies. As the net profit margin and P/E ratios of some listed companies were not available because of their respective loss-making record for the latest financial year, they were excluded from the calculation of net profit margin and P/E ratio of the Comparable Companies.

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Accordingly, we set out in the following table the relevant net profit margin and P/E ratio calculated based on the respective share prices of the Comparable Companies as at 8 December 2009, being the Latest Practicable Date.

Company name (Stock code)	Year end date	Principal activities	Share price as at 8 December 2009 (HK\$)	Latest earnings per share published prior to 8 December 2009 (HK\$)	Net profit margin (%)	P/E ratio (times)
Winteam Pharmaceutical Group Ltd. (570)	31/12/2008	Production and sale of Chinese medicine and pharmaceutical products	0.75	0.0245	10.93	30.61
Hua Han Bio-Pharmaceutical Holdings Ltd. (587)	30/6/2009	Research and development, manufacture and sale of gynecological medicine, feminine medicinal healthcare products and bio-pharmaceutical products in the PRC	1.63	0.1392	18.06	11.71
Shandong Xinhua Pharmaceutical Co. Ltd. (719)	31/12/2008	Development, production and sale of pharmaceutical raw materials, preparations, chemical products and other products	2.96	0.0746	1.72	39.69
Extrawell Pharmaceutical Holdings Ltd. (858)	31/3/2009	Marketing and distribution of pharmaceutical products, development, manufacture & sale of pharmaceutical products, commercial exploitation & development of genome-related technology, development commercialisation of oral insulin products	1.97	0.68	9.44	2.90
Guangzhou Pharmaceutical Co. Ltd. (874)	31/12/2008	Manufacture and sales of Chinese Patent Medicine, wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; research and development of natural medicine and biological medicine	5.14	0.2531	4.96	20.31
China Pharmaceutical Group Ltd. (1093)	31/12/2008	Manufacture and sale of pharmaceutical products	5.07	0.6116	13.87	8.29
Broad Intelligence Int'l Pharmaceutical Holdings Ltd. (1149)	31/12/2008	Manufacture, sale, research and development of pharmaceutical products and investment holding	0.72	0.0507	5.57	14.20

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Company name (Stock code)	Year end date	Principal activities	Share price as at 8 December 2009 (HK\$)	Latest earnings per share published prior to 8 December 2009 (HK\$)	Net profit margin (%)	P/E ratio (times)
Vital Pharmaceutical Holdings Ltd. (1177)	31/12/2008	Research and development, production and sale of a series of modernised Chinese medicines and chemical medicines	2.58	0.1315	21.12	19.62
Wuyi International Pharmaceutical Co. Ltd. (1889)	31/12/2008	Research and development, manufacturing and trading of pharmaceutical products	0.83	0.1379	33.14	6.02
Lijun International Pharmaceutical (Holding) Co. Ltd. (2005)	31/12/2008	Research, development, manufacture and sale of wide range of finished medicines and bulk pharmaceutical through a network independent retailers	1.37	0.0500	6.42	27.40
Jiwa Bio-Pharm Holdings Ltd. (2327)	31/3/2009	Manufacturing and sale of pharmaceutical and pharmaceutical bulk materials; trading of pharmaceutical and health care products; distributions of pharmaceutical products	0.42	0.0321	13.42	13.08
Dawnrays Pharmaceutical (Holdings) Ltd. (2348)	31/12/2008	Development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines	1.28	0.1458	10.78	8.78
China Shineway Pharmaceutical Group Ltd. (2877)	31/12/2008	Research and development, manufacture and trading of Chinese pharmaceutical products	14.38	0.5424	31.23	26.51
The United Laboratories International Holdings Ltd. (3933)	31/12/2008	Manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them, cough syrup, anti-allergy medicine and capsule casings	4.56	0.3585	11.45	12.72

