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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)

DISCLOSEABLE TRANSACTION

LICENSE AGREEMENT IN RELATION TO LICENSED RIGHTS AND DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

THE LICENSE AGREEMENT

On 2 October 2020, Lee's International and Zhaoke GZ, as the Licensees, entered into the License Agreement with the WFOE and Zhaoke Ophthalmology, as the Licensors. Pursuant to the License Agreement, the Licensors agreed to grant exclusive License Rights to the Licensees in relation to the Licensed Product in the Licensed Territories, and in consideration of which, the Licensees agreed to pay the upfront payment (inclusive of tax) of US\$10,000,000 (which shall be settled by way of the Share Repurchase or (if the Share Repurchase cannot be carried out in full) settled in cash), the milestone payment (inclusive of tax) of US\$5,000,000 and a sales commission to the Licensors in accordance with the terms of the License Agreement.

DISPOSAL

Pursuant to the terms of the License Agreement, the upfront payment (inclusive of tax) of US\$10,000,000 will be settled by way of the Share Repurchase or (if the Share Repurchase cannot be carried out in full) settled in cash. The Share Repurchase will constitute the Disposal of equity interest by Lee's International in Zhaoke Ophthalmology. As at the date of this announcement and immediately before the Closing, assuming conversion in full of the Zhaoke Series A Preferred Shares, the Company's indirect interest in Zhaoke Ophthalmology (through Lee's International) is 50.117% and Zhaoke Ophthalmology is an indirect non-wholly-owned subsidiary of the Company. Upon completion of the Share Repurchase, the Company's indirect interest in Zhaoke Ophthalmology would be reduced from approximately 50.117% to 48.539% and Zhaoke Ophthalmology will cease to be an indirect non-wholly-owned subsidiary of the Company and the financial results of Zhaoke Group will not be consolidated in the consolidated financial statements of the Group. Therefore, it is estimated that the Group will record a gain of approximately HK\$186,378,000 as a result of the Disposal. The actual amount of gain to be recorded by the Group will be subject to the review and final audit by the auditors of the Group.

* For identification purposes only

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio under the Listing Rules for the transactions contemplated under the License Agreement (which consist of the obtaining of the exclusive License Rights, the Share Repurchase and the Disposal) is more than 5% but less than 25%, the entering into of the License Agreement and the transactions contemplated under the License Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules but is exempt from the circular (including independent financial advice) and shareholders' approval requirements of the Listing Rules.

THE LICENSE AGREEMENT

Date

2 October 2020

Parties

Licensors: (1) WFOE; and

(2) Zhaoke Ophthalmology.

Licensees: (1) Lee's International (a wholly-owned subsidiary of the Company);
and

(2) Zhaoke GZ (an indirect wholly-owned subsidiary of the Company).

As at the date of this announcement and immediately before the Closing, assuming conversion in full of the Zhaoke Series A Preferred Shares, the Company's indirect interest in Zhaoke Ophthalmology (through Lee's International) is 50.117%, and Zhaoke Ophthalmology is an indirect non-wholly-owned subsidiary of the Company. In addition, as at the date of this announcement, WFOE is an indirect wholly-owned subsidiary of Zhaoke Ophthalmology.

Save for the above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the WFOE and Zhaoke Ophthalmology and their respective ultimate beneficial owner(s) are Independent Third Parties.

Term

An initial term shall commence on the date of the License Agreement and continue to be in force and effect until the date of the tenth anniversary of the initial sale of the Licensed Product in the Licensed Territories, unless terminated earlier in accordance with the terms of the License Agreement.

Upon expiration of the initial term, the License Agreement shall be automatically renewed for another five years. Unless terminated earlier in accordance with the terms of the License Agreement, the License Agreement shall subsequently be automatically renewed for a term of five years at the end of each renewed term.

Licensed Rights

Pursuant to the License Agreement, the Licensors agreed to grant exclusive License Rights to the Licensees in relation to the Licensed Product in the Licensed Territories.

