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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 licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lee's Pharmaceutical Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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The implementation of the Proposed Spin-Off and the Global Offering is subject to, among other things, The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, all of the Zhaoke Ordinary Shares. There is no certainty as to whether, and if so when, the Proposed Spin-Off and the Global Offering will take place. Accordingly, Shareholders, holders of other securities of the Company and potential investors in the securities of the Company should exercise caution when dealing in or investing in the Shares or other securities of the Company.

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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: 950)

PROPOSED SPIN-OFF AND SEPARATE LISTING OF ZHAOKE OPHTHALMOLOGY LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Shareholders



A letter from the Board is set out on pages 8 to 26 of this circular and a letter of recommendation from the Independent Board Committee to the Shareholders is set out on page IBC-1 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Shareholders is set out on pages IFA-1 to IFA-14 of this circular.

A notice convening the EGM to be held at 1/F, Building 20E, Phase 3, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Monday, 15 March 2021 at 3:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular.

A proxy form for use at the EGM is also enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and sign the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory temperature screening/checks
- (2) Wearing of surgical face mask inside the EGM venue at all times
- (3) No provision of refreshments or drinks

Attendees who do not comply with the precautionary measures may be denied entry to the EGM, by the venue provider or the chairman of the EGM at his absolute discretion, to the extent permitted by law. For the health and safety of Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person.

* For identification purpose only

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PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

With the outbreak and spreading of a novel coronavirus (the “**COVID-19**”) pandemic and the heightened requirements for the prevention and control of its spreading, to safeguard the health and safety of Shareholders who might be attending the EGM in person, the Company will implement the following precautionary measures at the EGM.

Voting by proxy in advance of the EGM: The Company does not in any way wish to diminish the opportunity available to Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect Shareholders from possible exposure to COVID-19 pandemic. For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising Shareholder’s rights. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.

Completed forms of proxy must be returned to the branch share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the EGM.

Shareholders are therefore strongly encouraged to cast their votes by submitting a form of proxy appointing the Chairman of the EGM as their proxy.

To safeguard the health and safety of Shareholders who might be attending the EGM in person, the Company will also implement the following precautionary measures at the EGM:

- (1) Compulsory temperature screening/checks will be carried out on every attendee at the entrance of the EGM venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time, or is exhibiting flu-like symptoms may be denied entry into the EGM venue and be requested to leave the EGM venue.
- (2) Every attendee will be required to wear a surgical face mask throughout the EGM and sit at a safe distance from other attendees. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.
- (3) No refreshments or drinks will be provided to attendees at the EGM.

To the extent permitted under law, the venue provider or the chairman of the EGM may at his absolute discretion deny entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the attendees at the EGM.

Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the EGM arrangements at short notice. Shareholders should check any future announcements which the Company may publish and the Company’s website at www.leespharm.com for updates on the EGM arrangements.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Appointment of proxy by non-registered Shareholders: Non-registered Shareholders whose Shares are held through banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited should consult directly with their banks or brokers or custodians (as the case may be) to assist them in the appointment of proxy.

If Shareholders choosing not to attend the EGM in person have any questions about the relevant resolutions, or about the Company or any matters for communication with the Board, they are welcome to contact the Company as follows:

Email: investor@leespharm.com
Telephone: +852 2314 1282

If Shareholders have any questions relating to the EGM, please contact the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Telephone: +852 2862 8555
Facsimile: +852 2865 0990
Website: www.computershare.com/hk/contact

DEFINITIONS

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

“ACCG”	Adapalene and Clindamycin Combination gel (阿達帕林鹽酸克林黴素複方凝膠)
“Aier”	Aier Eye International (Hong Kong) Limited, a company incorporated under the laws of Hong Kong with limited liability and is engaged in investment holding; an affiliate company of Aier Eye Hospital Group Co., Ltd. (愛爾眼科醫院集團股份有限公司), a joint stock limited company incorporated under the laws of the People’s Republic of China with its issued shares listed on the Shenzhen Stock Exchange; and one of the Zhaoke Pre-IPO Investors
“Application Proof”	means the application proof of Zhaoke Ophthalmology’s listing document submitted on 18 December 2020
“Assured Entitlement”	means the entitlement of the Qualifying Shareholders to apply for the Zhaoke Ordinary Shares on an assured basis pursuant to a preferential offering determined on the basis of their respective shareholdings in the Company on the Record Date
“Board”	board of Directors
“BVI”	the British Virgin Islands
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its issued shares listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Coyote”	Coyote Investment Pte. Ltd., a company incorporated under the laws of Singapore with limited liability and is engaged in investment holding; and one of the Zhaoke Pre-IPO Investors
“CRO”	contract research organization
“CsA”	Cyclosporine A
“Director(s)”	director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting to be convened by the Company for the purpose of approving, among other things, the Proposed Spin-off
“FountainVest”	Neoma Holding Limited, a company incorporated under the laws of the Cayman Islands and an investment holding company wholly owned by funds advised or managed by FountainVest Partners; and one of the Zhaoke Pre-IPO Investors
“GBA”	Poly Platinum Enterprises Limited, a company incorporated under the laws of BVI and is a wholly-controlled subsidiary of Greater Bay Area Homeland Development Fund LP; and one of the Zhaoke Pre-IPO Investors
“Global Offering”	the Hong Kong public offering and the international offering (including the Preferential Offering) of Zhaoke Ordinary Shares
“Group”	the Company and its subsidiaries
“HH COFL”	COFL Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and is engaged in investment holding; ultimately managed and controlled by Hillhouse Capital Management, Ltd.; and one of the Zhaoke Pre-IPO Investors
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board comprising Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, all of whom are independent non-executive Directors, formed to advise and provide recommendations to the Shareholders on the Proposed Spin-off
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off

DEFINITIONS

“KHL”	Vertex Profit International Limited, a company incorporated under the laws of BVI with limited liability and is engaged in investment holding; and one of the Zhaoke Pre-IPO Investors
“Latest Practicable Date”	19 February 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Lee’s Healthcare Fund”	Lee’s Healthcare Industry Fund L.P., an exempted limited partnership established under the laws of Cayman Islands in which the Company has purchased partnership interest representing approximately 43.16% of the total capital commitment by all limited partners; and one of the Zhaoke Pre-IPO Investors
“Lee’s International”	Lee’s Pharmaceutical International Limited, a company with limited liability and incorporated under the laws of BVI, and a wholly owned subsidiary of the Company
“Lee’s Pharm Hefei”	Zhaoke Pharmaceutical (Hefei) Company Limited, a company with limited liability established under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“Lee’s Retained Product”	Eyprotor, a product focusing on treating ophthalmic disease which will be retained by the Retained Group after the Proposed Spin-off
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loyal Valley”	Innovative Team Holdings Limited, a company incorporated under the laws of BVI with limited liability and an indirect wholly owned subsidiary of Loyal Valley Capital; and one of the Zhaoke Pre-IPO Investors

DEFINITIONS

“Master CRO Service Agreement”	the master CRO service agreement to be entered into between Zhaoke Guangzhou and Lee’s Pharm Hefei, pursuant to which the Zhaoke Group agreed to engage Lee’s Pharm Hefei as a CRO service provider to provide relevant CRO services for developing our CsA ophthalmic gel, ZKY001 and levobetaxolol hydrochloride
“NHC”	the National Health Commission of the PRC
“NHSA”	the National Healthcare Security Administration of the PRC
“Non-qualifying Shareholder(s)”	means Shareholder(s) with registered addresses in, or who are otherwise known by the Company to be residents of, jurisdictions outside Hong Kong on the Record Date, in respect of whom the directors of the Company and Zhaoke Ophthalmology, based on the enquiries made by them, consider it necessary or expedient to exclude from the Preferential Offering on account either of the legal restrictions under the laws of the relevant jurisdiction in which the relevant Shareholder is resident or the requirements of the relevant regulatory body or stock exchange in that jurisdiction
“NRDL”	the National Reimbursement Drug List published by the NHSA
“Ophthalmic Business”	the R&D of ophthalmic drugs
“OrbiMed Entities”	OrbiMed Partners Master Fund Limited, OrbiMed Genesis Master Fund, L.P. and OrbiMed New Horizons Master Fund, L.P.. OrbiMed Partners Master Fund Limited is a company incorporated under the laws of Bermuda with limited liability engaging in investment holding. OrbiMed Genesis Master Fund, L.P. and OrbiMed New Horizons Master Fund, L.P. are each an exempted limited partnership established under the laws of Cayman Islands with OrbiMed Advisors LLC acting as the investment manager; and all of which are Zhaoke Pre-IPO Investors
“Over-allotment Option”	the option expected to be granted by Zhaoke Ophthalmology to the underwriters under the Global Offering

DEFINITIONS

“Panacea”	Panacea Venture Healthcare Fund I, L.P., a limited partnership established under the laws of the Cayman Islands and is engaged in investment holding; and one of the Zhaoke Pre-IPO Investors
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	People’s Republic of China, and for the purpose of this circular shall not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Preferential Offering”	the Assured Entitlement to the Zhaoke Ordinary Shares to be provided to Qualifying Shareholders in the Global Offering
“Proposed Listing”	the proposed listing of the Zhaoke Ordinary Shares on the Main Board of the Stock Exchange by way of the Global Offering
“Proposed Spin-off”	the proposed separate listing of Zhaoke Ordinary Shares on the Main Board of the Stock Exchange pursuant to Chapter 18A of the Listing Rules, which is to be effected by way of the Global Offering, including the Preferential Offering
“Qualifying Shareholders”	means Shareholder(s) whose name(s) appeared on the register of members of the Company at 4:30 p.m. on the Record Date, excluding the Non-Qualifying Shareholders
“R&D”	research & development
“Record Date”	means a date on which the entitlement of the Qualifying Shareholders to apply for the Zhaoke Ordinary Shares is determined
“Remaining Business”	the remaining business of the Retained Group which will comprise of, among others, oncology business, dermatology business, gynaecology business, cardiovascular business, psychiatric business and pain management business
“Retained Group”	the Company and its subsidiaries, excluding the Zhaoke Group

DEFINITIONS

“Sage Entities”	Sage Partners Master Fund and R&D Business Partner Limited, a company incorporated under the laws of the Cayman Islands with limited liability and is managed by Sage Partners Limited; and one of the Zhaoke Pre-IPO Investors
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	holders of the Shares
“Shares”	ordinary share(s) of nominal value of HK\$0.05 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“TPG Asia”	TPG Asia VII SF Pte. Ltd., a company incorporated under the laws of Singapore with limited liability and an affiliate of TPG Capital; and one of the Zhaoke Pre-IPO Investors
“VMS Entities”	Smart Rocket Limited and Bio Success Investments Limited, each of which is a company incorporated under the laws of the BVI with limited liability engaging in investment holding and indirect subsidiary of VMS Holdings Limited; and both are Zhaoke Pre-IPO Investors
“Wealthy Chance”	Wealthy Chance Fortune Ltd., a company incorporated under the laws of BVI with limited liability
“Zhaoke Group”	Zhaoke Ophthalmology and its subsidiaries
“Zhaoke Guangzhou”	Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited, a limited liability company established in the PRC on 16 June 2016 and an indirect wholly owned subsidiary of Zhaoke Ophthalmology

DEFINITIONS

“Zhaoke HK”	Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited, a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Zhaoke Ophthalmology
“Zhaoke Offer Shares”	the new Zhaoke Ordinary Shares to be issued by Zhaoke Ophthalmology under the Global Offering
“Zhaoke Ophthalmology”	Zhaoke Ophthalmology Limited (formerly known as China Ophthalmology Focus Limited), a company initially incorporated under the laws of BVI with limited liability and subsequently registered by way of continuation in the Cayman Islands
“Zhaoke Ordinary Shares”	the ordinary shares in the share capital of Zhaoke Ophthalmology which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for listing and permission to trade on the Stock Exchange
“Zhaoke Pre-IPO Investment(s)”	the pre-IPO investment(s) in Zhaoke Ophthalmology
“Zhaoke Pre-IPO Investor(s)”	the investors of Zhaoke Pre-IPO Investments
“Zhaoke Pre-IPO Share Option Scheme”	the existing share option scheme approved and adopted by Zhaoke Ophthalmology
“Zhaoke Preferred Shares”	the Zhaoke Series A Preferred Shares and the Zhaoke Series B Preferred Shares
“%”	per cent

LETTER FROM THE BOARD



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: 950)

Executive Directors:

Ms. Lee Siu Fong (*Chairman*)
Ms. Leelalertsuphakun Wanee
Dr. Li Xiaoyi

Registered Office:

P.O. Box 309 GT, Uglan House
South Church Street, George Town
Grand Cayman, Cayman Islands

Non-executive Director:

Mr. Simon Miles Ball

Principal Place of Business in Hong Kong:

1/F, Building 20E, Phase 3
Hong Kong Science Park
Shatin, New Territories
Hong Kong

Independent Non-executive Directors:

Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

24 February 2021

To the Shareholders,

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
ZHAOKE OPHTHALMOLOGY LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 9 July 2020, 3 September 2020, 20 November 2020, 18 December 2020, 29 January 2021 and 11 February 2021 in relation to the Proposed Spin-off.