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Company name (Stock code)	Year end date	Principal activities	Share price as at 8 December 2009 (HK\$)	Latest earnings per share published prior to 8 December 2009 (HK\$)	Net profit margin (%)	P/E ratio (times)
Jilin Province Huinan Changlong Bio- pharmacy Co. Ltd. (8049)	31/12/2008	Manufacture and distribution of biochemical medicines in the PRC	0.375	0.0303	11.79	12.38
Shandong Luoxin Pharmacy Stock Co. Ltd. (8058)	31/12/2008	Manufacturing and selling of pharmaceutical products	6.25	0.3390	27.43	18.44
Tong Ren Tang Technologies Co. Ltd. (8069)	31/12/2008	Manufacturing and sales of Chinese Patent Medicine in the forms of granules, pills, tablets and soft capsules	15.10	0.9266	13.76	16.30
Essex Bio-Technology Ltd. (8151)	31/12/2008	Manufacture and sale of biopharmaceutical products and organic and chemical formulated agricultural fertilisers in the PRC	0.27	0.0392	12.59	6.89
Northeast Tiger Pharmaceutical Co. Ltd. (8197)	31/12/2008	Development, manufacture and sale of medicine products in the PRC	0.187	0.0086	8.78	21.77
The Company (8221)	31/12/2008	Manufacture and sale of self- developed pharmaceutical products, trading of license-in pharmaceutical products	1.64	0.0677	22.37	24.22
				Highest	33.14	39.69
				Lowest	1.72	2.90
				Average	14.17	16.52
				Implied P/E of PPI		10.59

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note:

- The implied P/E of PPI is calculated based on the 1.5 times revenue of PPI divided by the average net profit margin of the Comparable Companies (i.e. 1.5 divided by 0.1417).

It should be noted that the business, operation and prospects of PPI are not the same as the Comparable Companies as set out in the above table and we have not conduct any in-depth investigation into the businesses and operations of the Comparable Companies. Accordingly, the Comparable Companies are only used for illustrative purpose.

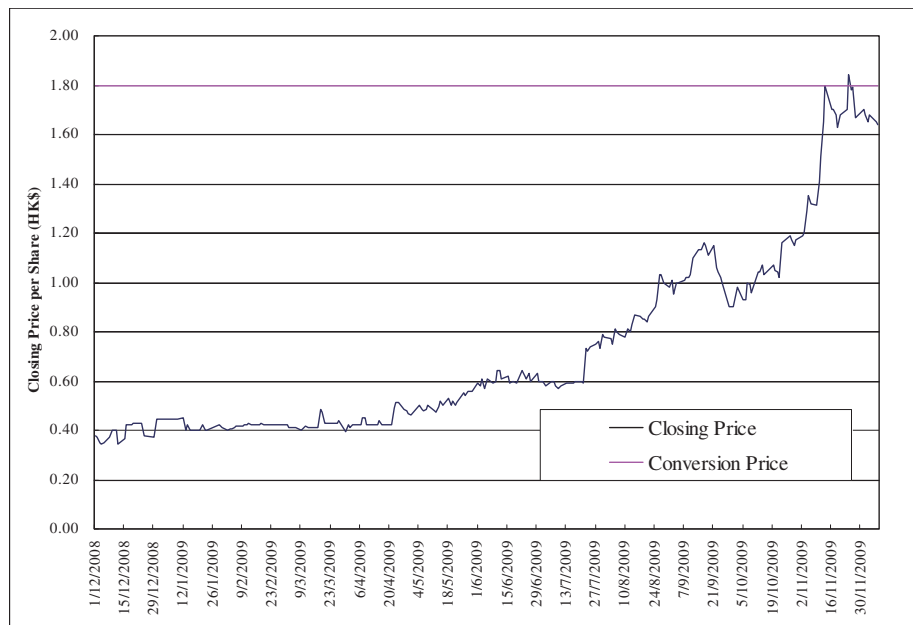
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As shown in the above table, the net profit margin of the Comparable Companies range from approximately 1.72% to 33.14% and the average net profit margin of the Comparable Companies is approximately 14.17%. Accordingly, we will use the average net profit margin of the Comparable Companies (i.e. 14.17%) as a reference to our calculation of the implied P/E ratio of PPI and we calculated it to be of approximately 10.59 times. In addition, as depicted by the above table, the P/E ratio of the Comparable Companies range from approximately 2.90 times to 39.69 times and the average P/E ratio of the Comparable Companies is approximately 16.52 times. Therefore, the implied P/E ratio of PPI of approximately 10.59 times falls within the range of the P/E ratio of the Comparable Companies and is approximately 35.9% lower than the average P/E ratio of the Comparable Companies.

