

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8221)

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING
ACQUISITION OF INTERESTS IN
A SINO-FOREIGN EQUITY JOINT VENTURE COMPANY**

The Board announces that on 10 May 2005, Lee's HK, a wholly owned subsidiary of the Company, entered into an Equity Transfer Agreement with 合肥中科大 pursuant to which Lee's HK agreed to acquire the 30% equity interest in Zhaoke, which is currently held as to 30% equity interest by 合肥中科大 and as to 70% equity interest by Lee's HK. The acquisition of 30% interest in Zhaoke was completed in June 2005 and Zhaoke transformed from a Sino-foreign equity joint venture company to a wholly foreign-owned enterprise owned by Lee's HK.

The aggregate consideration for the acquisition of 30% equity interest in Zhaoke is US\$500,000 (approximately HK\$3.9 million), which has been arrived at after arm's length negotiations between 合肥中科大 and Lee's HK. The Board considers that the consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Apart from 合肥中科大 being a substantial shareholder of a subsidiary of the Company, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the shareholders of 合肥中科大 and their respective ultimate beneficial owners, subsidiaries or associates is independent of the Company and its connected persons (as defined in Listing Rules).

The transaction constitutes a discloseable and connected transaction of the Company pursuant to Rules 19.06 and 20.32 of the GEM Listing Rules. As each of the percentage ratios is more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the transaction is only subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47 and is exempt from the independent shareholders' approval requirements. A circular containing further details of the Equity Transfer Agreement will be despatched to the Shareholders within 21 days after the publication of this announcement.

* For identification purpose only

INTRODUCTION

The Board announces that on 10 May 2005, Lee's HK entered into an Equity Transfer Agreement with 合肥中科大 pursuant to which Lee's HK agreed to acquire 30% equity interest in Zhaoke which is currently held as to 30% equity interest by 合肥中科大 and as to 70% equity interest by Lee's HK. The acquisition of 30% interest in Zhaoke was completed in June 2005 and Zhaoke transformed from a Sino-foreign equity joint venture company to a wholly foreign-owned enterprise owned by Lee's HK.

PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT

Parties: (i) 合肥中科大 (as transferor) which is a substantial shareholder, holding 30% of Zhaoke, a subsidiary of the Company and is therefore connected person of the Company

(ii) Lee's HK (as transferee)

Principal Conditions:

30% equity interest in Zhaoke

Pursuant to the terms of the Equity Transfer Agreement, 合肥中科大 has agreed to transfer, and Lee's HK has agreed to acquire 30% equity interests in the registered capital in Zhaoke. Upon completion of the acquisition of 30% interest in Zhaoke, Zhaoke will be a wholly foreign-owned enterprise owned by Lee's HK.

The aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is US\$500,000 (approximately HK\$3.9 million) which was arrived at after arm's length negotiation between 合肥中科大 and Lee's HK. It represents a discount of 16.67% from the US\$600,000 technology contribution paid by USTC Biotech (a predecessor of 合肥中科大) on 7 February 1994 in the formation of Zhaoke. The technology contribution represented USTC Biotech's total commitment in Zhaoke. Zhaoke is the main profit generating company of the Group selling proprietary products. As disclosed in the segmental information notes of annual reports for 2003 and 2004, the group had segment profits of HK\$823,000 and HK\$3,567,000 generated from the sales of proprietary products (excluding intergroup charges and before finance cost). Zhaoke also made a record high segment profit of HK\$1,426,000 (excluding intergroup charges and before finance cost) for the first quarter of 2005, represented an increase of 93% compared with the segment profit of HK\$739,000 for the first quarter of 2004. The increase in turnover and segment profit by Zhaoke was attributable to the ever intensified knowledge-based promotion with numbers of seminars held in hospitals all over PRC. The Board anticipates that with regard to the track record of Zhaoke, the acquisition consideration of US\$500,000 (approximately HK\$3.9 million) represents an attractive investment. Moreover, Zhaoke is the flagship of the Group accounting for more than 90% of the Group's turnover derived from its activities since 2002 and therefore the acquisition of interests in Zhaoke, which by then will be wholly-owned by Lee's HK, provides an opportunity for the Group to increase its profit generating power and concentrate its management resources. Given this, the fairness and reasonableness of the amount of the acquisition consideration should therefore be assessed within this context as the acquisition will enable the Group to consolidate full control of Zhaoke and its future profits. The Board therefore considers that the aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is fair and reasonable and in the interests of the Company and the shareholders as a whole.

The aggregate consideration of the acquisition of the 30% equity interest in Zhaoke is US\$500,000 (HK\$3,900,000). US\$400,000 (HK\$3,120,000) has been paid from internal resources of Lee's Group in May and June 05 and the balance of US\$100,000 will be paid in December 2005 in accordance with the term of Equity Transfer Agreement. The payment of acquisition cost does not have significant adverse effect to the Group's cash position as the Group had cash and bank balances of around HK\$6 million as at 30 June 2005 after payment of US\$400,000 of the acquisition cost as disclosed in 2005 interim report.