The purposes of this circular are to: (i) provide the Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by the Listing Rules for a major transaction of the Company); (ii) set out the recommendation of the Independent Board Committee to the Shareholders regarding the Proposed Spin-off; (iii) set out the letter of advice from Gram Capital containing its recommendation to the Independent Board Committee and the Shareholders regarding the Proposed Spin-off; and (iv) give to the Shareholders notice of the EGM at which an ordinary resolution will be proposed to approve the Proposed Spin-off.

* For identification purpose only

LETTER FROM THE BOARD

2. THE PROPOSED SPIN-OFF

2.1. Background

The Proposed Spin-off involves the spin-off of the Zhaoke Group and separate listing of the Zhaoke Ordinary Shares on the Main Board of the Stock Exchange by way of the Global Offering. In this regard, the Company had submitted a spin-off proposal to the Stock Exchange pursuant to the PN15 on 3 September 2020 and the Stock Exchange had confirmed on 20 November 2020 that the Company may proceed with the Proposed Spin-off.

On 18 December 2020, a listing application form (Form A1) was submitted to the Stock Exchange for an application for the listing of, and permission to deal in, the Zhaoke Ordinary Shares on the Main Board of the Stock Exchange by way of Global Offering. A redacted version of the Application Proof is available for reviewing and downloading on the Stock Exchange's website at www.hkexnews.hk. The Application Proof contains, among other things, certain business and financial information relating to Zhaoke Ophthalmology. Shareholders should note that the Application Proof is in draft form and the information contained in it is subject to change which may be material.

The Proposed Spin-off is expected to involve the issue of the Zhaoke Offer Shares representing approximately 20% of the enlarged issued share capital of Zhaoke Ophthalmology upon completion of the Proposed Spin-off. In addition, it is proposed that the underwriters of the Proposed Spin-off will be granted the Over-allotment Option of no more than 15% of the Zhaoke Offer Shares initially to be offered under the Global Offering. The size of the offering has not been determined and is subject to further discussion between Zhaoke Ophthalmology and the underwriters. The Company will ensure that Zhaoke Ophthalmology will be able to satisfy the public float requirements under Rules 8.08(1) and 18A.07 of the Listing Rules.

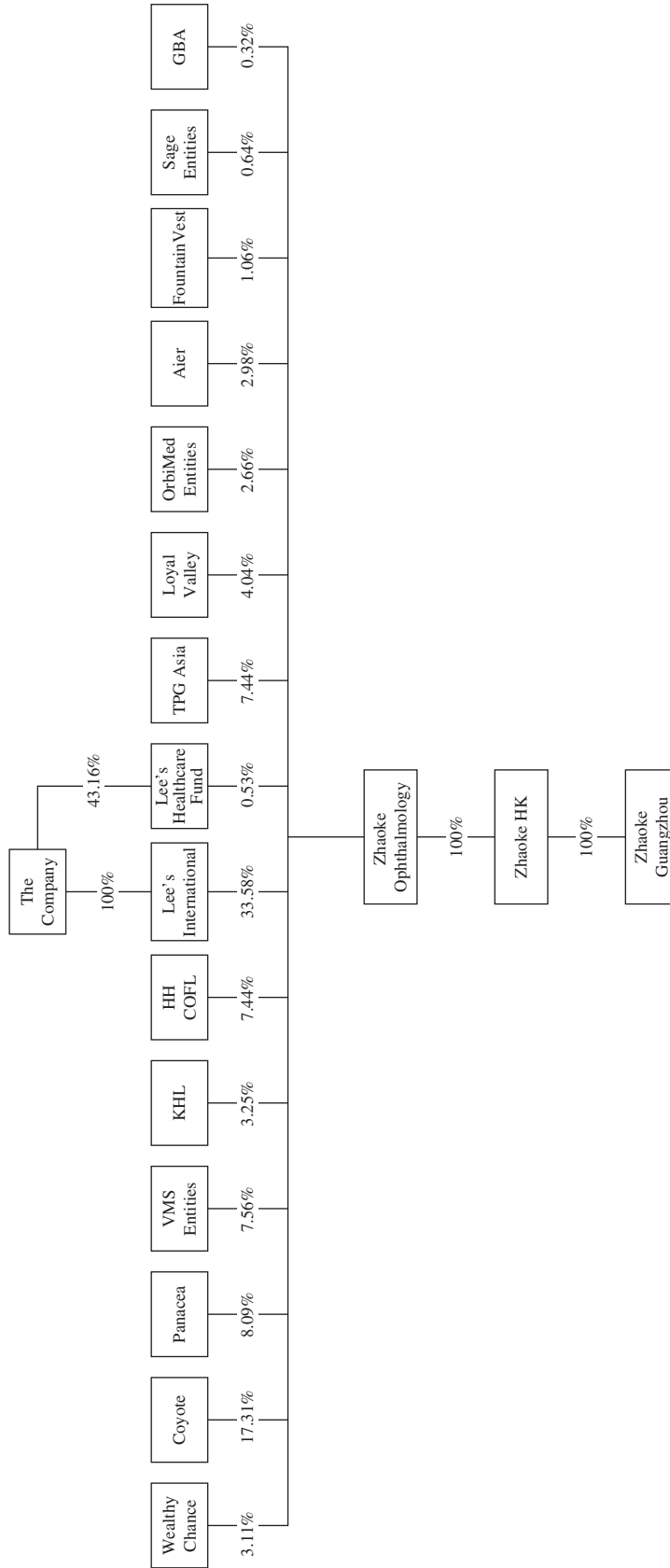
As at the Latest Practicable Date, the Company's indirect interest in Zhaoke Ophthalmology (through Lee's International and Lee's Healthcare Fund) is approximately 34.107%. As at the Latest Practicable Date, Zhaoke Ophthalmology is an associated company of the Company.

Based on the current structure of the Global Offering which is subject to finalisation by Zhaoke Ophthalmology, upon completion of the Proposed Spin-off (which involves the Global Offering of approximately 102,897,000 Zhaoke Ordinary Shares (subject to the Over-allotment Option)), the equity interests held by the Company in Zhaoke Ophthalmology (through Lee's International and Lee's Healthcare Fund) will decrease from approximately 34.107% to approximately 27.285% (assuming the Over-allotment Option is not exercised and without taking into account any Zhaoke Ordinary Shares which may be issued pursuant to the exercise of any options which may be granted under the Zhaoke Pre-IPO Share Option Scheme).

Upon completion of the Proposed Spin-off, there will be a clear delineation between the business of Zhaoke Ophthalmology and the Remaining Business in terms of, among others, the nature of business, technical requirements, source of revenue, products offered and target customers.

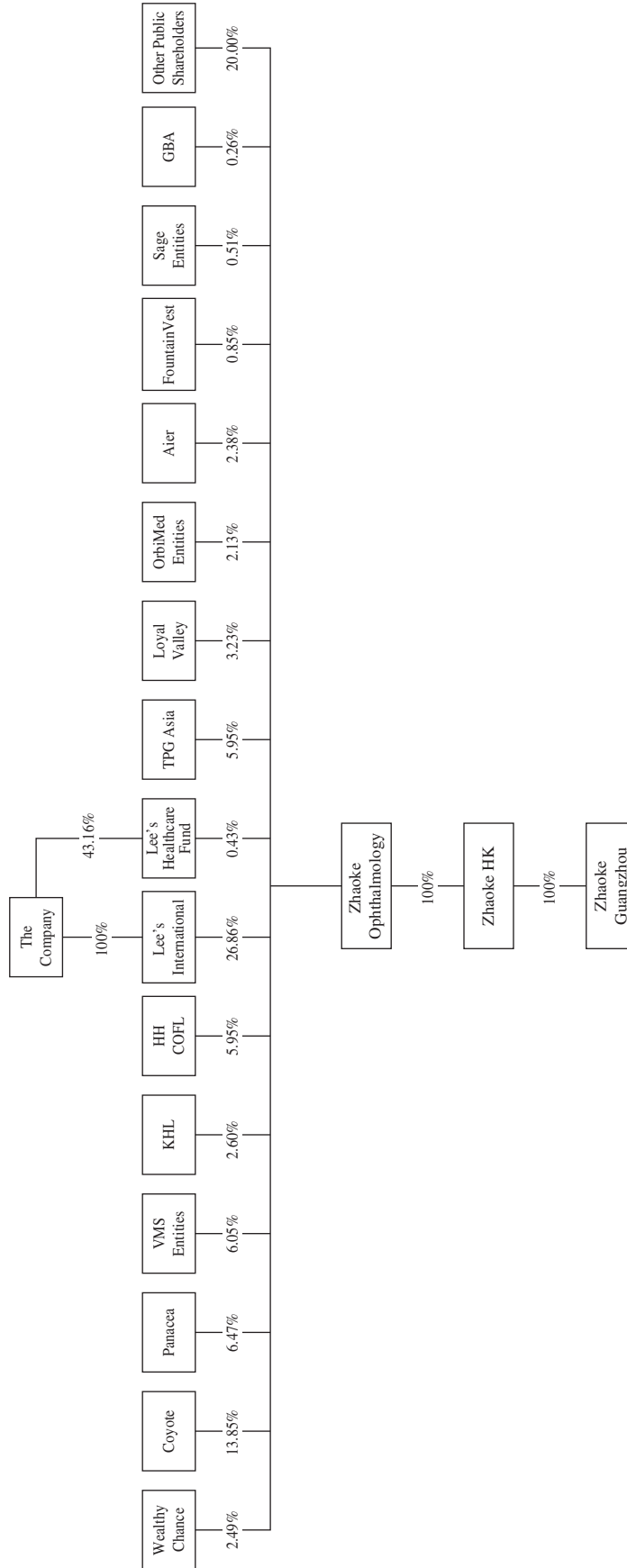
2.2. Shareholding Effects of the Proposed Spin-off

The shareholding structure of Zhaoke Ophthalmology immediately prior to the Proposed Spin-off and the Global Offering (assuming conversion in full of the Zhaoke Preferred Shares into the Zhaoke Ordinary Shares) is set out below:



LETTER FROM THE BOARD

The shareholding structure of Zhaoke Ophthalmology immediately after the Proposed Spin-off and the Global Offering (assuming (1) conversion in full of the Zhaoke Preferred Shares into the Zhaoke Ordinary Shares; and (2) the Over-allotment Option is not exercised and without taking into account any Zhaoke Ordinary Shares which may be issued pursuant to the exercise of any options which may be granted under the Zhaoke Pre-IPO Share Option Scheme) is set out below:



LETTER FROM THE BOARD

3. INFORMATION ON ZHAOKE OPHTHALMOLOGY AND THE RETAINED GROUP

3.1. Business overview of Zhaoke Ophthalmology

Zhaoke Ophthalmology was initially incorporated under the laws of BVI on 20 January 2017 and registered by way of continuation in the Cayman Islands on 29 April 2020. The Zhaoke Group is currently engaged in the Ophthalmic Business.

3.2. Key financial information of Zhaoke Ophthalmology

As at 31 December 2018 and 31 December 2019, the audited consolidated total assets value of the Zhaoke Group were HK\$189 million (derived from the consolidated audited financial information of the Group for the financial year ended 31 December 2018) and HK\$528 million (extracted from the annual report of the Company for the financial year ended 31 December 2019), respectively.

As at 31 December 2018, the audited total net liabilities of the Zhaoke Group was approximately HK\$5 million (derived from the consolidated audited financial information of the Group for the financial year ended 31 December 2018) and as at 31 December 2019, the audited total net assets of the Zhaoke Group was approximately HK\$414 million (extracted from the annual report of the Company for the financial year ended 31 December 2019).

The audited net losses (both before and after taxation) of the Zhaoke Group for each of the two financial years immediately before the Proposed Spin-off are as follows:

	For the year ended 31 December 2018 HK\$	For the year ended 31 December 2019 HK\$
Net loss before taxation	6,482,000	25,502,000
Net loss after taxation	6,860,000	31,439,000

The information on audited net losses (both before and after taxation) of the Zhaoke Group for the year ended 31 December 2018 is derived from the consolidated audited financial information of the Group for the financial year ended 31 December 2018.

The information on audited net losses (both before and after taxation) of the Zhaoke Group for the year ended 31 December 2019 is derived from the consolidated audited financial information of the Group for the financial year ended 31 December 2019.