The Licensees shall be entitled to use the Licensed Technologies and the Licensed Trademarks for the purpose of the Licensed Product. The license fees paid by the Licensees are inclusive of the right to use the Licensed Technologies and the Licensed Trademarks.

Subject to the prior written consent of the Licensors, the Licensees may sub-license the Licensed Rights to their associated companies.

License Fees

Upfront payment

The Licensees shall pay an upfront payment (inclusive of tax) of US\$10,000,000 to the Licensors for the Licensed Rights upon Closing, which shall take place within 30 days after the date of the License Agreement. Such upfront payment shall be settled by way of the Share Repurchase or (if the Share Repurchase cannot be carried out in full) settled in cash. The Share Repurchase shall be made at the Agreed Repurchase Price, and the Zhaoke Ordinary Shares repurchased under the Share Repurchase will be cancelled thereafter.

In the event that Lee's International is unable to complete the Share Repurchase within 30 days after the date of the License Agreement (or such later date as requested by the Licensees and agreed by the parties), the Licensees shall pay the sum of US\$10,000,000 (or its equivalent in another currency) in cash to the Licensors as upfront payment.

Milestone payment

Within 14 days after obtaining the relevant regulatory approval for the new drug registration of the Licensed Product in PRC, the Licensees shall pay a sum of US\$5,000,000 (or its equivalent in another currency) to the Licensors as the milestone payment (inclusive of tax) in cash.

Sales commission

Upon the commercialisation of the Licensed Product in the Licensed Territories, the Licensors shall be entitled to sales commission from the sales of the Licensed Product (subject to the minimum purchase amount by the Licensees pursuant to the terms of the License Agreement) calculated as follows:

$$\begin{array}{l} \text{Amount of sales commission receivable} \\ \text{by the Licensors} \end{array} = (\text{net sales revenue} \times 55\%) - (\text{total sales} \\ \text{volume} \times \text{per unit costs (net of tax)})$$

The Licensees shall appoint an independent auditors approved by the Licensors to issue a verification report within 30 days of the end of each year setting out information on the sales of the Licensed Product including total sales volume, net sales revenue, sales costs and sales commission. The Licensees shall pay the Licensors the sales commission within 30 days thereafter.

The license fees will be financed by internal resources and/or revenue from the sales of the Licensed Product.

Basis of the License Fees

The license fees payable under the License Agreement were determined after arms' length negotiations between the Licensors and the Licensees with reference to various factors, including but not limited to the costs of development of the Licensed Technologies and the Licensed Product, expected prospects of the development of the Licensed Product in the Licensed Territories and the reasons for and benefits of the transactions contemplated under the License Agreement.

SHARE REPURCHASE AND FINANCIAL IMPACT OF THE DISPOSAL

The settlement of the upfront payment (inclusive of tax) payable under the License Agreement by way of Share Repurchase will constitute a disposal by Lee's International of 22,520 Zhaoke Ordinary Shares (which value is equivalent to US\$10,000,000 by using the Agreed Repurchase Price). The Share Repurchase shall be made at the Agreed Repurchase Price, and the Zhaoke Ordinary Shares repurchased under the Share Repurchase will be cancelled thereafter. The Agreed Repurchase Price was determined after arm's length negotiation between the Licensors and Licensees on normal commercial terms with reference to, among other things, the stage of developments and the market potential of the pipeline assets of Zhaoke Ophthalmology and the prospects of Zhaoke Ophthalmology.

As at the date of this announcement and immediately before the Closing, assuming conversion in full of the Zhaoke Series A Preferred Shares, the Company's indirect interest in Zhaoke Ophthalmology (through Lee's International) is 50.117%.

