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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)

PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION FOR NEW SHARES UNDER GENERAL MANDATE AND RESUMPTION OF TRADING

Placing Agent
Piper Jaffray

SUMMARY

After the morning trading session but before the commencement of the afternoon trading session on 14 October 2010, the Vendor, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Vendor, at the request of the Company, appointed the Placing Agent to place the Placing Shares, being a maximum of 15,000,000 existing Shares, to the Placee at the Placing Price of HK\$2.80 per Placing Share. On the same day, the Company and the Vendor entered into the Subscription Agreement, pursuant to which subject to fulfillment of the conditions precedent of the completion of the Subscription Agreement, the Vendor agreed to subscribe for the Subscription Shares at the Subscription Price of HK\$2.80 per Subscription Share, which is equal to the Placing Price.

Both the Placing Price and the Subscription Price of HK\$2.80 per Share represent (i) a discount of approximately 1.8% to the closing price of HK\$2.85 per Share as quoted on the Stock Exchange after the morning trading session on 14 October 2010; and (ii) a discount of approximately 0.3% over the average closing prices of approximately HK\$2.81 per Share for the last five consecutive trading days up to and including the date of the Placing Agreement; and (iii) a discount of approximately 0.7% over the average closing prices of approximately HK\$2.82 per Share for the last ten trading days up to and including the date of the Placing Agreement.

* *for identification purpose only*

Each of the Placing Shares and the Subscription Shares represents (i) approximately 3.3% of the existing issued share capital of the Company of 450,832,437 Shares as at the date of this announcement; and (ii) approximately 3.2% of the issued share capital of the Company of 465,832,437 Shares as enlarged by the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement.

The Subscription Shares will be allotted and issued under the general mandate granted to the Directors pursuant to an ordinary resolution passed by the Shareholders at the annual general meeting of the Company held on 30 April 2010.

The gross proceeds and the net proceeds of the Subscription will be approximately HK\$42 million and HK\$40 million, respectively. The net proceeds of the Subscription are intended to be used for general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on 14 October 2010 pending for the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 2:30 p.m. on 15 October 2010.

THE PLACING AGREEMENT

Date

14 October 2010, after the morning trading session but before the commencement of the afternoon trading session

Parties

The Vendor, who is a Substantial Shareholder, holding 120,290,625 Shares, representing approximately 26.68% of the existing issued share capital of the Company as at the date of this announcement

The Company

The Placing Agent

Number of the Placing Shares

Pursuant to the Placing Agreement, the number of the Placing Shares shall be a maximum of 15,000,000 existing Shares currently held by the Vendor. The maximum of 15,000,000 Placing Shares represents (i) approximately 3.3% of the existing issued share capital of the Company of 450,832,437 Shares as at the date of this announcement; and (ii) approximately 3.2% of the issued share capital of the Company of 465,832,437 Shares as enlarged by the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement.

Placing Agent

The Vendor, at the request of the Company, appointed Piper Jaffray Asia Securities Limited as placing agent to place the Placing Shares, being a maximum of 15,000,000 existing Shares, to the Placee.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent is not a connected person (as defined in the Listing Rules) of the Company and is a third party independent of, not acting in concert with for the purpose of the Takeovers Code, and not connected with any connected persons of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Placee

The Placing Agent agreed to place the Placing Shares to FIL Investment Management (Hong Kong) Limited (i.e. the Placee), who and whose ultimate beneficial owner(s) is not a connected persons (as defined in the Listing Rules) of the Company and is a third party independent of, not acting in concert with for the purpose of the Takeovers Code, and not connected with any connected persons of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules). The Placee will not become a Substantial Shareholder as a result of the Placing.

The Placee is a member of the Fidelity Investment Managers group of companies. Fidelity Investment Managers provides investment products and services to individuals and institutional investors in Europe and Asia. Established in 1969, Fidelity Investment Managers has over 4,502 staff in 23 offices and manages US\$200bn assets under management (as at 31 March 2010). Fidelity Investment Managers has 6 million customer holdings and manages over 700 equity, fixed income, property and asset allocation funds.

Placing Price

The Placing Price of HK\$2.80 per Placing Share represents:

- (i) a discount of approximately 1.8% to the closing price of HK\$2.85 per Share as quoted on the Stock Exchange after the morning trading session on 14 October 2010;
- (ii) a discount of approximately 0.3% over the average closing prices of approximately HK\$2.81 per Share for the last five consecutive trading days up to and including the date of the Placing Agreement; and
- (iii) a discount of approximately 0.7% over the average closing prices of approximately HK\$2.82 per Share for the last ten trading days up to and including the date of the Placing Agreement.