LETTER FROM THE BOARD

Please refer to the Application Proof for detailed information of the Zhaoke Group including its standalone consolidated audited financial information as set out in Appendix I of the Application Proof.

3.3. Clear business delineation between the business of the Retained Group and Zhaoke Group

The Zhaoke Group mainly focuses on the Ophthalmic Business with its 24 pipeline products treating ophthalmic diseases including but not limited to dry eye, corneal epithelial defects, glaucoma and allergic conjunctivitis. The Remaining Business mainly focuses on different medical areas and different types of pharmaceutical products and services, and has over 40 pharmaceutical products. The core businesses of the Zhaoke Group and the Retained Group are explicitly differentiated in nature. The major products of the Zhaoke Group and those of the Retained Group function independently and are not supplemental to each other.

The overall business of the Zhaoke Group is at the pre-commercialization stage with R&D as its primary focus. The Retained Group, however, is an integrated research-driven and market-oriented biopharmaceutical company publicly listed in Hong Kong with over 25 years of experience in the pharmaceutical industry in PRC.

(A) Ophthalmic product retained by the Retained Group

The Retained Group will continue its manufacture and marketing of the Lee's Retained Product, which focuses on treating ophthalmic disease. The Company and Zhaoke Ophthalmology consider that the Lee's Retained Product will not affect the business delineation between the two groups because of the following reasons:

- (1) ***Difference in treatment of diseases*** – The Lee's Retained Product and the Ophthalmic Business are not interchangeable nor can they be replaced by each other. Despite all focusing on ophthalmic diseases, the Ophthalmic Business and the Lee's Retained Product are designed to treat different types of ophthalmic diseases, which can be distinguished from each other in nature. The Lee's Retained Product cannot be applied to treat the diseases covered by the Ophthalmic Business, and vice versa.
- (2) ***Difference in business focuses*** – The Retained Group focuses itself on various medical fields and offers an intensive range of products. The Retained Group diversifies its resources in the R&D of over 40 drugs covering more than 10 different medical fields. The Zhaoke Group is established to become the new platform for developing the Ophthalmic Business and will devote most of its financial, technical and human resources to the R&D of drugs treating ophthalmic diseases, while the Retained Group, however, has not concentrated its resources in the Ophthalmic Business and will not do so after the Proposed Spin-off. As at the Latest Practicable Date and up to the completion of the Proposed Spin-off, most of the Ophthalmic Business were and will remain at the R&D stage. Such differences in business focuses indicate a clear delineation of the Remaining Business and Ophthalmic Business in respect of their future direction.

LETTER FROM THE BOARD

- (3) ***The Lee's Retained Product will diminish and is unlikely to have direct competition with the products of the Zhaoke Group*** – The Lee's Retained Product, has been listed on the First Batch of National Key Monitored Drugs for Rational Use (chemical and biological products) (第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)) by the NHC in June 2019 as the authority considered Eyprotor as an adjuvant drug and not sufficiently effective in substance for the treatment of corneal injury, which further led to the removal of the Lee's Retained Product from the NRDL since January 2020 by the NHSA as the NHSA was inclined to allocate more of the national medical insurance funds to innovative drugs instead of adjuvant drugs like the Lee's Retained Product. Although the NHSA would review and adjust the list of drugs on the NRDL from time to time, there was no assurance that the Lee's Retained Product will be re-included on the NRDL in the near future.
- (4) ***Decrease in sales of the Lee's Retained Product*** – Given the stringent control and monitor on the use of the Lee's Retained Product imposed by the authority and lack of support and reimbursement from the national medical insurance funds, the demand for the Lee's Retained Product in the PRC market decreased significantly. After it was removed from the NRDL in January 2020, the sales of Lee's Retained Product declined sharply by 46.3% for the first half of 2020, accounted only for 0.8% of the total sales of the Group for the same period, which represents an extremely small and immaterial contribution to the Group's overall business. Given the national monitoring on the use of the Lee's Retained Product and the exclusion from the NRDL, market and prospects for the Lee's Retained Product are expected to further decrease in the future, which gives rise to the Company's decision to gradually drop it from its current product line. Taking into account the delineation of products in nature and given the gradually diminishing market of the Lee's Retained Product, the competition between the Retained Group and the Zhaoke Group in terms of ophthalmic business is minimal. Save for the Lee's Retained Product, the Retained Group does not have any other pipeline of ophthalmic drug.
- (5) ***Undertaking provided by the Retained Group*** – The Retained Group undertakes that the Zhaoke Group will be granted a right of first refusal to purchase the commercial and intellectual property rights of the Lee's Retained Product on commercially reasonable terms. The Zhaoke Group is entitled to consider whether or not to purchase such rights when the sales demand of the Lee's Retained Product rises. For the purpose of the Proposed Spin-off, the Retained Group also undertakes that upon completion of the Proposed Spin-off, other than the Lee's Retained Product, it will no longer further engage in any other ophthalmic business and, so long as it remains as Zhaoke Ophthalmology's single largest shareholder, if any investment or other business opportunity relating to the ophthalmic business

LETTER FROM THE BOARD

is identified, it shall refer such business opportunity to the Zhaoke Group and shall not pursue such business opportunity unless the Zhaoke Group declines.

(B) Dermatological product retained by the Zhaoke Group

The product portfolio of the Zhaoke Group included ACCG. The Company and Zhaoke Ophthalmology consider that ACCG will not affect the business delineation between the two groups because of the following reasons:

- (1) ACCG and the relevant products of the Retained Group in the same medical fields are different from each other in nature, and they are not interchangeable and cannot be replaced by each other.
- (2) ***The holding of ACCG by the Zhaoke Group was merely a legacy issue*** – As a platform for the Ophthalmic Business, the Zhaoke Group has been mainly focusing on the R&D of ophthalmic pharmaceutical products since its establishment in 2016. Since most of the ophthalmic drugs in the Zhaoke Group’s pipeline would be in liquid, gel, hydro gel or paste form, Zhaoke Ophthalmology was also planned to be equipped with the manufacturing capabilities of drugs in these forms for future development. As ACCG was expected to be gel or paste drugs and therefore they were initially held by Zhaoke Ophthalmology.
- (3) ***Disposal of ACCG by license-out*** – To eliminate the potential concern, on 2 October 2020, the Zhaoke Group and the Retained Group entered into a licensing agreement, pursuant to which, the Zhaoke Group agreed to dispose of the ACCG by granting exclusive rights to the Retained Group to commercialize ACCG, in the greater China region.
- (4) ***Grant of Option*** – On 30 November 2020, Zhaoke Ophthalmology granted to the Retained Group an exclusive and irrevocable option, pursuant to which the Retained Group could purchase all intellectual properties and commercial rights of ACCG based on arm’s length discussion on commercially reasonable terms.

The Retained Group will set up an independent board committee (which will consist of directors who do not have any interest or overlapping positions in Zhaoke Ophthalmology), to review and assess, on an annual basis, the commercial prospects of ACCG (including without limitation to its price, sales volume, profit margin and the degree of acceptance in the market) and to determine whether or not to exercise the abovementioned option.

LETTER FROM THE BOARD

(C) Non-competition undertaking provided by the Zhaoke Group

Save for the above, the Zhaoke Group did not have any other pipeline of dermatological pharmaceutical product. For the purpose of the Proposed Spin-off, the Zhaoke Group also undertakes that upon completion of the Proposed Spin-off, it will not engage in R&D of dermatological pharmaceuticals. If any investment or other business opportunity relating to dermatological pharmaceuticals is identified, the Zhaoke Group shall refer such business opportunity to the Retained Group and shall not pursue such business opportunity unless the Retained Group declines.

3.4. Operational independence

The business model of the Zhaoke Group involves the use of its own technologies (including the in-licensed technologies), facilities and funds to carry out the Ophthalmic Business. The Zhaoke Group is able to operate without reliance on the Retained Group on the following basis:

(A) Research & development

The Zhaoke Group has an R&D center located in Nansha, Guangzhou, PRC, which is independent from the R&D centers of the Retained Group. Its R&D team comprises approximately 38 members, substantially all of whom are full-time employees of the Zhaoke Group not holding any position in the Retained Group. In addition, the Zhaoke Group is the sole owner of over 6 patents in the PRC which are required for the R&D and manufacturing of the products of the Zhaoke Group. With such independent R&D center, experienced and independent R&D team and self-owned patents, the Zhaoke Group has the requisite resources to carry on the R&D process independently, and has successfully self-developed CsA ophthalmic gel and other pipeline products.

During ordinary and usual course of business, the Zhaoke Group has engaged Lee's Pharm Hefei as its CRO, to conduct clinical study of the Zhaoke Group's products CsA ophthalmic gel, ACCG, Levobetaxolol HCl, ZKY001 and TAB014. Such transactions will continue to be conducted in the ordinary and usual course of business of Zhaoke Ophthalmology, on an arm's length basis and on normal commercial terms after the Proposed Spin-off. Zhaoke Ophthalmology is of the view that such CRO service transactions with the Retained Group will not affect Zhaoke Ophthalmology's ability to operate independently from the Retained Group for the following reasons:

- (1) The ability of Zhaoke Ophthalmology to function independently of the Retained Group in every aspect of its business* – Zhaoke Ophthalmology is able to function independently of the Retained Group in every aspects of its business including among other things, R&D, pharmaceutical manufacturing, and commercialization. Particularly, Zhaoke Ophthalmology is not relying on the Retained Group in relation to conducting R&D and

LETTER FROM THE BOARD

clinical trial for its products, because it has its own R&D team and is able to take lead in all important and core stages of the clinical trial process. In the event that Lee's Pharm Hefei ceases to provide CRO services to the Zhaoke Group, the Zhaoke Group is able to find alternative CRO service providers in the market to provide such CRO services.

- (2) *Procuring CRO services from Lee's Pharm Hefei is purely commercial-based decision* – The Zhaoke Group was under no obligation to enter into such agreement with the Retained Group. The Zhaoke Group engaged Lee's Pharm Hefei as a CRO service provider simply because Lee's Pharm Hefei has competent expertise in providing CRO services and can provide such CRO services, at arm's length, with good quality. The CRO service transactions have been conducted in a way following and in compliance with the due internal procurement procedure of the Zhaoke Group.
- (3) The CRO services transactions are carried out by both parties in the ordinary course of business and are on normal commercial terms which are fair and reasonable to the Zhaoke Group and the Retained Group. The fees payable by the Zhaoke Group to the Retained Group for procurement of the CRO services are comparable to the market price.
- (4) The risk that the Retained Group will terminate the Master CRO Service Agreement is remote as the parties have limited termination rights under the Master CRO Service Agreement, and the termination would not be in the commercial interest of the Retained Group. In an unlikely event that the Retained Group terminates the Master CRO Service Agreement with the Zhaoke Group, given the reasons set out above and that the Zhaoke Group is able to find substitute CRO service providers to replace Lee's Pharm Hefei, the Zhaoke Group does not consider such termination will materially and adversely affect its business.

(B) Leasing and manufacturing

The Zhaoke Group has been operating on the premises located in Nansha, Guangzhou, PRC. The facilities include a complete range of solid dosage production lines for the development and manufacturing of various types of ophthalmic products, which are different from and not interchangeable with the production facilities of the Retained Group. The production personnel of the Zhaoke Group and the Retained Group are trained differently and possess different skills. There is no sharing of production facilities or production personnel between the Zhaoke Group and the Retained Group.

LETTER FROM THE BOARD

The manufacturing site of the Zhaoke Group is located in two buildings owned by the Retained Group. The Zhaoke Group is currently leasing and expects to continue to lease the properties from the Retained Group after completion of the Proposed Spin-off to avoid unnecessary relocation cost. It is a common practice in the pharmaceutical industry that a pre-profit biotech company operates by leasing premises instead of constructing its own premises, and inputs a substantial part of its cash flow into the R&D activities.

The lease agreements were entered into by the Zhaoke Group and the Retained Group (i) at arm's length; (ii) on normal commercial terms with the rents being agreed with reference to the prevailing markets rates of comparable premises in the locality; and (iii) in the ordinary and usual course of the Zhaoke Group's business.

The Zhaoke Group is of the view that the ongoing leasing of the properties from the Retained Group is unlikely to experience disruption, and will not result in the Zhaoke Group's reliance on the Retained Group, on the basis of the following:

- (1) The risk that the ongoing leases will be terminated and that the Zhaoke Group will be forced to relocate is extremely low given that (i) as the lease agreements were entered into by the parties after arm's length negotiations and on normal terms, the Retained Group does not have motivation to terminate the leases recklessly; and (ii) most of the lease agreements are valid for a period of three years, and will be automatically extended for additional consecutive renewal terms of three years each unless otherwise notified by the Zhaoke Group; and
- (2) In the event that the Retained Group has any plan for sale, the Zhaoke Group has the right of first refusal to purchase the properties. The properties are currently located in an industrial park located in Nansha, Guangzhou, PRC where a large number of lands and buildings are offered for lease in the locality. If the Zhaoke Group is required to relocate, it is expected that there will not be substantial hurdle for it to find substitutive premises nearby with comparable rental rates.