The following table shows the shareholdings of Zhaoke Ophthalmology (a) as at the date of this announcement and immediately before the Closing; and (b) after completion of the Share Repurchase (in both cases, assuming conversion in full of the Zhaoke Series A Preferred Shares):

Shareholders	As at the date of this announcement and immediately before the Closing		After completion of the Share Repurchase	
	Number of shares in the Target Company	Percentage of the total issued share capital of Zhaoke Ophthalmology	Number of shares in the Target Company	Percentage of the total issued share capital of Zhaoke Ophthalmology
Lee's International	368,000 Zhaoke Ordinary Shares	50.117%	345,480 Zhaoke Ordinary Shares	48.539%
Wealthy Chance	32,000 Zhaoke Ordinary Shares	4.358%	32,000 Zhaoke Ordinary Shares	4.496%
Zhaoke Series A Shareholders	334,280 Zhaoke Series A Preferred Shares	45.525%	334,280 Zhaoke Series A Preferred Shares	46.965%
TOTAL		<u>100.000%</u>		<u>100.000%</u>

Upon completion of the Share Repurchase, the Company's indirect interest in Zhaoke Ophthalmology would be reduced from approximately 50.117% to 48.539% and Zhaoke Ophthalmology will cease to be an indirect non-wholly-owned subsidiary of the Company and the financial results of Zhaoke Group will not be consolidated in the consolidated financial statements of the Group. Therefore, it is estimated that the Group will record a gain of approximately HK\$186,378,000 as a result of the Disposal. The actual amount of gain to be recorded by the Group will be subject to the review and final audit by the auditors of the Group.

The Disposal will serve as the settlement of the upfront payment (inclusive of tax) by the Group under the License Agreement and will not generate any proceeds for the Group.

INFORMATION ON THE LICENSED RIGHTS

Licensed Product

The Licensors has conducted research and developed the Licensed Product, and own the Licensed Product. The Licensed Product, namely Adapalene and Clindamycin Combination gel, contains the active ingredients of adapalene (阿達帕林) and clindamycin (鹽酸克林黴素).

The Licensed Product is a retinoic acid receptor (“**RAR**”) agonist that stimulates skin growth and clindamycin is an antibiotic that blocks bacterial protein synthesis. Combination of adapalene and clindamycin with different mechanisms of action is believed to be more efficacious than each alone in the treatment of acne vulgaris.

The Licensed Product is a proprietary product for the treatment of moderate acne vulgaris. Adapalene and Clindamycin Combination gel treats acne vulgaris. Symptoms of acne are not mediated by histamine. Adapalene increases cell turn over and suppresses inflammatory responses in the presence of acne causing bacteria. Another component in the Licensed Product, clindamycin, is an antibiotic that is effective against acne-causing bacteria (*Cutibacterium acnes*).

The Licensed Product has completed the final study visit in its pivotal phase III clinical trial and new drug application submission is expected in the second half of 2020.

Licensed Technologies

The following patents in relation to the development and production of the Licensed Product, which are registered or under application for registration in the PRC and owned by the WFOE:

- (a) The patent titled “阿達帕林鹽酸克林霉素複方凝膠製劑及其製備方法” (Patent No. ZL200810004156.1) deals with a proprietary formulation and its manufacture process for a product for acne
- (b) The patent under application for a method of controlling impurities for Clindamycin Hydrochloride “一種鹽酸克林霉素的雜質控制方法” (Patent Application number 201711336457.X)
- (c) The patent under application for a Dispersion process of Adapalene in a gel preparation “一種凝膠製劑中阿達帕林的分散工藝” (Patent Application number 201711392438.9)

Licensed Trademarks

The trademarks bearing the name or logo of “馥霖安” and “馥霖安” registered in the PRC and owned by the WFOE.

INFORMATION ON THE GROUP AND THE LICENSEES

The Group

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.

Lee's International

Lee's International was incorporated in the British Virgin Islands and its principal business activity is investment holding. It is a wholly-owned subsidiary of the Company.

Zhaoke GZ

Zhaoke GZ was a company established under the laws of the PRC with limited liability on 3 March 2011 and is an indirect wholly-owned subsidiary of the Company. Zhaoke GZ is principally engaged in development of pharmaceutical products with its manufacturing site located in Nansha.