The Placing Price is determined with reference to the prevailing market price of the Shares and is negotiated on an arm's length basis between the Company and the Placing Agent on the date of the Placing Agreement. The Board (including the independent non-executive Directors) considers that the terms of the Placing are on normal commercial term and fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

After taking into consideration of the costs and expenses in relation to the Placing and the Subscription, the net price per Placing Share is approximately HK\$2.67 per Placing Share.

Rights of the Placing Shares

The Placing Shares are free and clear of all Liens and together with all rights attaching to them as of the Placing Completion Date, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time on or after the Placing Completion Date.

Ranking of the Placing Shares

The Placing Shares are fully paid, rank pari passu in all respects with the other issued Shares, and are free from all Liens as of the Placing Completion Date.

Warranties

The Vendor agreed to provide the following undertakings to the Placee by way of signing a letter of undertaking on the Placing Completion Date:

- (i) the Vendor will procure the Company not to further allot or issue any Shares for a period of 90 days after the Placing Completion Date (the "**Lock-up Period**"), save for (a) the issue of the Subscription Shares under the Subscription Agreement; (b) the issue of new Shares pursuant to the exercise of the subscription rights attached to the outstanding options granted pursuant to the share option scheme of the Company or the grant of options pursuant to the share option scheme of the Company; or (c) subject to paragraph (ii) below, further allotment and issue of new Shares by the Company on the condition that the price for each new Shares shall not be less than HK\$2.80 and the total gross proceeds raised from such allotment and issue during the Lock-up Period shall not be more than US\$10,000,000 (excluding the proceed raised from the Placing of the Placing Shares under the Placing Agreement); and

- (ii) with regard to the allotment and issue of new Shares (the “**New Shares**”) by the Company under paragraph (i)(c) above, the Vendor shall procure that if the Company proposes to offer any New Shares, the Company shall be subject to the right of first refusal to the benefit of the Placee as set out as follows:
- (a) the Company shall provide a written notice (the “**New Shares Notice**”) to the Placee stating its bona fide intention to offer such New Shares, the number of such New Shares to be offered and the consideration for issuing such New Shares (the “**New Shares Price**”);
 - (b) within 2 Business Days after delivery of the New Shares Notice (the “**Pre-emption Period**”), the Placee may elect to purchase or obtain, at the New Share Price subject to all terms and conditions as set out in the New Shares Notice, up to a maximum number of the New Shares; and
 - (c) in the event if there is any remaining unsubscribed portion of the New Shares after the Pre-emption Period, the Company may during the 14-day period following the Pre-emption Period, offer those remaining unsubscribed portion of the New Shares to any person or persons (other than the Placee) (the “**Third Parties**”) at a price not less than, and upon terms and conditions no more favourable to the offeree than those set out in the New Shares Notice, and enter into the relevant agreement with any Third Parties in connection with such allotment and issue of the New Shares.

Completion of the Placing

The Placing is unconditional except in the event that the Placing is terminated by the Vendor or the Placing Agent. Completion of the Placing will take place on or before 4:00 p.m. (Hong Kong time) on the Placing Completion Date.

Placing commission and expenses

The Vendor will pay the Placing Agent a placing commission of 1% of the gross proceeds of the Placing (subject to a minimum of HK\$500,000). The rate of such placing commission is negotiated on an arm’s length basis between the Company and the Placing Agent having regard to the circumstances of the Company, and the Board (including the independent non-executive Directors) considers that such rate is on normal commercial term and fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

In addition, a fee of HK\$900,000 will be paid to Cowen Latitude Advisors Limited, being the fee payable for the advisory services rendered by it in connection with the Placing.

THE SUBSCRIPTION AGREEMENT

Date

14 October 2010, after the morning trading session but before the commencement of the afternoon trading session

Parties

The Company (as issuer)

The Vendor (as subscriber)

Number of the Subscription Shares

The maximum of 15,000,000 new Shares represents (i) approximately 3.3% of the existing issued share capital of the Company of 450,832,437 Shares as at the date of this announcement; and (ii) approximately 3.2% of the issued share capital of the Company of 465,832,437 Shares as enlarged by the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement. The actual number of the Subscription Shares that will be subscribed by the Vendor under the Subscription will be the same as the number of the Placing Shares that will be sold by the Vendor under the Placing.