3.5. Management independence

Each of Dr. Li Xiaoyi, Ms. Leelalertsuphakun Wanee and Mr. Dai Xiangrong has been involved in the management of the Group for the preceding three financial years, in which (1) Dr. Li Xiaoyi served as an executive director, the chief executive officer and chief technical officer; (2) Ms. Leelalertsuphakun Wanee as an executive director, managing director, and chief marketing and sales officer; and (3) Mr. Dai Xiangrong as the deputy general manager, respectively. Upon completion of the Proposed Spin-off, Dr. Li Xiaoyi will resign from all his executive positions in the Retained Group and only serve as a non-executive director of the Retained Group, and Mr. Dai Xiangrong will cease to hold any management position in the Retained Group.

LETTER FROM THE BOARD

Save as disclosed above, Zhaoke Ophthalmology and the Retained Group had and will have their respective directors and management teams independent of each other.

Each of the Retained Group and the Zhaoke Group will be managed and will operate independently of each other in the interests of their respective shareholders as a whole on the following basis:

- (1) upon the completion of the Proposed Spin-off, Dr. Li Xiaoyi will cease to serve as the executive director of the Company and become a non-executive director of the Retained Group;
- (2) upon completion of the Proposed Spin-off, Mr. Dai Xiangrong will cease to hold any senior management position in the Retained Group;
- (3) save as disclosed above, none of the remaining directors of the Zhaoke Group has any ongoing role with the Retained Group;
- (4) a majority of the members of the board of Zhaoke Ophthalmology will be independent of the Retained Group;
- (5) none of the members of the senior management of Zhaoke Ophthalmology have any ongoing management role with the Retained Group;
- (6) should there be a conflict of interest (pursuant to the constitutional documents of the Zhaoke Ophthalmology, as applicable or the relevant Listing Rules) or a connected transaction (as defined under the Listing Rules) between Zhaoke Ophthalmology (on one hand) and members of the Retained Group (on the other hand), the relevant common directors will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of Zhaoke Ophthalmology and relevant member(s) of the Retained Group; and
- (7) Zhaoke Ophthalmology will adopt corporate governance policies, including but not limited to, rules relating to the procedure for board meetings and decision-making protocols on connected transactions, setting out circumstances that require the relevant common directors to abstain from voting on, and not to be counted in the quorum for, the relevant board resolutions.

3.6. Financial independence

The Zhaoke Group is able to finance its own operations. As at the Latest Practicable Date, the Zhaoke Group does not have any outstanding loans owing to the Retained Group. As of the same date, there is not any form of outstanding financial assistance, including among others, provision of guarantee, provided by the Retained Group to the Zhaoke Group.

LETTER FROM THE BOARD

3.7. Information of the Retained Group

The Retained Group is a research-driven and market-oriented biopharmaceutical company focused on the PRC market. Through its operating subsidiaries in the PRC, the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. It has established a sale and distribution network for pharmaceuticals covering most provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad.

4. FINANCIAL IMPACT OF THE PROPOSED SPIN-OFF

Upon completion of the Proposed Spin-off, it is expected that the Company will cease to be the controlling shareholder of Zhaoke Ophthalmology but will remain as the single largest shareholder of Zhaoke Ophthalmology. The operating results of Zhaoke Ophthalmology are not and will not be consolidated into the consolidated financial statements of the Company.

Following the Proposed Spin-off, Zhaoke Ophthalmology will cease to be an associated company of the Company. Accordingly, the Group's investment in Zhaoke Ophthalmology will be accounted for as financial asset at fair value through other comprehensive income for financial reporting purposes and any gain or loss on deemed disposal of Zhaoke Ophthalmology will be recognised in the Company's consolidated statement of profit or loss.

5. REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Company considers that it is commercially beneficial to the Company and Zhaoke Ophthalmology and in the interests of the Shareholders to effect the Proposed Spin-off as the Proposed Spin-off is expected to create greater value for the Company and its Shareholders as a whole and the Zhaoke Group, for the following reasons:

- (1) the Proposed Spin-off will unlock value of the Zhaoke Group which is developing at a fast-growing stage and provide the Company and its shareholders an opportunity to realise the value of their investment in the Zhaoke Group under a separate standalone platform for the Ophthalmic Business;
- (2) the Proposed Spin-off will separate the Ophthalmic Business from the Remaining Business. Such separation will enable the shareholders and investors to appraise the strategies, success factors, functional exposure, risks and returns of the Zhaoke Group and the Retained Group separately, thereby achieving a clear and fair valuation of both the Retained Group and the Zhaoke Group, so as to allow the investors to make or refine their investment decisions and to assess the future prospects of the two groups more clearly. Through such clear and fair valuation, the Proposed Spin-off will allow investors to assess the future prospects of the Retained Group more clearly, and further allow the Retained Group to attract investors who specifically seek investments in its business. Investors will have the choice to invest in either one or all of the business of either the Zhaoke Group or the Retained Group;

LETTER FROM THE BOARD

- (3) the Proposed Spin-off will enable the Zhaoke Group to build its identity as a separately listed group, to have a separate fund-raising platform and to broaden its investor base. Given the nature of the Ophthalmic Business, it takes time for the product candidates under development of the Zhaoke Group to complete clinical trials before they are commercialized and start to generate revenue. The Proposed Spin-off would allow the Zhaoke Group to gain direct access to capital markets for equity and/or debt financing to fund its existing operations and future expansion without reliance on the Company, thereby accelerating its expansion and improving its operating and financial management efficiencies, which in turn will provide better returns to the shareholders of the Zhaoke Group;
- (4) the Proposed Spin-off will enable the Zhaoke Group to enhance its corporate profile, thereby increasing its ability to attract investors for making investments in the Zhaoke Group, which could provide synergy for the Zhaoke Group, and the Retained Group will also benefit from such investments without further capital commitment. The Retained Group will also be able to fully focus on and deploy its funds towards the development of the Remaining Business without needing to consider the Zhaoke Group's funding requirements as the Zhaoke Group is currently a pre-profit biotech company and has recorded substantial R&D expenses and cash outflows. Both the Zhaoke Group and the Retained Group will gain exposure to more specialized investors and have better chances to obtain more targeted investments;
- (5) the Proposed Spin-off will increase the operational and financial transparency of and improve the corporate governance of Zhaoke Ophthalmology and provide shareholders and investors with greater clarity on the businesses and financial status of the Zhaoke Group on a standalone basis, and such improvements will help build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of the Zhaoke Group;
- (6) the management teams of the Zhaoke Group and the Retained Group may adopt different business strategies and models which they determine to be better suited to their respective businesses, and which, due to the different nature of products, may not always be aligned. The Proposed Spin-off will enable more focused development, strategic planning and better allocation of resources for the Retained Group and the Zhaoke Group with respect to their respective businesses. Both the Retained Group and the Zhaoke Group, especially the latter, will benefit from the efficient decision-making process under a separate management structure to seize emerging business opportunities. In addition, the Proposed Spin-off will improve the ability of the Zhaoke Group to recruit, motivate and retain key management personnel. On the other hand, the management team of the Retained Group will no longer be distracted from businesses other than the Remaining Business, and will thus be able to focus on the operation and development of the Retained Group with a clear delineated business objective and concentrate their expertise, manpower and other corporate resources only on the Retained Group; and

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- (7) all benefits enjoyed by the Zhaoke Group through the Proposed Spin-off are expected to accelerate the Zhaoke Group's expansion and improve its overall operating and financial performance, thereby creating greater value for the Company and its Shareholders as a whole. Upon completion of the Proposed Spin-off, the Retained Group will remain as Zhaoke Ophthalmology's single largest shareholder, and is therefore expected to continue to enjoy the benefits of the Zhaoke Group's growth and development.

6. CONDITIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off will be conditional upon, among other things, the followings:

- (1) the approval of the Shareholders;
- (2) the Listing Committee granting the approval for the listing of, and permission to deal in, the Zhaoke Ordinary Shares in issue and any shares which may be issued in relation to the Proposed Spin-off and the Proposed Listing;
- (3) the terms of the Global Offering of Zhaoke Ophthalmology being agreed among the Company, Zhaoke Ophthalmology, the existing shareholders of Zhaoke Ophthalmology, and the underwriters to the Proposed Listing;
- (4) the final decisions of the board of directors of Zhaoke Ophthalmology; and
- (5) the market conditions and other considerations.

If any of these and other applicable conditions is not fulfilled or waived, if applicable, prior to the dates and times to be specified, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable thereafter.

7. PROPOSED USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

Assuming no exercise of the Over-allotment Option, the expected net proceeds from the Global Offering will be approximately HK\$1,436.1 million (after deducting the underwriting fees and expenses payable by Zhaoke Ophthalmology in the Global Offering), assuming an offer price of HK\$15.00 per Zhaoke Offer Share, being the mid-point of the indicative price range of HK\$12.00 to HK\$18.00 per Zhaoke Offer Share.

Zhaoke Ophthalmology expects to use the net proceeds from the Global Offering for:

- (a) clinical development and commercialization of its core products;
- (b) continuing research and development activities as well as commercialization of the other drug candidates in its pipeline;

LETTER FROM THE BOARD

- (c) carrying out the production line expansion of its Nansha manufacturing facility in anticipation of the Zhaoke Group's product launches in the coming years;
- (d) funding its business development activities and the expansion of drug pipeline; and
- (e) working capital and other general corporate purposes.

8. RESTRICTIONS ON THE DISPOSAL OF THE ZHAOKE ORDINARY SHARES

Pursuant to Rule 10.07 of the Listing Rules, each of the controlling shareholders of Zhaoke Ophthalmology will not and shall procure that the relevant registered holder(s) controlled by it/him/her will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules in the period commencing on the date by reference to which disclosure of its/his/her shareholdings in Zhaoke Ophthalmology is made in the listing document and ending on the date which is six months from the date on which dealings in the Zhaoke Ordinary Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of Zhaoke Ophthalmology in respect of which it/he/she is shown by the listing document to be the beneficial owners.

9. ASSURED ENTITLEMENT

Under paragraph 3(f) of PN15, a listed issuer is required to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to the shares in the entity which is proposed to be spun off for separate listing.

After due and careful consideration of the Proposed Spin-off, and having due regard to the interests of the Shareholders, it is intended that, if the Proposed Spin-off proceeds, an assured entitlement to the Zhaoke Offer Shares will be provided to qualifying existing Shareholders by way of a preferential application for the Zhaoke Offer Shares under the Global Offering, subject to certain conditions, including the board of Zhaoke Ophthalmology deciding to proceed with the Proposed Spin-off and the Global Offering, and the Listing Committee has approved the Listing.

Qualifying Shareholders are being invited to apply for an aggregate of 5,144,500 Zhaoke Ordinary Shares in the Preferential Offering, representing approximately 5.0% of the Zhaoke Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised), as an Assured Entitlement.

Details of such assured entitlement have not yet been finalised. The Company will make further announcement(s) in this regard as and when appropriate.

LETTER FROM THE BOARD

10. LISTING RULES IMPLICATIONS

Zhaoke Ophthalmology is an associated company of the Company as at the Latest Practicable Date and was a subsidiary of the Company as at the date of submission of the spin-off proposal and during the financial year ended 31 December 2019. Pursuant to PN15, the Stock Exchange will treat an entity as if it were a subsidiary of the issuer if such entity is at the time of submission of the issuer's spin-off proposal, an associated company of the issuer and was, at any time during the latest completed financial year of the issuer (comprising at least 12 months) up to the date of submission of the spin-off proposal, a subsidiary of the issuer.

As one or more of the applicable percentage ratios represented by the Proposed Spin-off is expected to exceed 25% but all of the applicable percentage ratios are less than 75%, the Proposed Spin-off constitutes a major transaction of the Company for the purposes of, and is subject to the announcement, circular and shareholders' approval requirements under the Listing Rules.

The Proposed Spin-off will therefore be subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules. The Company will comply with the requirements under paragraph 3(e)(1) of PN15 and applicable requirements of Chapter 14 of the Listing Rules (including the announcement, circular, appointment of an independent financial adviser and shareholders' approval requirements) as and when necessary.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Proposed Spin-off. As such, no Shareholder is required to abstain from voting in the general meeting to be convened to approve the Proposed Spin-off.

11. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee formed by 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 Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, taking into account the recommendation of Gram Capital.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

12. EGM

The Proposed Spin-off is subject to, among other things, the approval of the Shareholders, the Company will seek approval from the Shareholders at the EGM of, among other things, the Proposed Spin-off.

The EGM will be held at 1/F, Building 20E, Phase 3, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Monday, 15 March 2021 at 3:00 p.m. to consider and, if thought fit, approve, among other matters, the Proposed Spin-off.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

Furthermore, taking into account of the recent development of the epidemic caused by novel coronavirus pneumonia, in order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders and investors, the Company suggests that the Shareholders appoint the Chairman of the EGM as a proxy to vote on relevant resolution, instead of attending the EGM in person.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the EGM will demand a poll for the resolution to be proposed at the EGM in accordance with the memorandum and articles of association of the Company. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after conclusion of the EGM.

13. RECOMMENDATION

Dr. Li Xiaoyi and Ms. Leelalertsuphakun Wanee, both executive Directors of the Company, are the directors of Zhaoke Ophthalmology and are considered to have an interest in the Proposed Spin-off, and are required to abstain, or have abstained, from voting on the relevant Board resolutions to approve the Proposed Spin-off. Save for the above, no Director has a material interest in the Proposed Spin-off, and none of them is required to abstain or has abstained from voting on the relevant Board resolutions to approve the Proposed Spin-off.

The Directors (excluding Dr. Li Xiaoyi, Ms. Leelalertsuphakun Wanee and the independent non-executive Directors) are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Gram Capital considers that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, Gram Capital recommends the Independent Board Committee to advise, and Gram Capital itself recommends, the Shareholders to vote in favour of the relevant resolution(s) if there were a general meeting of the Company held to consider to approve the Proposed Spin-off. The letter from Gram Capital containing its advice in relation to the Proposed Spin-off, together with the factors and reasons it has considered in arriving at its opinion, is set out on pages IFA-1 to IFA-14 of this circular.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the relevant resolution(s) if there were a general meeting of the Company held to consider and, if thought fit, to approve the Proposed Spin-off.

14. ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

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

Yours faithfully,
By order of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairman



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: 950)

24 February 2021

To the Shareholders,

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
ZHAOKE OPHTHALMOLOGY LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE**

We refer to the circular dated 24 February 2021 of the Company (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Proposed Spin-off and to advise the Shareholders as to whether, in our opinion, the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Gram Capital has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Gram Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Gram Capital as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that you vote in favour of the relevant resolution(s) in the general meeting of the Company to be held to consider and, if thought fit, to approve the Proposed Spin-off.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

24 February 2021

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

Dear Sir/Madam,

PROPOSED SPIN-OFF AND SEPARATE LISTING OF ZHAOKE OPHTHALMOLOGY LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 24 February 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Company had submitted a spin-off proposal to the Stock Exchange pursuant to the PN15 on 3 September 2020 and the Stock Exchange had confirmed on 20 November 2020 that the Company may proceed with the Proposed Spin-off. On 18 December 2020, a listing application form (Form A1) was submitted to the Stock Exchange for an application for the listing of, and permission to deal in, the Zhaoke Ordinary Shares on the Main Board of the Stock Exchange by way of Global Offering. The Proposed Spin-off is expected to involve the issue of the Zhaoke Offer Shares representing approximately 20% of the enlarged issued share capital of Zhaoke Ophthalmology upon completion of the Proposed Spin-off. In addition, it is proposed that the underwriters of the Proposed Spin-off will be granted the Over-allotment Option of no more than 15% of the Zhaoke Offer Shares initially to be offered under the Global Offering.

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With reference to the Board Letter, the Proposed Spin-off constitutes a major transaction of the Company. The Proposed Spin-off will therefore be subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the resolution(s) to approve the Proposed Spin-off at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Zhaoke Ophthalmology or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons.

Background of the Proposed Spin-off

1. Business and financial information of the Group

With reference to the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**"), the Group is a research-driven and market-oriented biopharmaceutical company with more than 25 years of operation in the pharmaceutical industry in the PRC.

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Set out below are the consolidated financial information of the Group for the six months ended 30 June 2020, the six months ended 30 June 2019 and the two years ended 31 December 2019 as extracted from the Company's interim report for the six months ended 30 June 2020 (the "2020 Interim Report") and the 2019 Annual Report, respectively:

	For the year ended 31 December 2019	For the year ended 31 December 2018	Year-on-year change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
	(audited)	(audited)	
Revenue	1,218,913	1,137,626	7.15
– <i>Proprietary products</i>	535,627	519,557	3.09
– <i>Licensed-in products</i>	683,286	618,069	10.55
Profit attributable to owners of the Company	125,553	418,269	(69.98)

The Group recorded revenue of approximately HK\$1.22 billion for the year ended 31 December 2019 ("FY2019"), representing an increase of approximately 7.15% as compared to that for the year ended 31 December 2018 ("FY2018"). The Group's proprietary products segment (i.e. manufacturing and sales of self-developed pharmaceutical products) and licensed-in products segment (i.e. trading of licensed-in pharmaceutical products) recorded an increase in revenue of approximately 3.09% and an increase in revenue of approximately 10.55% respectively for FY2019 as compared to that for FY2018.

The Group recorded profit attributable to owners of the Company of approximately HK\$125.55 million for FY2019, representing a decrease of approximately 69.98% as compared to that for FY2018. With reference to the 2019 Annual Report and as advised by the Directors, such decrease in profit attributable to owners of the Company was mainly attributable to other losses (mainly due to the impairment of R&D costs) recorded for FY2019 as compared to other gains (mainly due to deemed disposal of associates) recorded for FY2018.

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Year-on-year change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
	(unaudited)	(unaudited)	
Revenue	556,716	607,534	(8.36)
– <i>Proprietary and generic products</i>	217,682	271,007	(19.68)
– <i>Licensed-in products</i>	339,034	336,527	0.74
Profit attributable to owners of the Company	96,982	38,294	153.26

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The Group recorded revenue of approximately HK\$556.72 million for the six months ended 30 June 2020 (“HY2020”), representing a decrease of approximately 8.36% as compared to that for the six months ended 30 June 2019 (“HY2019”). As advised by the Directors, the Group launched Treprostinil Injection, a generic product, in March 2020. The Group’s proprietary and generic products segment (i.e. manufacturing and sales of self-development and generic pharmaceutical products) recorded a decrease in revenue of approximately 19.68% for HY2020 as compared to that for HY2019, while the Group’s licensed-in products segment recorded a slight increase in revenue of approximately 0.74% for HY2020 as compared to that for HY2019.

The Group recorded profit attributable to owners of the Company of approximately HK\$96.98 million for HY2020, representing an increase of approximately 153.26% as compared to that for HY2019. With reference to the 2020 Interim Report and as advised by the Directors, such increase in profit attributable to owners of the Company was mainly attributable to (i) a one-off compensation income of approximately HK\$41.2 million recognised by the Group for HY2020; and (ii) the absence of considerable intangible assets impairment during HY2020, as compared to a non-recurring loss of approximately HK\$108.6 million incurred by a 65%-owned subsidiary of the Group in HY2019.

With reference to the 2020 Interim Report, the Group had net assets of approximately HK\$2.32 billion as at 30 June 2020.

2. Business and financial information of the Zhaoke Group

With reference to the Board Letter and as advised by the Directors, Zhaoke Ophthalmology is a clinical-stage ophthalmic pharmaceutical company. The Zhaoke Group mainly focuses on the Ophthalmic Business with its 24 pipeline products treating ophthalmic diseases including but not limited to dry eye, corneal epithelial defects, glaucoma and allergic conjunctivitis. The overall business of the Zhaoke Group is at the pre-commercialization stage with R&D as its primary focus.

According to the Board Letter, the audited net losses (both before and after taxation) of the Zhaoke Group for each of the two financial years immediately before the Proposed Spin-off are as follows:

	For the year ended 31 December 2019 HK\$	For the year ended 31 December 2018 HK\$
Net loss before taxation	25,502,000	6,482,000
Net loss after taxation	31,439,000	6,860,000

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Notes:

- i. The information on audited net losses (both before and after taxation) of the Zhaoke Group for FY2018 is derived from the consolidated audited financial information of the Group for FY2018.
- ii. The information on audited net losses (both before and after taxation) of the Zhaoke Group for FY2019 is derived from the consolidated audited financial information of the Group for FY2019.

According to the Board Letter, as at 31 December 2018 and 31 December 2019, the audited consolidated total assets value of the Zhaoke Group were HK\$189 million (derived from the consolidated audited financial information of the Group for FY2018) and HK\$528 million (extracted from the 2019 Annual Report), respectively. As at 31 December 2018, the audited total net liabilities of the Zhaoke Group was approximately HK\$5 million (derived from the consolidated audited financial information of the Group for FY2018) and as at 31 December 2019, the audited total net assets of the Zhaoke Group was approximately HK\$414 million (extracted from the 2019 Annual Report).

As advised by the Directors, the Zhaoke Group did not generate any revenue from product sales during FY2018, FY2019 and the nine months ended 30 September 2020. The net loss recorded by Zhaoke Group for FY2018 and FY2019 were mainly due to R&D and administrative expenses.

Detailed information of the Zhaoke Group including its standalone consolidated audited financial information is set out in Appendix I of the Application Proof.

As at the Latest Practicable Date, the Company's indirect interest in Zhaoke Ophthalmology (through Lee's International and Lee's Healthcare Fund) was approximately 34.107%. As at the Latest Practicable Date, Zhaoke Ophthalmology was an associated company of the Company. Based on the current structure of the Global Offering which is subject to finalisation by Zhaoke Ophthalmology, upon completion of the Proposed Spin-off (which involves the Global Offering of approximately 102,897,000 Zhaoke Ordinary Shares (subject to the Over-allotment Option)), the equity interests held by the Company in Zhaoke Ophthalmology (through Lee's International and Lee's Healthcare Fund) will decrease from approximately 34.107% to approximately 27.285% (assuming the Over-allotment Option is not exercised and without taking into account any Zhaoke Ordinary Shares which may be issued pursuant to the exercise of any options which may be granted under the Zhaoke Pre-IPO Share Option Scheme). Following the Proposed Spin-off, Zhaoke Ophthalmology will cease to be an associated company of the Company.

According to the Board Letter, the product portfolio of the Zhaoke Group included ACCG. The holding of ACCG by the Zhaoke Group was merely a legacy issue. As a platform for the Ophthalmic Business, the Zhaoke Group has been mainly focusing on the R&D of ophthalmic pharmaceutical products since its establishment. Since most of the ophthalmic drugs in the Zhaoke Group's pipeline would be in liquid, gel, hydro gel or paste form, Zhaoke Ophthalmology was also planned to be equipped with the manufacturing capabilities of drugs in these forms for future development. As ACCG was expected to be gel or paste drugs and therefore they were initially held by Zhaoke Ophthalmology. To

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eliminate the potential concern, on 2 October 2020, the Zhaoke Group and the Retained Group entered into a licensing agreement, pursuant to which, the Spin-off Group agreed to grant exclusive rights to the Retained Group to commercialize ACCG, in the greater China region.

As further mentioned in the Board Letter, on 30 November 2020, Zhaoke Ophthalmology granted to the Retained Group an exclusive and irrevocable option (the “**Option**”), pursuant to which the Retained Group could purchase all intellectual properties and commercial rights of ACCG based on arm’s length discussion on commercially reasonable terms. The Retained Group will set up an independent board committee (which will consist of directors who do not have any interest or overlapping positions in Zhaoke Ophthalmology), to review and assess, on an annual basis, the commercial prospects of ACCG (including without limitation to its price, sales volume, profit margin and the degree of acceptance in the market) and to determine whether or not to exercise the abovementioned Option.

Having considered (i) that pursuant to the Option, the purchase consideration of the intellectual properties and commercial rights of ACCG will be based on arm’s length discussion on commercially reasonable terms; and (ii) the determination process of the Retained Group to determine whether or not to exercise the Option (i.e. the setting up of an independent board committee and the factors to be considered by the committee), we consider the terms of the Option to be fair and reasonable.

For further detailed information of Zhaoke Group, please refer to the section headed “3. INFORMATION ON ZHAOKE OPHTHALMOLOGY AND THE RETAINED GROUP” of the Board Letter.

3. Information of the Retained Group

With reference to the Board Letter, the Remaining Business mainly focuses on different medical areas and different types of pharmaceutical products and services, and has over 40 pharmaceutical products. The Retained Group is an integrated research-driven and market-oriented biopharmaceutical company publicly listed in Hong Kong with over 25 years of experience in the pharmaceutical industry in the PRC.

