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李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

CONNECTED TRANSACTIONS DISPOSAL OF ASSETS

CONNECTED TRANSACTIONS

On 20 July 2018 (1) LPHK entered into the LPHK Agreement with the Purchaser, pursuant to which LPHK agrees to sell, and the Purchaser agrees to purchase, the LPHK Assets at the LPHK Consideration; and (2) ZPH entered into the ZPH Agreement with the Purchaser, pursuant to which ZPH agrees to sell, and the Purchaser agrees to purchase, the ZPH Assets at the ZPH Consideration.

LISTING RULES IMPLICATIONS

As at the date of the Disposals, Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi were the Directors and substantial Shareholders who were connected persons of the Company. Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi held a total of 94% equity interest in PCH and therefore, PCH was an associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and was a connected person of the Company.

As at the date of the Disposals, the Purchaser was a non-wholly owned subsidiary of the Company which was owned as to 65% by LPI and 35% by PCH, which is a connected person of the Company. As PCH exercises and controls 10% or more of the voting power of the Purchaser, the Purchaser is a connected subsidiary of the Company under the Listing Rules. Accordingly, the Disposals constituted connected transactions of the Company under Chapter 14A of the Listing Rules, which shall be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules as all of the relevant percentage ratios for the Disposals in aggregate exceeded 0.1% but was less than 5%.

LPHK AGREEMENT

Date

20 July 2018

Parties

- (1) LPHK, a wholly-owned subsidiary of the Company, as vendor; and
- (2) the Purchaser, as purchaser.

Subject matter

Pursuant to the LPHK Agreement, LPHK agrees to sell, and the Purchaser agrees to purchase, the LPHK Assets at the LPHK Consideration.

Assets

The assets to be disposed by LPHK to the Purchaser comprise the right, title and interest in and to the following assets in relation to the LPHK Products:

- (a) the LPHK Assigned Contracts;
- (b) all available technology information;
- (c) all available sales and marketing information;
- (d) all applicable regulatory items;
- (e) all available component materials and requested capital equipment; and
- (f) all product production records.

The LPHK Products consist of Product Pexa-Vec and Product Gimatecan both are in developing stage.

Product Pexa-Vec is vaccinia oncolytic virus JX-594 and its vaccinia strain backbone has been used safely in millions of people as part of a worldwide vaccination program. This strain naturally targets cancer cells due to common genetic defects in cancer cells and Pexa-Vec was engineered to enhance this by deleting its thymidine kinase (TK) gene, thus making it dependent on the cellular TK expressed at persistently high levels in cancer cells. Pexa-Vec is also engineered to express the immunogenic GM-CSF protein. GM-CSF complements the cancer cell lysis of the product candidate, leading to a cascade of events resulting in tumor necrosis, tumor vasculature shutdown and sustained anti-tumoral immune attack.

Product Gimatecan is a novel oral lipophilic camptothecin which has some distinctive features that make it quite unique within the camptothecins. It inhibits topoisomerase I (topo I). Topoisomerases are enzymes responsible for regulating and facilitating the processes underlying cell growth, replication, and division. Proposed therapeutic advantages of Product Gimatecan consist of an improvement of the therapeutic index observed in the treatment of the non-small cell lung carcinoma (NCI-H460) and the glioblastoma (GBM).

Consideration

The LPHK Consideration shall be HK\$106,500,000, which shall comprise:

- (a) HK\$15,000,000, as consideration for the assignment of the rights and obligations under the LPHK Assigned Contracts; and
- (b) HK\$91,500,000, as consideration for the purchase of the technology information, sales and marketing information, regulatory items, component materials and requested capital equipment and product production records in relation to the LPHK Products.

The LPHK Consideration was determined after arm's length negotiation between the parties with reference to, among other things, the unaudited carrying amount of the LPHK Assets as at 30 June 2018 of approximately HK\$106,200,000 and the current status of the LPHK Assets. The LPHK Consideration shall be payable by the Purchaser to LPHK in cash upon the LPHK Completion.

Completion

The LPHK Completion shall take place on 30 September 2018 or such other date as agreed by LPHK and the Purchaser.

ZPH AGREEMENT

Date

20 July 2018

Parties

- (1) ZPH, a wholly-owned subsidiary of the Company, as vendor; and
- (2) the Purchaser, as purchaser.

Subject matter

Pursuant to the ZPH Agreement, ZPH agrees to sell, and the Purchaser agrees to purchase, the ZPH Assets at the ZPH Consideration.

Assets

The assets to be disposed by ZPH to the Purchaser comprise the right, title and interest in and to the following assets in relation to the ZPH Products:

- (a) the ZPH Assigned Contracts;
- (b) all available technology information;
- (c) all available sales and marketing information;
- (d) all applicable regulatory items;
- (e) all available component materials and requested capital equipment; and
- (f) all product production records.

The ZPH Products consist of Product Melphalan, Product Olaparib, Product Gliolan and Product Axitinib, all are in developing stage.