The transfer of 30% equity interest in Zhaoke was completed in June 2005 as the following conditions as stipulated in the Equity Transfer Agreement were fulfilled.

1. the Equity Transfer Agreement, the amendment of memorandum and articles of association of Zhaoke, change of company name, the resignation of all directors nominated by 合肥中科大, and authorization of person(s) to sign all relevant documents were approved unanimously by the board of director of Zhaoke; and
2. the transfer of the 30% equity interest in Zhaoke was approved by Economic and Trade Bureau of Hefei State New & High Technology Industrial Development Zone on 3 June 2005.

Information on the Group

The Lee's Group is a research-driven and market-oriented bio-pharmaceutical company focused on the PRC market. Through its operating subsidiary in China (i.e. Zhaoke), the Group develops, manufactures and markets proprietary pharmaceutical products in China. It has established a sales and distribution network for pharmaceuticals covering most of the provinces and cities in China, marketing both self-developed products and licensed products from abroad.

Information on 合肥中科大

合肥中科大 is an associate company of 科大實業總公司 which is wholly owned by University of Science and Technology of China (中國科學技術大學) and its ultimate holding organization is China Science Academy (中國科學院). 合肥中科大 principally engages in research and development of drugs and health supplements and provides technology consultancy.

To the best of knowledge and belief of the Directors and having made all reasonable enquiry, 合肥中科大 and the ultimate beneficial owner of 合肥中科大 are third parties independent of the Company and connected persons of the Company.

Information of Zhaoke

Zhaoke was established in 1994 as a Sino-foreign equity joint venture and has been owned as to 70% by Lee's HK since Zhaoke's establishment and 30% by USTC Biotech (now changed to another shareholder 合肥中科大). Both the total amount of investment and the registered capital of Zhaoke are US\$2 million (equivalent to approximately HK\$15.6 million) and they are fully paid up by Lee's HK and USTC Biotech in accordance to their percentage of shareholding interest in Zhaoke. The respective share of the registered capital of Zhaoke had been paid up by Lee's HK as to US\$1.4 million (equivalent to approximately HK\$10.92 million) in the form of cash and by USTC Biotech (now changed to 合肥中科大) as to US\$0.6 million (equivalent to approximately HK\$4.68 million) in the form of technology of protein extraction and purification from snake venom with enzymatic activities. Located in

Hefei, Anhui Province, the PRC, Zhaoke is an integrated research-driven and market-oriented pharmaceutical company engaged in the development, manufacturer and sales of quality biopharmaceutical products that focus on combating cardiovascular diseases and viral sexually transmitted diseases. Since its establishment in 1994, Zhaoke has developed three technology platforms, namely, (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system. The Group carries out its sales and distribution activities through Zhaoke's sales offices located in Guangzhou, Shanghai and Beijing. The Group's proprietary products are all sold in the PRC under the brand name of "Zhaoke" and registered under Zhaoke.

Regarding the 30% equity interest in Zhaoke which is the subject of the transaction, the book value of total net liabilities (including amount due to Lee's HK of approximately HK\$18.76 million) of such portion was HK\$ 1.25 million as at 31 December 2004. Based on the Company's audited account, the results of Zhaoke was as follows:

	Financial year ended	
	31 December	
	2004	2003
	HK\$	HK\$
Turnover	<u>21,503,000</u>	<u>17,421,000</u>
Profit before intergroup charges	3,567,000	823,000
Intergroup management fees payable to Lee's HK	<u>(2,018,000)</u>	<u>(415,000)</u>
Profit before finance cost	1,549,000	408,000
Finance cost payable to outsiders	(426,000)	(476,000)
Finance cost payable to Lee's HK	<u>(1,188,000)</u>	<u>(1,071,000)</u>
Loss before taxation	(65,000)	(1,139,000)
Tax credit	<u>48,000</u>	<u>48,000</u>
Loss after taxation	<u>(17,000)</u>	<u>(1,091,000)</u>

As at 31 December 2004, assets and liabilities of Zhaoke included:

	HK\$'000
Property, plant and equipment	13,960
Intangible assets	6,297
Current assets	4,207
Current liabilities	(8,994)
Non-current liabilities	<u>(851)</u>
	14,619
Amount due to Lee's HK	<u>(18,776)</u>
Net liabilities	<u>(4,157)</u>

Unaudited results of Zhaoke for the first and second quarter of 2005 and 2004 are as follows:

	First quarter 2005 HK\$	Second quarter 2005 HK\$	First quarter 2004 HK\$	Second quarter 2004 HK\$
Turnover	<u>6,339,000</u>	<u>6,820,000</u>	<u>4,497,000</u>	<u>5,731,000</u>
Profit before intergroup charges	1,426,000	1,384,000	739,000	1,133,000
Intergroup management fees payable to Lee's HK	<u>(368,000)</u>	<u>(421,000)</u>	<u>(483,000)</u>	<u>(532,000)</u>
Profit before finance cost	1,058,000	963,000	256,000	601,000
Finance cost payable to outsiders	(119,000)	(96,000)	(119,000)	(114,000)
Finance cost payable to Lee's HK	<u>(298,000)</u>	<u>(298,000)</u>	<u>(270,000)</u>	<u>(270,000)</u>
Profit (loss) before taxation	641,000	569,000	(133,000)	217,000
Tax credit	<u>11,000</u>	<u>15,000</u>	<u>2,000</u>	<u>12,000</u>
Profit (loss) after taxation	<u>652,000</u>	<u>584,000</u>	<u>(131,000)</u>	<u>229,000</u>

Reasons for the acquisition of 30% equity interest in Zhaoke

Zhaoke is the flagship of Lee's Group with more than 90% of the Group's turnover derived from its activities. With the persistent growth in sales, Zhaoke recorded turnover of HK\$6.3 million in the first quarter of 2005 which was historical high and Zhaoke recorded a net profit in first quarter of 2005 representing a turn-around. In fact Zhaoke is the main profit making company for Lee's Group since 2004 and the Group recorded profitable results in the first quarter of 2005 as disclosed in the results announcement dated 12 May 2005. The increase in turnover and segment profit by Zhaoke was attributable to the ever intensified knowledge-based promotion with numbers of seminars held in hospitals all over PRC. The Directors expect that Zhaoke will continue to generate profit in the coming period. The acquisition of interests in Zhaoke, which by then will be wholly owned by Lee's HK, provides an opportunity for the Group to increase its profit earning power and concentrate its management resources. The Directors consider that that upon completion of the acquisition of interests in Zhaoke, the Company will still be continuing its existing business activities.

The Directors, including the independent non-executive Directors, consider that the terms of the Equity Transfer Agreement and the transactions contemplated therein are entered into on normal commercial terms, and arrived at after arm's length negotiations between the parties and fair and reasonable insofar as the Shareholders are concerned. Accordingly, and having regard to the Group's potential increase in earning power and concentration of its management resources as aforesaid, each of the Directors considers that the acquisition of 30% equity interest in Zhaoke is in the commercial interest of the Company and its shareholders.

In the second quarter of 2005 as announced on 12 August 2005, Zhaoke continued to record a growth in sales in the amount of HK\$6.8 million. Sales of Zhaoke for first six months of 2005 amounted to HK\$13,159,000 represented an increase of 28.7% compared with the same period in 2004. The Group continued to record an increase in profit in the second quarter of 2005 over the first quarter of 2005 which is stated in the unaudited interim report of the Company. These further substantiate the growing trend of Zhaoke.

DISCLOSEABLE AND CONNECTED TRANSACTION

The transaction constitutes a discloseable and connected transaction of the Company pursuant to Rules 19.06 and 20.32 of the GEM Listing Rules. As each of the percentage ratios is more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the transaction is only subject to reporting and announcement requirements set out in Rules 20.45 to 20.47 and it is exempt from the independent shareholders' approval requirements. A circular containing further details of the Equity Transfer Agreement will be despatched to the Shareholders within 21 days after the publication of this announcement.

DEFINITIONS

“Board”	board of Directors
“Company”	Lee's Pharmaceutical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“connected person(s)”	as defined in the GEM Listing Rules
“Director(s)”	Director(s) of the Company
“Equity Transfer Agreement”	an agreement dated 10 May 2005 entered into between 合肥中科大 and Lee's HK regarding the acquisition of 30% equity interest in Zhaoke from 合肥中科大 to Lee's HK at a consideration of US\$500,000 (or approximately HK\$3.9 million)
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Lee's Group” or “Group”	the Company and its subsidiaries
“Lee's HK”	Lee's Pharmaceutical (HK) Limited, a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“PRC” or “China”	People's Republic of China
Share(s)	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company, and “Shareholders” shall be construed accordingly
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“USTC Biotech”	中國科學技術大學生物技術公司 (University of Science and Technology of China Biotechnology Company) is an associate of University of Science and Technology of China. It held 30% shareholding interest of Zhaoke in its formation on 7 February 1994 and such shareholding interest was subsequently transferred to 合肥中科大 on 6 September 1999
“Zhaoke”	合肥兆峰科大藥業有限公司 (Hefei Siu-Fung USTC Pharmaceutical Company Limited), a Sino-foreign equity joint venture established in the PRC on 7 February 1994, the registered capital of which is currently held as to 70% by Lee’s HK and as to 30% by 合肥中科大
“HK\$”	Hong Kong dollars
“US\$”	United States dollars
“%”	per cent.
“合肥中科大”	合肥中科大生物技術有限公司, which is owned by independent third parties not connected with the Directors, chief executives, management shareholders, substantial shareholders of the Company and their respective associates

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

Hong Kong, 30 August 2005

As at the date thereof, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Dr. 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.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.leespharm.com.