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Principal terms of the Proposed Spin-off

Percentage of shares to be issued

With reference to the Board Letter, the Proposed Spin-off is expected to involve the issue of the Zhaoke Offer Shares representing approximately 20% of the enlarged issued share capital of Zhaoke Ophthalmology upon completion of the Proposed Spin-off. In addition, it is proposed that the underwriters of the Proposed Spin-off will be granted the Over-allotment Option of no more than 15% of the Zhaoke Offer Shares initially to be offered under the Global Offering. The size of the offering has not been determined and is subject to further discussion between Zhaoke Ophthalmology and the underwriters.

Proposed use of proceeds from the Global Offering

With reference to the Board Letter, assuming no exercise of the Over-allotment Option, the expected net proceeds from the Global Offering will be approximately HK\$1,436.1 million (after deducting the underwriting fees and expenses payable by Zhaoke Ophthalmology in the Global Offering), assuming an offer price of HK\$15.00 per Zhaoke Offer Share, being the mid-point of the indicative price range of HK\$12.00 to HK\$18.00 per Zhaoke Offer Share. As advised by the Directors, the offer price of the Global Offering has not been fixed yet and will be determined through a book-building process and by agreement between the underwriter(s) of the Global Offering and Zhaoke Ophthalmology.

According to the Application Proof, Zhaoke Ophthalmology issued the Zhaoke Series A Preferred Shares and the Zhaoke Series B Preferred Shares in June 2019 and November 2020 respectively. The Zhaoke Preferred Shares (i.e. the Zhaoke Series A Preferred Shares and the Zhaoke Series B Preferred Shares) are convertible into the Zhaoke Ordinary Shares at conversion rates of one Zhaoke Series A Preferred Share to one Zhaoke Ordinary Share, and one Zhaoke Series B Preferred Share to one Zhaoke Ordinary Share respectively. The cost per share of the Zhaoke Series A Preferred Shares and the Zhaoke Series B Preferred Shares (i.e. subscription costs per preferred share as adjusted for the share subdivision of Zhaoke Ophthalmology) were approximately US\$0.37 and US\$1.14 respectively (equivalent to approximately HK\$2.87 and HK\$8.84 respectively, based on the US\$:HK\$ exchange rate of 1:7.75).

The offer price of HK\$12.00 per Zhaoke Ordinary Share (being the low-point of indicative price range) represent a premium of approximately 318.12% and 35.75% to the cost per share of the Zhaoke Series A Preferred Shares and cost per share of the Zhaoke Series B Preferred Shares respectively; while the offer price of HK\$18.00 per Zhaoke Ordinary Share (being the high-point of indicative price range) represent a premium of approximately 527.18% and 103.62% to the cost per share of the Zhaoke Series A Preferred Shares and cost per share of the Zhaoke Series B Preferred Shares respectively. We consider the indicative price range, which represents a premium to subscription costs per preferred share under Zhaoke Ophthalmology's previous series A financing and series B financing, to be fair and reasonable.

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As mentioned in the Board Letter, Zhaoke Ophthalmology expects to use the net proceeds from the Global Offering for:

- (a) clinical development and commercialization of its core products;
- (b) continuing research and development activities as well as commercialization of the other drug candidates in its pipeline;
- (c) carrying out the production line expansion of its Nansha manufacturing facility in anticipation of the Zhaoke Group's product launches in the coming years;
- (d) funding its business development activities and the expansion of drug pipeline; and
- (e) working capital and other general corporate purposes.

As the net proceeds from the Global Offering can support Zhaoke Group's business development, it may enhance the value of the Group's interest in Zhaoke Ophthalmology.

Reasons for and benefits of the Proposed Spin-off

With reference to the Board Letter, the Company considers that it is commercially beneficial to the Company and Zhaoke Ophthalmology and in the interests of the Shareholders to effect the Proposed Spin-off as the Proposed Spin-off is expected to create greater value for the Company and its Shareholders as a whole and the Zhaoke Group, for the following reasons:

- (a) the Proposed Spin-off will unlock value of the Zhaoke Group which is developing at a fast-growing stage and provide the Company and its shareholders an opportunity to realise the value of their investment in the Zhaoke Group under a separate standalone platform for the Ophthalmic Business;
- (b) the Proposed Spin-off will separate the Ophthalmic Business from the Remaining Business. Such separation will enable the shareholders and investors to appraise the strategies, success factors, functional exposure, risks and returns of the Zhaoke Group and the Retained Group separately, thereby achieving a clear and fair valuation of both the Retained Group and the Zhaoke Group, so as to allow the investors to make or refine their investment decisions and to assess the future prospects of the two groups more clearly. Through such clear and fair valuation, the Proposed Spin-off will allow investors to assess the future prospects of the Retained Group more clearly, and further allow the Retained Group to attract investors who specifically seek investments in its business. Investors will have the choice to invest in either one or all of the business of either the Zhaoke Group or the Retained Group;

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- (c) the Proposed Spin-off will enable the Zhaoke Group to build its identity as a separately listed group, to have a separate fund-raising platform and to broaden its investor base. Given the nature of the Ophthalmic Business, it takes time for the product candidates under development of the Zhaoke Group to complete clinical trials before they are commercialized and start to generate revenue. The Proposed Spin-off would allow the Zhaoke Group to gain direct access to capital markets for equity and/or debt financing to fund its existing operations and future expansion without reliance on the Company, thereby accelerating its expansion and improving its operating and financial management efficiencies, which in turn will provide better returns to the shareholders of the Zhaoke Group;
- (d) the Proposed Spin-off will enable the Zhaoke Group to enhance its corporate profile, thereby increasing its ability to attract investors for making investments in the Zhaoke Group, which could provide synergy for the Zhaoke Group, and the Retained Group will also benefit from such investments without further capital commitment. The Retained Group will also be able to fully focus on and deploy its funds towards the development of the Remaining Business without needing to consider the Zhaoke Group's funding requirements as the Zhaoke Group is currently a pre-profit biotech company and has recorded substantial R&D expenses and cash outflows. Both the Zhaoke Group and the Retained Group will gain exposure to more specialized investors and have better chances to obtain more targeted investments;
- (e) the Proposed Spin-off will increase the operational and financial transparency of and improve the corporate governance of Zhaoke Ophthalmology and provide shareholders and investors with greater clarity on the businesses and financial status of the Zhaoke Group on a standalone basis, and such improvements will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of the Zhaoke Group;
- (f) the management teams of the Zhaoke Group and the Retained Group may adopt different business strategies and models which they determine to be better suited to their respective businesses, and which, due to the different nature of products, may not always be aligned. The Proposed Spin-off will enable more focused development, strategic planning and better allocation of resources for the Retained Group and the Zhaoke Group with respect to their respective businesses. Both the Retained Group and the Zhaoke Group, especially the latter, will benefit from the efficient decision-making process under a separate management structure to seize emerging business opportunities. In addition, the Proposed Spin-off will improve the ability of the Zhaoke Group to recruit, motivate and retain key management personnel. On the other hand, the management team of the Retained Group will no longer be distracted from businesses other than the Remaining Business, and will thus be able to focus on

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the operation and development of the Retained Group with a clear delineated business objective and concentrate their expertise, manpower and other corporate resources only on the Retained Group; and

- (g) all benefits enjoyed by the Zhaoke Group through the Proposed Spin-off are expected to accelerate the Zhaoke Group's expansion and improve its overall operating and financial performance, thereby creating greater value for the Company and its Shareholders as a whole. Upon completion of the Proposed Spin-off, the Retained Group will remain as the Zhaoke Ophthalmology's single largest shareholder, and is therefore expected to continue to enjoy the benefits of the Zhaoke Group's growth and development.

As aforementioned, Zhaoke Group recorded net loss for FY2018 and FY2019, which were mainly due to R&D and administrative expenses. The Directors advised us that Zhaoke Group require further funding for its business development before it can turnaround its loss-making position.

Having considered the above and the reasons for and benefits of the Proposed Spin-off and the Global Offering, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Assured entitlement

Under PN15, a listed issuer is required to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to the shares in the entity which is proposed to be spun off for separate listing.

With reference to the Board Letter, it is intended that, if the Proposed Spin-off proceeds, an assured entitlement to the Zhaoke Offer Shares will be provided to qualifying existing Shareholders by way of a preferential application for the Zhaoke Offer Shares under the Global Offering, subject to certain conditions, including the board of Zhaoke Ophthalmology deciding to proceed with the Proposed Spin-off and the Global Offering, and the Listing Committee has approved the Listing. Qualifying Shareholders are being invited to apply for an aggregate of 5,144,500 Zhaoke Ordinary Shares in the Preferential Offering, representing approximately 5.0% (the "**Preferential Offering Percentage**") of the Zhaoke Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised), as an Assured Entitlement. We consider the Assured Entitlement as stated above is in the interest of the Shareholders.

For our due diligence purpose, we also searched for spin-off transactions by listed companies in Hong Kong (where the spin-off companies were also listed on the Stock Exchange) from 1 June 2020 to 18 December 2020 (being an approximate six-month period prior to the date of the Application Proof) (the "**Spin-off Cases**"). To the best of our knowledge, we found 9 Spin-off Cases which met the aforesaid criteria and were exhaustive.

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Parent Company (stock code)	Spin-off Company (stock code)	Spin-off Company Listing Date	Preferential Offering % <i>(Note 1)</i>	Parent Company Shareholding Interest (directly and indirectly) in the Spin-off Company prior to the Spin-off ("Parent Shareholding Interest") (approximate %)	Preferential Offering % per Parent Shareholding Interest (approximate)
Greentown China Holdings Limited (3900)	Greentown Management Holdings Co Limited (9979)	10 July 2020	10	100	0.10
KWG Group Holdings Limited (1813)	KWG Living Group Holdings Limited (3913)	30 October 2020	18.4 <i>(Note 2)</i>	97.22	0.19
Shimao Group Holdings Limited (813)	Shimao Services Holdings Limited (873)	30 October 2020	10	90	0.11
Sunac China Holdings Limited (1918)	Sunac Services Holdings Limited (1516)	19 November 2020	Nil <i>(Note 2)</i>	100	Nil
China Evergrande Group (3333)	Evergrande Property Services Group Limited (6666)	2 December 2020	8	71.94	0.11
JD.com, Inc. (9618)	JD Health International Inc. (6618)	8 December 2020	Nil <i>(Note 3)</i>	78.29	Nil
China Resources Land Limited (1109)	China Resources Mixc Lifestyle Services Limited (1209)	9 December 2020	10	100	0.10
Jiayuan International Group Limited (2768)	Jiayuan Services Holdings Limited (1153)	9 December 2020	10	100	0.10
Sino-Ocean Group Holding Limited (3377)	Sino-Ocean Service Holding Limited (6677)	17 December 2020	10.30	90.10	0.11
		Minimum <i>(Note 4)</i>	8	71.94	0.10
		Maximum <i>(Note 4)</i>	18.4	100	0.19
		Average <i>(Note 4)</i>	10.96	92.75	0.12
The Company	Zhaoke Ophthalmology	N/A	5	34.107	0.15

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Notes:

1. Percentage of reserved shares for qualifying parent company shareholders under the global offering, assuming over-allotment option is not exercised.
2. The parent company also undertook a distribution in specie to qualifying parent company shareholders.
3. The parent company obtained a waiver from the requirement to provide parent company shareholders an assured entitlement to apply for shares of spin-off company under the global offering.
4. Excluding spin-off cases of Sunac China Holdings Limited (1918) and JD.com, Inc. (9618) which did not include preferential offering.

As illustrated above, the preferential offering percentage of the Spin-off Cases ranged from 8% to 18.4%. Despite that the Preferential Offering Percentage of 5% is lower than the range of the Spin-off Cases, taking into account that (i) the Company (as parent company) has a lower shareholding interest in the spin-off company than the Spin-off Cases (i.e. the Company had only approximately 34.107% interest in Zhaoke Ophthalmology prior to the Proposed Spin-off, while under the Spin-off Cases, the parent companies had shareholding interest of approximately 71.94% to 100% in the spin-off companies prior to the spin-off), it is justifiable to have a lower Preferential Offering Percentage than those in the Spin-off Cases (given the lower indirect interest of the Qualifying Shareholders in the spin-off company than those of the Spin-off Cases); and (ii) the Preferential Offering Percentage per Parent Shareholding Interest of the Proposed Spin-off (of approximately 0.15) is higher than the average of the Spin-off Cases, we consider the Preferential Offering Percentage of 5% to be fair and reasonable.

Details of the assured entitlement have not yet been finalised and will be announced by the Company as and when appropriate.

We consider the assured entitlement as stated above can safeguard the Shareholders' interests in respect of the Proposed Spin-off.

Taking into account the principal factors as discussed above, we consider that the terms of the Proposed Spin-off are fair and reasonable.