Product Melphalan, also known as L-phenylalanine mustard, phenylalanine mustard, L-PAM, or L-sarcolysin, is a phenylalanine derivative of nitrogen mustard which is a chemotherapy drug indicated for the palliative treatment of multiple myeloma and for the palliation of non-resectable epithelial carcinoma of the ovary.

Product Olaparib is an inhibitor of poly (ADP-ribose) polymerase (PARP) enzymes, including PARP1, PARP2, and PARP3, which is indicated as a maintenance therapy or monotherapy for the treatment of adult patients with recurrent epithelial ovarian, fallopian tube or primary peritoneal cancer, as well as chemotherapy-experienced patients with germline breast cancer susceptibility gene (BRCA) mutated, human epidermal growth factor receptor 2 (HER2)-negative metastatic breast cancer.

Product Gliolan is a drug containing an active substance called 5-aminolevulinic acid hydrochloride (5-ALA) and is an orally administered drug given preoperatively to patients undergoing surgery to resect malignant high grade glioma, a type of brain tumour.

Product Axitinib is an angiogenesis inhibitor. It is an oral, potent, and selective inhibitor of vascular endothelial growth factor receptors (VEGFR) 1, 2, and 3, which is indicated for the treatment of advanced renal cell carcinoma after the failure of one prior systemic therapy.

Consideration

The ZPH Consideration shall be HK\$7,300,000, which shall comprise:

- (a) HK\$400,000, as consideration for the assignment of the rights and obligations under the ZPH Assigned Contracts; and
- (b) HK\$6,900,000, as consideration for the purchase of the technology information, sales and marketing information, regulatory items, component materials and requested capital equipment and product production records in relation to the ZPH Products.

The ZPH Consideration was determined after arm's length negotiation between the parties with reference to, among other things, the unaudited carrying amount of the ZPH Assets as at 30 June 2018 of approximately HK\$6,300,000 and the current status of the ZPM Assets. The ZPH Consideration shall be payable by the Purchaser to ZPH in cash upon the ZPH Completion.

Completion

The ZPH Completion shall take place on 30 September 2018 or such other date as agreed by ZPH and the Purchaser.

INFORMATION ON THE GROUP, LPHK, ZPH, THE PURCHASER AND THE ZPH PRODUCTS

The principal activities of the Group are the development of, manufacturing of and sales and marketing of pharmaceutical products.

LPHK is a wholly-owned subsidiary of the Company and is principally engaged in trading of pharmaceutical products.

ZPH is a wholly-owned subsidiary of the Company and is principally engaged in manufactures and sale of pharmaceutical products.

The Purchaser was a non-wholly-owned subsidiary of the Company which was owned as to 65% by LPI and 35% by PCH, which is a connected person of the Company. The Purchaser is principally engaged in development of oncology pharmaceutical products.

The technology information of the ZPH Products was acquired by ZPH from the sellers who are Independent Third Parties. As consideration for the acquisition of the technology information of the ZPH Products, ZPH agreed to engage such Independent Third Parties to carry out the research and development of the ZPH Products at the service fees as set out in the ZPH Assigned Contracts (the "**Service Fees**"). Save for the Product Axitinib and Product Olaparib which require initial partial payment of the Service Fees in the sum of RMB3.09 million (equivalent to approximately HK\$3.71 million) (collectively as the "**Initial Payment**"), ZPH shall pay the Service Fees to such

Independent Third Parties upon completion of the research and development on the ZPH Products. Therefore, the original acquisition cost of the technology information of the ZPH Products is the Service Fees (including the Initial Payment). As at the date of this announcement, ZPH has paid the Initial Payment and no other acquisition costs was paid by ZPH for the acquisition of the technology information of the ZPH Products. Under the ZPH Agreement, the Purchaser shall assume ZPH's payment obligations to pay the Service Fees (other than the Initial Payment) upon completion of the ZPH Disposal.

REASONS FOR AND BENEFITS DERIVED FROM THE DISPOSALS

The Board considers that the Disposals are favourable to the Group in the following aspects:

1. It is expected that the operating efficiency can be improved by putting all the oncology pipeline assets in the Purchaser, which consists of a dedicated and specialised management team of oncology experts, and with combination strategies in oncology field being key areas of clinical research that may unlock the potential of immuno-oncology therapies to treat cancer;
2. The development of oncology new drugs requires a major investment of capital. The consolidation of oncology pipeline assets by the Purchaser, a non-wholly-owned subsidiary of the Company, is expected to improve the financing ability of the Purchaser, which in turn may speed up the developing of the assets, maximise the potential and shorten the time-to-market thereof; and
3. It is expected to generate gains from the Disposals.

The gain expected to accrue to the Company from the Disposals is expected to be approximately HK\$1,300,000, which is calculated by the difference between the Consideration and the unaudited carrying amount of the Assets. As the Purchaser is a non-wholly-owned subsidiary of the Company whose accounts are consolidated into the accounts of the Group, gains of the Company from the Disposals to be realised upon the LPHK Completion and ZPH Completion will be offset under the consolidated accounts of the Group. Therefore, it is expected that the Disposals will have no effect on the consolidated income statement of the Group. The sale proceeds from the Disposals will be used as general working capital of the Group.