Taken in account that the implied P/E ratio of PPI falls within the range of the Comparable Companies and is approximately 35.9% lower than the average P/E ratio of the Comparable Companies, we are of the view that the valuation of the Buy-back by Lee's International is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(b) Conversion

The following diagram illustrates the daily historical closing prices of the Shares traded on the Stock Exchange during the past 12 months, from 1 December 2008 up to and including the Latest Practicable Date (the "Review Period"):



Source: the Stock Exchange web-site (www.hkex.com.hk)

During the Review Period, the trading of the Shares recorded the lowest closing price of HK\$0.345 per Share on 4 December 2008 and 12 December 2008 and the

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highest closing price of HK\$1.84 per Share on 24 November 2009 respectively. The average daily closing price of the Shares during the Review Period was approximately HK\$0.727 per Share, while the conversion price of HK\$1.80 per Share of the Conversion is approximately 147.6% above the average daily closing price of the Shares during the Review Period. We also note that the Shares have closed below the conversion price of HK\$1.80 of the Conversion on 252 trading days, representing approximately 99.2% of the 254 trading days during the Review Period.

We consider that the conversion price of HK\$1.80 of the Conversion is fair and reasonable so far as the Company and the Independent Shareholders are concerned in view that the conversion price represents a premium of approximately 147.6% over the average daily closing price of the Shares during the Review Period.

Moreover, we have also reviewed the other major terms of the Shareholders' Agreement and we are not aware of any terms which are unusual. Consequently, we consider that the terms of the Shareholders' Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

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5. Dilution of the shareholding interests in the Company

The table below demonstrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Conversion assuming that all of the shareholders of PPI (except Lee's International) choose to elect and exercise the Conversion option but all the Milestones has not been achieved; (iii) immediately after the Conversion assuming that all of the shareholders of PPI (except Lee's International) choose to elect and exercise the Conversion option and all the Milestones has been achieved:

	No. of Shares held as at the Latest Practicable Date	<i>Approximate percentage of shareholding (%)</i>	No. of Shares immediately after the Conversion assuming that all of the shareholders of PPI (except Lee's International) choose to elect and exercise the Conversion option but all the Milestones has not been achieved (Note 1)	<i>Approximate percentage of shareholding (%)</i>	No. of Shares immediately after the Conversion assuming that all of the shareholders of PPI (except Lee's International) choose to elect and exercise the Conversion option and all the Milestones has been achieved (Note 2)	<i>Approximate percentage of shareholding (%)</i>
Defiante	132,350,000	29.43	137,351,833	29.08	136,683,333	28.98
Ms. Lee Siu Fong & Ms. Leelalertsuphakun Wanee	129,309,000	28.75	129,309,000	27.38	129,309,000	27.41
China Opportunity	–	–	17,509,241	3.71	15,166,666	3.21
Dr. Li	51,110,000	11.36	51,114,333	10.82	51,874,486	11.00
Chan Yau Ching	1,190,000	0.26	1,190,000	0.25	1,190,000	0.25
Tsim Wah Keung	300,000	0.07	300,000	0.06	300,000	0.06
Mr. Tsui	–	–	2,166	0.0005	545,132	0.12
Mr. Wu	–	–	2,166	0.0005	545,132	0.12
Mr. Regan Jr.	–	–	2,166	0.0005	545,132	0.12
Public Shareholders:	135,528,437	30.13	135,528,437	28.69	135,528,437	28.73
Total	449,787,437	100.00	472,309,342	100.00	471,687,318	100.00

Notes:

- For the conversion of the Subscription Shares, the number of shares of the Company shall be determined as follows:
(Cost of investment (in US\$) x 7.8) / HK\$1.80
- For the conversion of the Milestone Shares, the number of shares of the Company shall be determined as follows:
(Percentage of PPI shares x US\$5,012,000 (which is the total subscription monies including the Milestone Shares) x 7.8) / HK\$1.80

LETTER FROM CINDA INTERNATIONAL

As shown in the above table, the shareholding interests of the existing public Shareholders will be decreased from approximately 30.13% to 28.69% immediately after the Conversion of the Shares assuming that all of the shareholders of PPI (except Lee's International) choose to elect and exercise the Conversion option but all the Milestones has not been achieved, representing a dilution of approximately 4.78%. After taking into account that (i) the terms of the Subscription Agreement and the Shareholders' Agreement were fairly and reasonably set; (ii) the reasons and benefits of the Subscription; and (iii) the shareholding interests of the existing public Shareholders will be diluted in proportion to their respective shareholding in the Company, we are of the view that the dilution effect to the public Shareholder is acceptable.

6. Financial effects of the Subscription Agreement on the Group

(i) Earnings and net asset value

Upon Completion, PPI will be owned as to 28.54% by the Company (assuming that all the relevant Milestones has been achieved) and will become an associate company of the Company. Accordingly, the results of PPI will be equity accounted for the Company's accounts. As PPI is a newly formed company on 6 August 2009 which has not conducted any business operation, there will be no immediate effect on the earnings of the Group upon the establishment of PPI.