Possible financial effects

With reference to the Board Letter, upon completion of the Proposed Spin-off, it is expected that the Company will cease to be the controlling shareholder of Zhaoke Ophthalmology but will remain as the single largest shareholder of Zhaoke Ophthalmology. The operating results of Zhaoke Ophthalmology are not and will not be consolidated into the consolidated financial statements of the Company. Following the Proposed Spin-off, Zhaoke Ophthalmology will cease to be an associated company of the Company. Accordingly, the Group's investment in Zhaoke Ophthalmology will be accounted for as financial asset at fair value through other comprehensive income for financial reporting purposes and any gain or loss on deemed disposal of Zhaoke Ophthalmology will be recognised in the Company's consolidated statement of profit or loss.

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Further details of the possible financial effects of the Proposed Spin-off are set out under the section headed “4. FINANCIAL IMPACT OF THE PROPOSED SPIN-OFF” of the Board Letter.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off and the Global Offering.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Spin-off and we recommend the Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements for each of the years ended 31 December 2017, 2018 and 2019 and the unaudited consolidated financial statements for the six months ended 30 June 2020 of the Company together with relevant notes thereto have been disclosed in the following documents published on the Stock Exchange's website (<http://www.hkexnews.hk>) and the Company's website (<http://www.leespharm.com>).

Interim report of the Company for the six months ended 30 June 2020 published on 11 September 2020 (page 27 to page 58):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0911/2020091100338.pdf>

Annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 (page 83 to page 292):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0417/2020041701528.pdf>

Annual report of the Company for the year ended 31 December 2018 published on 12 April 2019 (page 47 to page 176):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0412/ltn20190412257.pdf>

Annual report of the Company for the year ended 31 December 2017 published on 11 April 2018 (page 46 to page 152):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0411/ltn20180411115.pdf>

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 December 2020, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement set out in this circular, the Group had the following indebtedness:

Bank borrowings

As at 31 December 2020, the Group has aggregate banking facilities of approximately HK\$341,613,000, and the Group had utilised approximately HK\$141,377,000 which comprising of secured bank borrowings of approximately HK\$129,457,000 and unsecured bank borrowing of approximately HK\$11,920,000. Secured bank borrowings of the Group as at 31 December 2020 are secured by corporate guarantees given by certain subsidiaries and the Company.

Lease liabilities

As at 31 December 2020, the Group had outstanding lease liabilities of approximately HK\$15,330,000.

Retirement benefits

As at 31 December 2020, the Group's provision for the retirement benefits is approximately HK\$104,000,000.

Pledged bank deposits

As at 31 December 2020, the Group has pledged bank deposits as security to banks of approximately HK\$24,025,000.

Contingent liabilities*Financial guarantee to associates*

As at 31 December 2020, the Group had contingent liabilities amounting to HK\$53,000,000 in respect of financial guarantees given to bank for the banking facilities granted to an associate. Approximately HK\$45,418,000 has been utilised by the associate and approximately HK\$7,582,000 has been remained unutilised.

Financial guarantee to CVie Therapeutics Limited (“CVie Taiwan”)

As at 31 December 2020, the Group had contingent liabilities amounting to NTD150,000,000 (equivalent to approximately HK\$41,400,000) in respect of a one-off financial guarantees given to bank for the banking facilities granted to CVie Taiwan. NTD68,419,000 (equivalent to approximately HK\$18,884,000) has been utilised by CVie Taiwan.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any bank borrowings, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgage, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31 December 2020.

3. WORKING CAPITAL

As at the Latest Practicable Date, having made appropriate inquiries and taking into account of the internal resources of the Group and currently available loan facilities, the Directors are of the opinion that the Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

The Directors confirm that there was no material change in the indebtedness status of the Group since 31 December 2019 up to the Latest Practicable Date.

5. FINANCIAL AND OPERATIONAL PROSPECT

The Group is a research-driven and market-oriented biopharmaceutical company focused on the PRC market. Through its operating subsidiaries in the PRC, the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. It has established a sale and distribution network for pharmaceuticals covering most provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad.

Following the completion of the Proposed Spin-off, the Retained Group will continue to engage in the developing, manufacturing and sales and marketing of pharmaceutical products in its remaining business of the Retained Group which will comprise of, among others, oncology business, dermatology business, gynaecology business, cardiovascular business, psychiatric business and pain management business.

Business review and prospects

After hard-fought battles since the beginning of the year, China has basically managed to contain the COVID-19 epidemic and has gradually resumed business activities within the region during the third quarter of this year. For the nine months ended 30 September 2020, the Group's revenue reached HK\$894,042,000 (nine months ended 30 September 2019: HK\$913,868,000) and the decrease has tapered to 2.2% over the same period last year. Sales of licensed-in products accounted for 58.6% (nine months ended 30 September 2019: 56.6%) of the Group's revenue while sales of proprietary and generic products contributed 41.4% (nine months ended 30 September 2019: 43.4%) of the Group's revenue. The Group's gross profit for the nine months ended 30 September 2020 was HK\$575,669,000 (nine months ended 30 September 2019: HK\$600,911,000) and the decrease has narrowed to 4.2% over the same period last year. The Group's gross profit margin for the nine months ended 30 September 2020 was 64.4%, decreased by 1.4 percentage points as compared to the same period last year.

In order to staying ahead in an increasingly competitive environment, the Group continued to allocate adequate resources to its sales and marketing function during the first nine months of 2020, and special focus has been placed on strengthening existing and exploring new distribution channels as well as on the preparation for the roll-out of new and upcoming products. Selling and distribution expenses to revenue ratio for the nine months ended 30 September 2020 has increased to 21.3% (nine months ended 30 September

2019: 18.8%). The Group's research and development ("R&D") activities for new drugs have been resumed gradually since the second quarter of this year amid the fight against the COVID-19 outbreak. During the first nine months of 2020, HK\$268,605,000 (for the nine months ended 30 September 2019: HK\$229,245,000) was spent in R&D activities, representing 30.0% (for the nine months ended 30 September 2019: 25.1%) to the corresponding revenue during the period under review. Among which HK\$143,073,000 (for the nine months ended 30 September 2019: HK\$116,457,000) has been recognised as expenses and HK\$125,532,000 (for the nine months ended 30 September 2019: HK\$112,788,000) has been capitalised as intangible assets. Administrative expenses has increased by 7.3% during the period under review due to the ongoing business expansion in Nansha site as well as the increase in staff costs. Net profit attributable to the owners of the Company for the nine months ended 30 September 2020 was HK\$122,006,000 (nine months ended 30 September 2019: HK\$80,344,000).

While the Group remains of the view that the tough environment will be persisted throughout this year, with the coronavirus has been largely under control in China and the economy has gradually re-opened within the region, the Group was delighted that an improving performance in the third quarter of this year has been achieved.

In addition, the enhancement and reform in the pharmaceutical industry in China continues to move forward during the period under review, starting from the new national reimbursement drug list with effect from the beginning of this year, the intensified and expanded Group Purchasing Organisation (GPO) programme following the increasing number of bioequivalence qualified generic drug being approved, as well as the recent China's Biosecurity Law and China Patent Law which have been passed on 17 October 2020 and will take effect in 2021. Being a research-based biopharmaceutical group, it is believed that the Group will be eventually benefit from these new laws and regulations in the long run.

It is expected that the newly approved products such as Prulifloxacin and Trazodone and the imminent approval of new products such as fondaparinux calcium and sodium phenylbutyrate will provide catalysts for future growth. These new products will also broaden the revenue base and become new growth driver. The revamping and restructuring of the sales and marketing organisation will increase the market competitiveness of existing products and improve product life-cycle management. The enhanced effectiveness and efficiency of the commercial operation will bring alignment to the market environment and make it more agile and responsive to competition.

Beyond the present headwinds, the Group remains cautiously optimistic about the medium-term future.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

(a) Long positions in the shares of the Company:

Name	Nature of interest	Number of ordinary shares held	Total	Approximate percentage of shareholding
Lee Siu Fong	Beneficial owner	875		
	Interest held jointly with Leelalertsuphakun Wanee	1,600,000		
	Interest of a controlled corporation (<i>Note 1</i>)	114,000,625	115,601,500	19.66%
Leelalertsuphakun Wanee	Beneficial owner	3,305,000		
	Interest held jointly with Lee Siu Fong	1,600,000		
	Interest of a controlled corporation (<i>Note 1</i>)	114,000,625	118,905,625	20.22%
Li Xiaoyi	Beneficial owner	41,092,766		
	Family interest (<i>Note 2</i>)	16,000,000		
	Others	2,067,219	59,159,985	10.06%
Chan Yau Ching, Bob	Beneficial owner	520,000	520,000	0.09%
Lam Yat Cheong	Beneficial owner	300,000	300,000	0.05%
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000	0.05%
Simon Miles Ball	Beneficial owner	46,500	46,500	0.01%

Notes:

- (1) 114,000,625 Shares are held through Huby Technology Limited (“**Huby Technology**”). Huby Technology is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
- (2) These Shares are held by High Knowledge Investments Limited (“**High Knowledge**”) which is wholly owned by Dr. Li Xiaoyi’s spouse, Ms. Lue Shuk Ping, Vicky (“**Ms. Lue**”). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li Xiaoyi.

(b) Long position in underlying shares – share options of the Company

Under the share option schemes of the Company, the following directors of the Company have personal interest in options to subscribe for the Shares. Details of the share options granted to them are as follows:

Name of Director	Date of grant	Exercisable period	Balance as at 30 June 2020	Exercise price per share (HK\$)
Lee Siu Fong	30 December 2013	(1)	538,000	7.300
	31 March 2015	(2)	446,000	11.200
	31 March 2016	(3)	587,000	5.754
	13 April 2017	(4)	590,000	7.548
	13 April 2018	(5)	456,000	11.216
	15 April 2019	(6)	592,000	7.324
	15 April 2020	(7)	<u>588,000</u>	3.648
			3,797,000	
Leelalertsuphakun Wanee	30 December 2013	(1)	338,000	7.300
	31 March 2015	(2)	446,000	11.200
	31 March 2016	(3)	587,000	5.754
	13 April 2017	(4)	590,000	7.548
	13 April 2018	(5)	456,000	11.216
	15 April 2019	(6)	592,000	7.324
	15 April 2020	(7)	<u>588,000</u>	3.648
			3,597,000	
Li Xiaoyi	31 March 2015	(2)	446,000	11.200
	31 March 2016	(3)	587,000	5.754
	13 April 2017	(4)	590,000	7.548
	13 April 2018	(5)	456,000	11.216
	15 April 2019	(6)	592,000	7.324
	15 April 2020	(7)	<u>588,000</u>	3.648
			3,259,000	

Notes:

- (1) Divided into 2 tranches exercisable from 30 June 2014 and 30 March 2015 respectively to 29 December 2023.
- (2) Divided into 2 tranches exercisable from 30 September 2015 and 30 June 2016 respectively to 30 March 2025.
- (3) Divided into 2 tranches exercisable from 30 September 2016 and 30 June 2017 respectively to 30 March 2026.
- (4) Divided into 2 tranches exercisable from 13 October 2017 and 13 July 2018 respectively to 12 April 2027.
- (5) Divided into 2 tranches exercisable from 13 October 2018 and 13 July 2019 respectively to 12 April 2028.
- (6) Divided into 2 tranches exercisable from 15 October 2019 and 15 July 2020 respectively to 14 April 2029.
- (7) Divided into 2 tranches exercisable from 15 October 2020 and 15 July 2021 respectively to 14 April 2030.

As at the Latest Practicable Date, Dr. Li Xiaoyi had beneficial interest in (a) 12,740 ordinary shares in Powder Pharmaceuticals Incorporated; (b) 830 share options which can be converted into 830 ordinary shares of Powder Pharmaceuticals Incorporated when exercised; (c) 14,022,800 share options which can be converted into 14,022,800 ordinary shares of Zhaoke Ophthalmology when exercised.

In addition, Dr. Li Xiaoyi holds 65% of the equity interest of Lee's Healthcare Industry Investments Limited, which in turn is the general partner of Lee's Healthcare Industry Fund L.P. For the purpose of the SFO, Dr. Li is deemed to have an interest in the 2,187,600 Zhaoke Ordinary Shares held by Lee's Healthcare Industry Fund L.P.