Subscription Price

HK\$2.80 per Subscription Share, which is equal to the Placing Price.

Ranking of the Subscription Shares

The Subscription Shares, when fully paid, will rank pari passu in all respects with the other Shares in issue as at the date of completion of the Subscription including the rights to all dividends and other distributions declared, made or paid at any time after the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription

Completion of the Subscription Agreement is conditional upon:

- (i) completion of the Placing having occurred pursuant to the terms of the Placing Agreement; and
- (ii) the listing of and the permission to deal in the Subscription Shares being granted by the Listing Committee of the Stock Exchange.

The Company will apply to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares.

In the event of the conditions above not being fulfilled on or prior to the 13th day from the date of the Subscription Agreement (or such later time or date as may be agreed by the Vendor and the Company in writing), the Subscription Agreement shall terminate and no party shall have any claim against the other in respect thereof except for any antecedent breach.

Completion of the Subscription

Completion of the Subscription will take place at the earlier of (i) 3 Business Days immediately after the date upon which the last of the conditions of the Subscription is fulfilled; or (ii) the 14th day from the date of the Subscription Agreement. The Subscription constitutes a connected transaction under the Listing Rules but it falls within the exemption under Rule 14A.31(3)(d) of the Listing Rules if the Subscription is completed within 14 days from the date of the Placing Agreement/Subscription Agreement. In the event that the Subscription is not completed within 14 days from the date of the Placing Agreement/Subscription Agreement, and the Vendor and the Company agree to extend to a later date, the Subscription will not fall within the exemption under Rule 14A.31(3)(d) of the Listing Rules and shall be subject to announcement, reporting and independent shareholders' approval requirements, and the Company will fully comply with the requirements of Chapter 14A of the Listing Rules.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under the general mandate granted to the Directors pursuant to an ordinary resolution passed by the Shareholders at the annual general meeting of the Company held on 30 April 2010 to issue up to 90,116,487 Shares. As at the date of this announcement, no part of such general mandate has been exercised by the Directors since 30 April 2010. Accordingly, the allotment and issue of the Subscription Shares is not subject to any approval by the Shareholders.

Other Terms

The Company shall bear all the costs and expenses and will reimburse to the Vendor the costs, fees and expenses properly and reasonably incurred by it in connection with the Placing and the Subscription, after deducting any interest accrued and received by the Vendor on the net proceeds of the Placing during the period between completion of the Placing and completion of the Subscription.

REASON FOR THE PLACING AND THE SUBSCRIPTION AND USE OF NET PROCEEDS OF THE SUBSCRIPTION

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

The Directors considered various ways of raising funds and believed that the Placing and the Subscription together represent an opportunity to raise fund for the Company. The Directors considered that it is beneficial to the Company and the Shareholders as a whole to raise capital for the future business development of the Group by way of the Placing and the Subscription as it can broaden the capital and shareholder base of the Company.

More importantly, the Directors consider that the Placing to the Placee is beneficial and constructive to the Group with the following merits because (i) the Placee is a reputable fund whose investment into the Company allows the Group to further strengthen its goodwill and reputation; (ii) the Placing to the Placee broadens the strategic shareholder base of the Company and is helpful to the continuous growth and sustainable development of the Group.

The gross proceeds and the net proceeds of the Subscription will be approximately HK\$42 million and HK\$40 million, respectively. The net proceeds of the Subscription are intended to be used for general working capital of the Group to improve the existing business of the Group and future investment purposes of the Group.

The Board (including the independent non-executive Directors) considers that the terms of the Placing and the Subscription are entered into upon normal commercial terms following arm's length negotiations among the Vendor, the Company and the Placing Agent, and that the terms of the Placing and the Subscription are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES DURING THE PAST 12 MONTHS BEFORE THE DATE OF THIS ANNOUNCEMENT

The Company had not carried out any equity fund-raising activity during the past 12 months immediately preceding the date of this announcement.