(ii) Liquidity and cash position

Based on the 2009 third quarterly report of the Company, as at 30 September 2009, the Group's cash and bank balances was approximately HK\$57.2 million. The cash payment of the Subscription Shares to be allotted and issued to Lee's International of US\$500,000 (which equivalent to approximately HK\$3.9 million) represents approximately 6.82% of the sum of the above cash balance of the Group. In this regard, we are of the view that the Subscription has no immediate material adverse impact on the Group's working capital position.

7. Recommendation on the Subscription

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the terms of the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is entered into in the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the ordinary resolution(s) in respect of approving the Subscription and the transactions as contemplated under the Shareholders' Agreement (including but without limitation the grant of the Rights to Elect).

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Kinson Li
Managing 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: (a) the information contained in this circular is accurate and complete in all material respects and not misleading; (b) there are no other matters the omission of which would make any statement in this circular misleading; and (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the shares and underlying shares and debentures

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 (a) are 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 the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest			Total	Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Lee Siu Fong	(1)	2,504,375	124,690,625	-	127,195,000	28.28%
Leelalertsuphakun Wanee	(2)	2,114,000	124,690,625	-	126,804,625	28.19%
Dr. Li	(3)	35,110,000	-	16,000,000	51,110,000	11.36%
Chan Yau Ching, Bob		1,190,000	-	-	1,190,000	0.26%
Tsim Wah Keung, Karl		300,000	-	-	300,000	0.07%

Notes:

- (1) 2,504,375 Shares are held personally by Ms. Lee Siu Fong and 124,690,625 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) 2,114,000 Shares are held personally by Ms. Leelalertsuphakun Wanee and 124,690,625 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) Family interest of 16,000,000 shares are held by High Knowledge Investments Limited which is wholly owned by Ms. Lue Shuk Ping, Vicky, the spouse of Dr. Li. The interest held by Ms. Lue Shuk Ping is deemed to be part of the interest of Dr. Li.

Long positions in the underlying shares of equity derivatives

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 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
<i>Executive Directors</i>					
Lee Siu Fong	25.09.2009	HK\$1.076	26.03.2010 – 25.09.2019	448,000	0.1%
Leelalertsuphakun Wanee	27.08.2009	HK\$1.03	27.02.2010 – 26.08.2019	448,057	0.1%
Dr. Li	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	2,890,000	0.64%
	25.09.2009	HK\$1.076	26.03.2010 – 25.09.2019	448,000	0.1%
<i>Non-executive Director</i>					
Mauro Bove	11.07.2005	HK\$0.159	11.01.2006 – 10.07.2015	500,000	0.11%
	02.06.2006	HK\$0.175	02.12.2006 – 01.06.2016	500,000	0.11%
<i>Independent Non-executive Director</i>					
Lam Yat Cheong	11.07.2005	HK\$0.159	11.01.2006 – 10.07.2015	300,000	0.07%

Short positions in Shares

No short positions of the Directors and chief executives in the shares or underlying 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 the underlying shares of equity derivatives

No short positions of the 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 and debentures" above and the share option scheme disclosures, at no time during the period from 1 January 2009 to the Latest Practicable Date 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.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no 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 (a) are 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 the 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.

(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 of the Company 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% 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 members of the Group:

*Long positions in Shares***SUBSTANTIAL SHAREHOLDERS**

Name	Notes	Number of shares held and nature of interest			Total	Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Cavazza Claudio	(1)	–	132,350,000	–	132,350,000	29.43%
Cavazza Paolo	(1)	–	132,350,000	–	132,350,000	29.43%
Sigma-tau Finanziaria	(1)	–	132,350,000	–	132,350,000	29.43%
Sigma-tau International S.A.	(1)	–	132,350,000	–	132,350,000	29.43%
Defiante Farmaceutical S.A.	(1)	132,350,000	–	–	132,350,000	29.43%
High Knowledge Investments Limited	(2)	16,000,000	–	–	16,000,000	3.6%
Lue Shuk Ping, Vicky	(2)	–	16,000,000	35,110,000	51,110,000	11.36%
Huby Technology Limited	(3)	120,290,625	–	–	120,290,625	26.74%

OTHER PERSONS (SAVE FOR THE PERSON OR ENTITIES DISCLOSED IN SUB-SECTION SUBSTANTIAL SHAREHOLDERS ABOVE)