Save as disclosed above, as at the Latest Practicable Date, no interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and the underlying shares of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at the Latest Practicable Date, the following parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

(a) Long position in Shares

Name	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Huby Technology Limited	Beneficial owner	114,000,625	19.38%
Assicurazioni Generali S.p.A	Interest of a controlled corporation	81,405,000	13.84%
Li Zhenfu	Interest of a controlled corporation	81,405,000	13.84%
Lion River I N.V.	Interest of a controlled corporation	81,405,000	13.84%
GL Partners Capital Management Limited	Interest of a controlled corporation	76,165,488	12.95%
Apta Finance S.A.	Interest of a controlled corporation	58,833,898	10.00%
Cavazza Paolo	Interest of a controlled corporation	58,833,898	10.00%
Paponi Claudia	Family interest	58,833,898	10.00%
Qualister SA	Beneficial owner	52,929,577	9.00%
Golden Sand Capital Joy Corporation	Beneficial owner	37,209,935	6.33%
Golden Sand Capital Ltd	Interest of a controlled corporation	37,209,935	6.33%
Wu Sonny	Interest of a controlled corporation	37,209,935	6.33%
High Knowledge Investments Limited	Beneficial owner <i>(Note 1)</i>	16,000,000	2.72%
Lue Shuk Ping, Vicky	Interest of a controlled corporation <i>(Note 1)</i>	16,000,000	2.72%
	Family interest <i>(Note 2)</i>	43,159,985	7.34%

Notes:

- (1) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (2) These Shares are owned by Ms. Lue's spouse, Dr. Li Xiaoyi.

(b) Long position in underlying shares – share options of the Company

Name	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Lue Shuk Ping, Vicky	Family interest (<i>Note 1</i>)	3,259,000	0.55%

Note:

- (1) These share options are owned by Ms. Lue's spouse, Dr. Li Xiaoyi.

(c) Short position in Shares

No short positions of other persons and substantial shareholders in the Shares or underlying shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person or corporation having an interest or short position in Shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL LITIGATION

The Directors confirm that, as at the Latest Practicable Date, no member of the Group was involved in any material litigation or arbitration and no material litigation or claim is known to the Directors to be pending or threatened by or against any member of the Group.

5. EXPERT AND CONSENT

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it respectively appears in this circular.

The followings are the qualification of the expert who has provided his/her opinion or advice, which is contained in this circular:

Name	Qualification	Date of conclusion or opinion
Gram Capital Limited	a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO	24 February 2021

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up).

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group, which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors had any interest in any assets which have been since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group. As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

9. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contract entered into in the ordinary course of business, have been entered into by the Company and/or members of the Group and are or may be material:

- (1) the renewed facility letter dated 14 March 2019 entered into by the Company, Powder Pharmaceuticals Incorporated (“**PPI**”) and Nanyang Commercial Bank, Limited (the “**Bank**”), pursuant to which the Company confirmed the provision of a guarantee in favour of the Bank to pay all secured indebtedness in respect of the renewed facility due and owing to the Bank by PPI;

- (2) the supplemental agreement dated 27 March 2019 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agreed that a shareholder loan in the principal amount of HK\$3,000,000 shall be renewed for an extended term from 27 March 2019 to 26 March 2020;
- (3) the share subscription agreement dated 23 May 2019 entered into by, among others, the Company, Zhaoke Ophthalmology and certain investors, pursuant to which Zhaoke Ophthalmology shall issue and sell to each investor and each investor shall subscribe for and purchase from Zhaoke Ophthalmology certain shares in Zhaoke Ophthalmology;
- (4) the amendment to share subscription agreement dated 11 June 2019 entered into by, among others, the Company and Zhaoke Ophthalmology which amends certain terms of the share subscription agreement dated 23 May 2019;
- (5) the side letter dated 13 June 2019 entered into by, among others, the Company and Zhaoke Ophthalmology which amends certain terms of the share subscription agreement dated 23 May 2019;
- (6) the shareholders agreement dated 13 June 2019 entered into by, among others, the Company, Zhaoke Ophthalmology and other shareholders of Zhaoke Ophthalmology regarding the rights and obligations of the shareholders of Zhaoke Ophthalmology;
- (7) the supplemental agreement dated 14 June 2019 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that a shareholder loan in the principal amount of HK\$3,000,000 shall be renewed for an extended term from 14 June 2019 to 13 June 2020;
- (8) the supplemental agreement dated 19 July 2019 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that a shareholder loan (in the aggregate principal sum of HK\$25,056,000) shall be renewed for an extended term from 19 July 2019 to 18 July 2020;
- (9) the supplemental agreement dated 27 September 2019 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that a shareholder loan in the principal amount of HK\$3,000,000 shall be renewed for an extended term from 27 September 2019 to 26 September 2020;
- (10) the shareholder loan agreement dated 18 November 2019 entered into by Lee's International and PPI, pursuant to which Lee's International agrees to advance the Shareholder Loan in the principal amount of HK\$8,000,000 to PPI for a term of one year commencing from the advance date;

- (11) the forms of application for subscription of shares dated 13 February 2020 signed by Lee's International and Perfect Concept Holdings Ltd ("PCH") to China Oncology Focus Limited ("COF"), pursuant to which each of Lee's International and PCH subscribed for 34,580 and 18,620 shares of COF;
- (12) the shareholder loan agreement dated 24 March 2020 entered into by Lee's International and PPI, pursuant to which Lee's International agrees to advance a shareholder loan in the principal amount of HK\$8,000,000 to PPI for a term of one year commencing from the advance date;
- (13) the shareholder loan agreement dated 27 March 2020 entered into by Lee's International and COF, pursuant to which Lee's International and COF agree that Lee's International shall advance to COF a loan in the principal amount of US\$2,000,000 for a term of one year commencing from the advance date;
- (14) the letter of intent dated 4 May 2020 entered into by Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited, an associated company of the Group, and IACTA Pharmaceuticals, Inc., for exclusive rights to develop, manufacture and commercialise IC-265 and IC-270 in China and other countries of Southeast Asia;
- (15) the shareholder loan agreement dated 18 May 2020 entered into by Lee's International and COF, pursuant to which Lee's International and COF agree that Lee's International shall advance to COF a loan in the principal amount of US\$3,000,000 for a term of one year commencing from the advance date;
- (16) the supplemental agreement dated 12 June 2020 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that a shareholder loan in the principal amount of HK\$3,000,000 shall be renewed for an extended term from 14 June 2020 to 13 June 2021;
- (17) the supplemental agreement dated 17 July 2020 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that (a) a shareholder loan (in the aggregate principal sum of HK\$25,056,000) shall be renewed for an extended term from 19 July 2020 to 18 July 2021; and (b) Lee's International shall on 19 July 2020 advance to PPI an additional loan in the principal amount of HK\$14,000,000 which shall mature on 18 July 2021;
- (18) the shareholder loan agreement dated 17 July 2020 entered into by Lee's International and COF, pursuant to which Lee's International and COF agree that Lee's International shall advance to COF a loan in the principal amount of US\$5,000,000 for a term of one year commencing from the advance date;
- (19) the supplemental agreement dated 25 September 2020 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that (a) a shareholder loan in the principal amount of HK\$3,000,000 shall be renewed for an

- extended term from 27 September 2020 to 26 September 2021; and (b) Lee's International shall on 27 September 2020 advance to PPI an additional loan in the principal amount of HK\$15,000,000 which shall mature on 26 September 2021;
- (20) the license agreement dated 2 October 2020 entered into by Lee's International, Zhaoke Pharmaceutical (Guangzhou) Company Limited (兆科藥業(廣州)有限公司) ("**Zhaoke Pharmaceutical**"), Zhaoke Guangzhou and Zhaoke Ophthalmology, pursuant to which Zhaoke Guangzhou and Zhaoke Ophthalmology agreed to grant exclusive license rights to Lee's International and Zhaoke Pharmaceutical in relation to certain product;
- (21) the waiver and amendment dated 11 June 2020 entered into by, among others, the Company, Zhaoke Ophthalmology and other shareholders of Zhaoke Ophthalmology which amends certain terms of the share subscription agreement dated 23 May 2019;
- (22) the share subscription agreement dated 9 October 2020 entered into by, among others, the Company, Zhaoke Ophthalmology and certain investors, pursuant to which Zhaoke Ophthalmology shall issue and sell to each investor and each investor shall subscribe for and purchase from Zhaoke Ophthalmology certain shares in Zhaoke Ophthalmology;
- (23) the shareholders agreement dated 23 October 2020 entered into by, among others, the Company, Zhaoke Ophthalmology and other shareholders of Zhaoke Ophthalmology regarding the rights and obligations of the shareholders of Zhaoke Ophthalmology;
- (24) the exclusive licensing agreement dated 19 October 2020 entered into between Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited, an associated company of the Group, and Nevakar, Inc. for the development, manufacture and commercialisation of NVK-002;
- (25) the supplemental agreement dated 18 November 2020 entered into by Lee's International and PPI, pursuant to which Lee's International and PPI agree that (a) a shareholder loan in the principal amount of HK\$8,000,000 shall be renewed for an extended term from 18 November 2020 to 17 November 2021; and (b) the term of certain other shareholder loans be extended to 17 November 2021;
- (26) the supplemental agreement dated 30 November 2020 entered into by Lee's International, Zhaoke Pharmaceutical, Zhaoke Guangzhou and Zhaoke Ophthalmology, pursuant to which Zhaoke Guangzhou and Zhaoke Ophthalmology granted an exclusive and irrevocable option to Lee's International and Zhaoke Pharmaceutical to purchase all intellectual properties and commercial rights of ACCG; and

- (27) the shareholder loan agreement dated 1 February 2021 entered into by Lee's International and COF, pursuant to which Lee's International and COF agree that Lee's International shall advance to COF a loan in the aggregate principal amount of US\$6,000,000 and RMB5,000,000 for a term of one year commencing from the advance date.

10. MISCELLANEOUS

- (1) Mr. Chow Yiu Ming is our Group Chief Financial Officer & Company Secretary. Mr. Chow joined the Company in October 2014 and is responsible for the accounting and corporate finance functions of the Group. He has over 23 years of experience in accounting, auditing, financial management and corporate finance. He holds a Bachelor of Business Administration degree, majoring in Accounting and Finance, from the University of Hong Kong and a Master of Science in Professional Accountancy degree from the University of London.
- (2) The registered office of the Company is situated at P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (3) The Hong Kong Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (4) The English text of the circular shall prevail over their respective Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 1/F, Building 20E, Phase 3, Hong Kong Science Park, Shatin, New Territories, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

- (1) this circular;
- (2) the memorandum and articles of association of the Company;
- (3) the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019;
- (4) the interim report of the Company for the six months ended 30 June 2020;
- (5) the material contracts referred under the section headed "9. Material Contracts" in this appendix;
- (6) the letter of recommendation from the Independent Board Committee, the text of which is set out on page IBC-1 of this circular;

- (7) the letter of advice from Gram Capital to the Independent Board Committee and the Shareholders, the text of which is set out on pages IFA-1 to IFA-14 of this circular; and
- (8) the written consent as referred to under the section headed “5. Expert and 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: 950)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Lee’s Pharmaceutical Holdings Limited (the “Company”) will be held at 1/F, Building 20E, Phase 3, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Monday, 15 March 2021 at 3:00 p.m. to consider and, if thought fit, passing the following ordinary resolution of the Company. Unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 24 February 2021 (the “Circular”):

ORDINARY RESOLUTION

“**THAT:**

- (a) the spin-off of Zhaoke Ophthalmology Limited (“**Zhaoke Ophthalmology**”), currently an associated company of the Company, and a separate listing of the new shares of Zhaoke Ophthalmology on The Stock Exchange of Hong Kong Limited (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) the directors of the Company be and are hereby authorised, for and on behalf of the Company, to take all steps and do all acts and things as they consider to be necessary, appropriate or expedient in connection with and to implement or give effect to the Proposed Spin-off and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal) deemed by them to be incidental to, ancillary to or in connection with the Proposed Spin-off.”

Yours faithfully,

By order of the Board

Lee’s Pharmaceutical Holdings Limited

Lee Siu Fong

Chairman

Hong Kong, 24 February 2021

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:
P.O. Box 309 GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

Principal Place of Business in Hong Kong:
1/F, Building 20E, Phase 3
Hong Kong Science Park
Shatin, New Territories
Hong Kong

Notes:

1. The register of members of the Company will be closed from Wednesday, 10 March 2021 to Monday, 15 March 2021 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the EGM. In order to qualify for the right to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 9 March 2021.
2. Every shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. In the case of a joint holding, any one of such persons may vote at the EGM, either in person or by proxy; but if more than one joint holders are present at the EGM in person or by proxy, the said person whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
4. To be valid, a proxy form in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the EGM.
5. If a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 12:00 noon and 3:00 p.m. on Monday, 15 March 2021, an announcement will be made in such event to notify the Shareholders of any alternative date for the EGM.
6. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

As at the date of this notice, Ms. Lee Siu Fong (Chairman), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors of the Company; Mr. Simon Miles Ball is a non-executive Director of the Company, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors of the Company.