INFORMATION ON THE LICENSORS

WFOE

The WFOE was a company established under the laws of the PRC with limited liability on 16 June 2016 and is an indirect wholly-owned subsidiary of Zhaoke Ophthalmology. Since its establishment, the WFOE has been focusing on the ophthalmic business, i.e., research and development of ophthalmic pharmaceutical products. To date, the WFOE has built up a state-of-the-art development and production facility in Nansha, Guangzhou to support its in-house development and future commercialisation of over 25 proprietary products and difficult-to-manufacture generics (ranged from pre-clinical to registration stage) for the Chinese and ASEAN markets.

Zhaoke Ophthalmology

Zhaoke Ophthalmology was initially incorporated under the laws of the BVI on 20 January 2017 and discontinued in the BVI on 2 June 2020. It was registered by way of continuation in the Cayman Islands on 29 April 2020. Zhaoke Ophthalmology is currently engaged in the business of researching and developing of ophthalmological, gynaecological and dermatological products and other related pharmaceutical products and engaging in other activities ancillary thereto through the WFOE.

As at 31 December 2018 and 31 December 2019, the audited consolidated total assets value of the Zhaoke Group were approximately HK\$188,889,000 and HK\$528,265,000, respectively.

As at 31 December 2018, the audited total net liabilities of the Zhaoke Group was approximately HK\$5,289,000 and as at 31 December 2019, the audited total net assets of the Zhaoke Group was approximately HK\$414,092,000.

The audited net losses (both before and after taxation) of the Zhaoke Group for each of the two financial years immediately before the Disposal 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

As at the date of this announcement and immediately before the Closing, the shareholding structure of Zhaoke Ophthalmology is as follows:

Shareholders of Zhaoke Ophthalmology	Shareholding (assuming conversion in full of the Zhaoke Series A Preferred Shares)	Remarks
Lee's International	50.117%	Lee's International is a wholly-owned subsidiary of the Company.
Wealthy Chance Fortune Ltd.	4.358%	Wealthy Chance Fortune Ltd. was incorporated in the BVI on 20 July 2018 and is an investment holding company. As at the date of this announcement, it is directly owned by group of employees in the Group and they are third parties independent of the Group and its connected persons.
Coyote Investment Pte. Ltd.	22.762%	Coyote Investment Pte. Ltd. is a company incorporated under the laws of Singapore with limited liability.
Other Zhaoke Series A Shareholders	22.763%	The shareholding of each of the other Zhaoke Series A Shareholders is less than 10%.
TOTAL	100%	

REASONS FOR AND BENEFITS OF THE LICENSE AGREEMENT AND SHARE REPURCHASE

The existing products manufactured by the Group (excluding the Zhaoke Group) are different from those manufactured by the Zhaoke Group in many aspects, including mechanism of actions, treatment of diseases and indications. As such, the products manufactured by the Group (excluding the Zhaoke Group) cannot be applied to treat the diseases covered by those manufactured by the Zhaoke Group. By obtaining the Licensed Rights, the Group (excluding the Zhaoke Group) will be able to supplement its existing capabilities in the treatment of different types of non-ophthalmic diseases and concentrate its financial resources on research and development of pharmaceutical products in other medical fields such as oncology, dermatology, gynecology, cardiology and psychiatry. The Zhaoke Group will also be able to focus on research and development of pharmaceutical products in the ophthalmic field.

The Board considers that the appreciation in the value of Zhaoke Ordinary Shares based on the Agreed Repurchased Price provided an attractive opportunity to exit a small portion of the Group's investment in Zhaoke Group by the Group and is of the view that the Disposal will preserve cash of the Group as compared to the cash settlement of the upfront payment (inclusive of tax) under the License Agreement.