Name	Notes	Number of shares held and nature of interest			Total	Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Cha Albert	(4)	–	30,273,437	–	30,273,437	6.73%
Engleman Edgar George	(4)	–	30,273,437	–	30,273,437	6.73%
Kung Frank Fang-Chien	(4)	–	30,273,437	–	30,273,437	6.73%
Vivo Ventures VI, LLC	(4)	–	30,273,437	–	30,273,437	6.73%
Vivo Ventures Fund VI, LP	(5)	–	30,273,437	–	30,273,437	6.73%
Life Science Intelligence Limited	(5)	30,273,437	–	–	30,273,437	6.73%

Long positions in the underlying shares of equity derivatives

Name	Nature of interest	Notes	Kind of underlying share	Number of underlying share
Lue Shuk Ping, Vicky	Family	(2)	Share options	3,338,000

Notes:

- As at the Latest Practicable Date, 132,350,000 shares were held by Defiante Farmaceutica S.A., which is owned as to 58% by Sigma-tau Finanziaria S.P.A., and owned as to 42% by Sigma-tau Finanziaria S.P.A. through its wholly-owned subsidiary, Sigma-tau International S.A.. By virtue of each of Sigma-tau Finanziaria S.P.A.'s and Sigma-tau International S.A.'s indirect interests in the Company, each of Sigma-tau Finanziaria S.P.A. and Sigma-tau International S.A. is deemed to be interested in 132,350,000 shares under the SFO. Sigma-tau Finanziaria S.P.A. is owned as to 51.3% by Claudio Cavazza and 34.2% by Claudio Paolo. By virtue of each of Claudio Cavazza's and Claudio Paolo's indirect interest in the Company, each of Claudio Cavazza and Claudio Paolo is deemed to be interested in 132,350,000 shares under the SFO.
- As at the Latest Practicable Date, 16,000,000 shares were held by High Knowledge Investments Limited which is owned as to 100% by Lue Shuk Ping, Vicky, wife of Dr. Li. By virtue of Lue Shuk Ping, Vicky's indirect interest in the Company, Lue Shuk Ping, Vicky is deemed to be interested in 16,000,000 shares under the SFO. Dr. Li, husband of Lue Shuk Ping, Vicky, personally held 35,110,000 shares, and has been granted share option to subscribe for 3,338,000 shares under the Share Option Scheme, therefore, Ms. Lue Shuk Ping, Vicky is deemed to be interested in such interest under the SFO.
- As at the Latest Practicable Date, 120,290,625 Shares are held by Huby Technology Limited, which is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

4. As at the date of filing the substantial shareholder notices on 26 August 2009, Cha Albert, Engleman Edgar George and Kung Frank Fang-Chien owned Vivo Ventures VI, LLC as to 27.77%, 29.51% and 39.39% respectively. Each of Cha Albert, Engleman Edgar George and Kung Frank Fang-Chien was therefore deemed to be interested, to that extent, in the shares indirectly held by Vivo Ventures VI, LLC under the SFO. Vivo Ventures VI, LLC owned Vivo Ventures Fund VI, LP as to 2%. Vivo Ventures VI, LLC was therefore deemed to be interested, to that extent, in the shares indirectly held by Vivo Ventures Fund VI, LP.
5. As at the Latest Practicable Date, 30,273,437 shares were held by Life Science Intelligence Limited, which is owned as to 99.27% by Vivo Ventures Fund VI, LP. By virtue of Vivo Ventures Fund VI, LP's indirect interests in the Company, Vivo Ventures Fund VI, LP is deemed to be interested in 30,273,437 shares under the SFO.

Short positions in shares

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

Short positions in the 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 expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

(c) Other interests

Cinda International 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

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

5. QUALIFICATION OF EXPERT

Cinda International, 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 current salaries and allowances are HK\$111,090 per month for Ms. Leelalertsuphakun Wanee and HK\$90,750 per month for Ms. Lee Siu Fong. Bonus will be paid at the absolute discretion of the Board.

Dr. Li entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and after the contract having been renewed for an additional period of one year from 1 September 2006, it has been renewed for another three years from 1 September 2007. Salary and allowances is HK\$159,793 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 and Dr. Li together, holding less than 30% 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 (“**Mr. Lam**”) and Dr. Tsim Wah Keung, Karl (“**Dr. Tsim**”) has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive Director. Mr. Lam has a three-year service contract with the Company from 1 July 2007 and Dr. Tsim has a three-year service contract with the Company from 20 September 2007. 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 three-year service contract with the Company from 12 October 2007. 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 2009. Director's fee is HK\$75,000 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 (excluding contracts 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 Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

None of the Directors or Cinda International has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any members of the Group since 31 December 2008, 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 compliance officer of the Company or her associates, and the Directors or their respective associates had any business or interest that competes or may compete with the business of the Group, or any other conflicts of interest which any of them has or may have which the Group must be disclosed pursuant to GEM Listing Rules.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest audited financial statements of the Group were made up.