CHANGES IN THE SHAREHOLDING INTERESTS OF THE COMPANY AFTER COMPLETION OF THE PLACING AND THE SUBSCRIPTION

The table below sets out the changes in the shareholding interests of the Company as at (i) the date of this announcement; (ii) immediately after completion of the Placing but before completion of the Subscription; and (iii) immediately after completion of the Placing and the Subscription:

	As at the date of this announcement		Immediately after completion of the Placing but before completion of the Subscription		Immediately after completion of the Placing and the Subscription	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
The Vendor (<i>Note 1</i>)	120,290,625	26.68	105,290,625	23.35	120,290,625	25.82
Defiante Farmaceutica, S.A.	132,350,000	29.36	132,350,000	29.36	132,350,000	28.41
High Knowledge Investments Limited (<i>Note 2</i>)	16,000,000	3.55	16,000,000	3.55	16,000,000	3.43
Dynamic Achieve Investments Limited (<i>Note 1</i>)	4,400,000	0.98	4,400,000	0.98	4,400,000	0.94
Directors						
Li Xiaoyi	35,110,000	7.79	35,110,000	7.79	35,110,000	7.54
Lee Siu Fong	2,504,375	0.55	2,504,375	0.55	2,504,375	0.54
Leelalertsuphakun Wanee	1,009,000	0.22	1,009,000	0.22	1,009,000	0.22
Chan Yau Ching, Bob	1,190,000	0.26	1,190,000	0.26	1,190,000	0.26
Tsim Wah Keung, Karl	300,000	0.07	300,000	0.07	300,000	0.06
Sub-total of Directors	40,113,375		40,113,375		40,113,375	
Public Shareholders	137,678,437	30.54	137,678,437	30.54	137,678,437	29.56
The Placee	–	–	15,000,000	3.33	15,000,000	3.22
Total	450,832,437	100.0	450,832,437	100.0	465,832,437	100.0

Notes:

1. The Vendor and Dynamic Achieve Investments Limited are investment holdings companies jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
2. The Shares are held by High Knowledge Investments Limited, which is wholly and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky. The interest held by Ms. Lue Shuk Ping, Vicky is deemed to be part of the interest of Dr. Li Xiaoyi under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on 14 October 2010 pending for the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 2:30 p.m. on 15 October 2010.

DEFINITIONS

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

“Board”	the board of Directors
“Business Day”	any day (other than a Saturday and days on which a tropical cyclone warning No.8 or above or a “black rainstorm signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general banking business
“Company”	Lee’s Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	director(s) of the Company
“Group”	the Company and its Subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Liens”	liens, charges and encumbrances, claims and third party rights
“Listing Committee”	the listing sub-committee of the board for the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placee”	FIL Investment Management (Hong Kong) Limited as professional fiduciary for the accounts listed in the Placing Agreement, who is a professional and institutional investor to purchase for any of the Placing Shares on the terms and conditions as set out in the Placing Agreement

“Placing”	the placing by or on behalf of the Placing Agent of the Placing Shares on the terms and conditions as set out in the Placing Agreement
“Placing Agent”	Piper Jaffray Asia Securities Limited, a licensed corporation to carry on business in Type 1 (dealing in securities) and Type 4 (advising on securities) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement entered into among the Vendor, the Company and the Placing Agent in respect of the Placing
“Placing Completion Date”	no later than 4:00 p.m. (Hong Kong time) on 19 October 2010 or such other time or date as the Vendor and the Placing Agent shall agree on which completion of the Placing shall take place pursuant to the Placing Agreement
“Placing Price”	HK\$2.80 per Placing Share
“Placing Shares”	a maximum of 15,000,000 existing Shares currently held by the Vendor and to be placed pursuant to the Placing Agreement
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of nominal value of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Vendor for the Subscription Shares on the terms and conditions as set out in the Subscription Agreement
“Subscription Agreement”	the subscription agreement entered into between the Vendor and the Company whereby, and conditional upon, inter alia, completion of the Placing taking place, the Vendor agrees to subscribe for the Subscription Shares

“Subscription Price”	HK\$2.80 per Subscription Share, which is equal to the Placing Price
“Subscription Shares”	such number of new Shares to be subscribed for by the Vendor pursuant to the Subscription Agreement, which is equal to the number of the Placing Shares sold by the Vendor pursuant to the Placing
“Subsidiaries”	has the same meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers in Hong Kong
“Vendor”	Huby Technology Limited, a company incorporated in the British Virgin Islands with limited liability, who is a Substantial Shareholder, holding 120,290,625 Shares, representing approximately 26.68% of the existing issued share capital of the Company as at the date of this announcement
“HK\$” or “\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

Hong Kong, 15 October 2010

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