After due and careful consideration of the above factors, the Directors (including the independent non-executive Directors) consider that the License Agreement has been entered into on normal commercial terms and that the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio under the Listing Rules for the transactions contemplated under the License Agreement (which consist of the obtaining of the exclusive License Rights, the Share Repurchase and the Disposal) is more than 5% but less than 25%, the entering into of the License Agreement and the transactions contemplated under the License Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules but is exempt from the circular (including independent financial advice) and shareholders' approval requirements of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meaning:

“Agreed Repurchase Price” the unit price for the Share Repurchase as agreed between the Licensors and the Licensees under the License Agreement (being approximately US\$444.05 for each Zhaoke Ordinary Share)

“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Closing”	the closing of the License Agreement upon which the upfront payment (inclusive of tax) shall be paid by the Licensees to the Licensors, either by way of the Share Repurchase or (if the Share Repurchase cannot be carried out in full) settled in cash
“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
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of 22,520 Zhaoke Ordinary Shares, representing approximately 1.578% equity interest in Zhaoke Ophthalmology, by Lee’s International as a result of the Share Repurchase pursuant to the terms of the License Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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
“Lee’s International”	Lee’s Pharmaceutical International Limited, a company incorporated under the laws of the BVI with limited liability, and a wholly owned subsidiary of the Company
“License Agreement”	the license agreement (授權許可協議) dated 2 October 2020 entered into by the WFOE, Zhaoke Ophthalmology, Lee’s International and Zhaoke GZ for the grant of the Licensed Rights pursuant to the terms and conditions set forth therein

“Licensed Product”	Adapalene and Clindamycin Combination gel (阿達帕林鹽酸克林黴素複方凝膠) developed by the Licensors and a general description of which is set out in the section headed “Information on the Licensed Rights” in this announcement
“Licensed Rights”	<p>the right to:</p> <p>(a) sell, distribute, promote, market, import and export the Licensed Products within the Licensed Territories; and</p> <p>(b) take all necessary action to complete the relevant drug registration, regulatory filing and regulatory approval (including relevant renewals from time to time, if applicable) in respect of the Licensed Products within the Licensed Territories,</p> <p>by using the Licensed Technologies and the Licensed Trademarks.</p>
“Licensed Technologies”	certain patents owned by the WFOE and a general description of which is set out in the section headed “Information on the Licensed Rights”
“Licensed Territories”	the PRC, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan region
“Licensed Trademarks”	certain trademarks bearing the name or logo of “馥霖安” and “馥霖安” owned by the WFOE and a general description of which is set out in the section headed “Information on the Licensed Rights”
“Licensees”	Lee’s International and Zhaoke GZ
“Licensors”	the WFOE and Zhaoke Ophthalmology
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China, and for the purpose of this announcement shall not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

“Share Repurchase”	the repurchase by Zhaoke Ophthalmology (being one of the Licensors) of 22,520 Zhaoke Ordinary Shares held by Lee’s International (being one of the Licensees) (which value is equivalent to US\$10,000,000 by using the Agreed Repurchase Price) as contemplated under the License Agreement for the settlement of the upfront payment (inclusive of tax) of US\$10,000,000 payable under the License Agreement
“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(ies)”	has the meaning ascribed to it under the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“WFOE”	Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Co., Ltd. (兆科(廣州)眼科藥物有限公司), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of Zhaoke Ophthalmology
“Zhaoke Group”	Zhaoke Ophthalmology and its subsidiaries
“Zhaoke GZ”	Zhaoke Pharmaceutical (Guangzhou) Company Limited (兆科藥業(廣州)有限公司), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Zhaoke Ophthalmology”	Zhaoke Ophthalmology Limited (formerly known as China Ophthalmology Focus Limited), a company initially incorporated under the laws of the 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 with par value of US\$0.0001 per share with the rights and privileges as set forth in the amended and restated memorandum and articles of association of Zhaoke Ophthalmology

“Zhaoke Series A Preferred Shares”	the series A preferred shares in the share capital of Zhaoke Ophthalmology with par value of US\$0.0001 per share with the rights and privileges as set forth in the amended and restated memorandum and articles of association of Zhaoke Ophthalmology
“Zhaoke Series A Shareholders”	holders of the Zhaoke Series A Preferred Shares
“%”	per cent

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

Hong Kong, 4 October 2020

As at the date of this announcement, 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.