10. 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 449,787,437 Shares have been issued and fully paid up;
- (b) The compliance officer of the Company is Ms. Lee Siu Fong, the chairman 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, Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong; and
- (e) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

11. 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.

- (a) letter from the Independent Board Committee dated 14 December 2009;
- (b) letter from Cinda International dated 14 December 2009;
- (c) the Distribution Agreement;
- (d) the Subscription Agreement;
- (e) the service contract of each of the Directors referred to in the paragraph headed "Service Contracts" in this Appendix; and
- (f) the written consent referred to in the paragraph headed "Consent" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8221)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lee's Pharmaceutical Holdings Limited (the "**Company**") will be held at Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Thursday, 31 December 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (with or without modifications) as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

Resolutions in relation to the continuing connected transactions

“(1) **THAT**

- (a) 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 a distribution agreement dated 24 November 2009 (the "**Distribution Agreement**") (the "**Continuing Connected Transactions**") and the transactions as contemplated under the Distribution Agreement be and are hereby approved, confirmed and ratified;
- (b) the terms and conditions of the Distribution Agreement entered into between the Company and Sigma-Tau Industrie be and are hereby approved, confirmed and ratified; and
- (c) the maximum aggregate annual value arising from the Continuing Connected Transactions under the Distribution Agreement for each of the three years ending 31 December 2010, 2011 and 2012, which is estimated to be EUR2,533,160 (approximately HK\$29,131,340), EUR6,037,827 (approximately HK\$69,435,011) and EUR9,875,641 (approximately HK\$113,569,872), respectively (the "**Cap**"), be and are hereby approved, confirmed and ratified; and
- (d) any Director be and is hereby authorized to take such actions and execute such documents for and on behalf of the Company and in case of execution of documents under seal, to do so in the manner as stipulated in the memorandum and articles of association of the Company and for such purposes as the Directors see fit or consider necessary, desirable or expedient in relation to the Continuing Connected Transactions and the Distribution Agreement.”

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Resolutions in relation to the Subscription

“(2) **THAT**

- (a) the terms and conditions of the subscription agreement dated 2 December 2009 (the “**Subscription Agreement**”) entered into, among other, between Powder Pharmaceuticals Incorporated (“**PPI**”), Lee’s Pharmaceutical International Limited (“**Lee’s International**”), Defiante Farmaceutica S.A. (“**Defiante**”), Dr. Li Xiaoyi (“**Dr. Li**”) and the Company, and the entering into the Subscription Agreement be and are hereby approved, confirmed and ratified; and
- (b) the subscription (including but not limited to the subscription by each of Defiante and Dr. Li) and the transactions as contemplated under the Subscription Agreement be hereby approved, confirmed and ratified; and
- (c) the terms and conditions of the shareholders’ agreement (the “**Shareholders’ Agreement**”) to be entered into, among other, between PPI, Lee’s International, Defiante, Dr. Li and the Company, the entering into the Shareholders’ Agreement, and the transactions as contemplated under the Shareholders’ Agreement (including but without limitation the grant of the Rights to Elect (as defined in the circular of the Company dated 14 December 2009) be and are hereby approved, confirmed and ratified; and
- (d) any Director be and is hereby authorised to sign the Subscription Agreement and the Shareholders’ Agreement for and on behalf of the Company, together with such amendments, alterations or deletions as he/she may in his absolute discretion think necessary and appropriate whose signature thereto shall be conclusive evidence of his/her approval to such amendments, alterations or deletions, and any one Director be and is hereby authorised 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 purposes as the Directors see fit or consider necessary, desirable or expedient in relation to the Subscription and/or the transactions as contemplated under the Subscription Agreement and/or the Shareholders’ Agreement.”

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

Hong Kong, 14 December 2009

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:

PO Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Units 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 or any adjournment thereof 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 or any adjournment thereof 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 share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th 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 above meeting or any adjournment thereof 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 or any adjournment thereof 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 thereof, Ms. Lee Siu Fong (Chairman of the Company), 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.