The Board (including the independent non-executive Directors) consider the terms of the Disposals are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Group and the Shareholders as a whole.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, being executive Directors and substantial Shareholder, are interested in the issued share capital of PCH, and in view of such interests, they are considered to have an interest in the transactions contemplated under the Disposals, and is required to abstain or has abstained from,

voting on the relevant Board resolutions to approve the Disposals. Save for the above, no Director has a material interest in the transactions contemplated under the Disposals, and none of them is required to abstain or has abstained from, voting on the relevant Board resolutions to approve the Disposals.

LISTING RULES IMPLICATIONS

As at the date of the Disposals, Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi were the Directors and substantial Shareholders who were connected persons of the Company. Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi held a total of 94% equity interest in PCH and therefore, PCH was an associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and was a connected person of the Company.

As at the date of the Disposals, the Purchaser was a non-wholly owned subsidiary of the Company which was owned as to 65% by LPI and 35% by PCH, which is a connected person of the Company. As PCH exercises and controls 10% or more of the voting power of the Purchaser, the Purchaser is a connected subsidiary of the Company under the Listing Rules. Accordingly, the Disposals constituted connected transactions of the Company under Chapter 14A of the Listing Rules, which shall be subject to the reporting and announcement requirements but exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules as all of the relevant percentage ratios for the Disposals in aggregate exceeded 0.1% but was less than 5%.

DEFINITIONS

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

“Assets”	LPHK Assets and ZPH Assets
“Board”	the board of Directors
“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(s)”	has the meaning as ascribed under the Listing Rules
“Consideration”	LPHK Consideration and ZPH Consideration
“Director(s)”	director(s) of the Company
“Disposals”	LPHK Disposal and ZPH Disposal
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“LPHK”	Lee’s Pharmaceutical (HK) Limited, a company incorporated under the laws of Hong Kong
“LPHK Agreement”	the master asset purchase agreement dated 20 July 2018 entered into between LPHK and the Purchaser in relation to the LPHK Disposal
“LPHK Assets”	the right, title and interest in and to the LPHK Assigned Contracts, all available technology information, all available sales and marketing information, all applicable regulatory items, all available component materials and requested capital equipment and all product production records in relation to the LPHK Products
“LPHK Assigned Contracts”	the license agreements entered into by LPHK as licensee and certain licensors which are Independent Third Parties in relation to the exclusive rights to develop the LPHK Products in the PRC, including Hong Kong and Macau
“LPHK Completion”	completion of the sale and purchase of the LPHK Assets
“LPHK Consideration”	consideration for the LPHK Disposal
“LPHK Disposal”	the disposal of the LPHK Assets by LPHK to the Purchaser
“LPHK Products”	Product Pexa-Vec and Product Gimatecan

“LPI”	Lee’s Pharmaceutical International Ltd, a company incorporated under the laws of the British Virgin Islands, which is a wholly-owned subsidiary of the Company
“PCH”	Perfect Concept Holdings Ltd, a company incorporated under the laws of Hong Kong
“percentage ratios”	has the meaning as ascribed under the Listing Rules
“PRC”	the People’s Republic of China
“Product Axitinib”	is an angiogenesis inhibitor
“Product Gimatecan”	a novel oral lipophilic camptothecin which inhibits topoisomerase I (topo I)
“Product Gliolan”	a drug containing an active substance called 5-aminolevulinic acid hydrochloride (5-ALA)
“Product Melphalan”	is a phenylalanine derivative of nitrogen mustard
“Product Olaparib”	Olaparib is an inhibitor of poly (ADP-ribose) polymerase (PARP) enzymes, including PARP1, PARP2, and PARP3
“Product Pexa-Vec”	vaccinia oncolytic virus JX-594
“Purchaser”	China Oncology Focus Limited, a company incorporated in the British Virgin Islands
“Shareholders”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“ZPH”	Zhaoke Pharmaceutical (Hefei) Co. Limited, a company incorporated in the PRC
“ZPH Agreement”	the master asset purchase agreement dated 20 July 2018 entered into between ZPH and the Purchaser in relation to the ZPH Disposal

“ZPH Assets”	the right, title and interest in and to the ZPH Assigned Contracts, all available technology information, all available sales and marketing information, all applicable regulatory items, all available component materials and requested capital equipment and all product production records in relation to the ZPH Products
“ZPH Assigned Contracts”	the agreements entered into by ZPH as appointor and certain appointees which are Independent Third Parties in relation to the appointment of the appointees to carry out research and development on the ZPH Products
“ZPH Completion”	completion of the sale and purchase of the ZPH Assets
“ZPH Consideration”	consideration for the ZPH Disposal
“ZPH Disposal”	the disposal of the ZPH Assets by ZPH to the Purchaser
“ZPH Products”	Product Melphalan, Product Olaparib, Product Gliolan and Product Axitinib
“%”	per cent

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

Hong Kong, 20 July 2018

* *For identification purpose only*

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