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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 DISPOSAL OF ASSETS

DISPOSAL OF ASSETS

The Board is pleased to announce that on 13 November 2023 (after trading hours), Lee's Pharm Hefei (an indirect wholly-owned subsidiary of the Company) and Zhaoke Guangzhou entered into the Assets Transfer Agreement, pursuant to which Lee's Pharm Hefei agreed to transfer the Target Assets relating to Eyprotor to Zhaoke Guangzhou for a consideration of RMB60 million (equivalent to approximately HK\$66 million), subject to adjustments.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio for the Company in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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THE ASSETS TRANSFER AGREEMENT

Date: 13 November 2023

Parties: (i) Lee's Pharm Hefei, as transferor;

(ii) Zhaoke Guangzhou, as transferee; and

(iii) Zhaoke HK, as payor

Lee's Pharm Hefei is an indirect wholly-owned subsidiary of the Company. Zhaoke Guangzhou and Zhaoke HK are wholly-owned subsidiaries of Zhaoke Ophthalmology, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6622).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save for the Group's holding of 25.81% of the shares of Zhaoke Ophthalmology, through Lee's Pharmaceutical International Limited and Lee's Pharm Healthcare Fund L.P., Zhaoke Guangzhou, Zhaoke HK and their ultimate beneficial owners are Independent Third Parties.

Subject Matter

Lee's Pharm Hefei agreed to transfer, and Zhaoke Guangzhou agreed to acquire the Target Assets relating to Eyprotor, which include, among others, all intellectual property rights, technologies and process, and other relevant interests (including contractual interests) as well as the MAH and global distribution rights thereof.

Consideration

The consideration for the Assets Transfer is RMB60 million, subject to adjustments set out below (the "**Consideration**"). The Consideration shall be paid by Zhaoke HK in cash in the following manner:

- (1) Zhaoke HK shall pay Lee's Pharm Hefei a sum of RMB20 million as the first instalment within 20 business days following the execution of the Assets Transfer Agreement;
- (2) Zhaoke HK shall pay Lee's Pharm Hefei a sum of RMB20 million as the second instalment within 20 business days following the date when the Assets Transfer have been completed;
- (3) if the annual sales volume of Eyprotor reaches 1,000,000 units for the first financial year following completion of the Assets Transfer (i.e. from 1 January 2024 to 31 December 2024), Zhaoke HK shall pay Lee's Pharm Hefei a sum of RMB10 million as the third instalment within 20 business days from the date when such sales volume target is achieved; and

- (4) If the annual sales volume of Eyprotor reaches 1,150,000 units for the second financial year following completion of the Assets Transfer (i.e. from 1 January 2025 to 31 December 2025), Zhaoke HK shall pay Lee's Pharm Hefei a sum of RMB10 million as the fourth instalment within 20 business days from the date when such sales volume target is achieved.

The payment of the third and fourth instalments of the Consideration are conditional upon the achievement of the annual sales volume targets as aforesaid. If the annual sales volume targets for the financial years ended 31 December 2024 or 31 December 2025 are not met, the third instalment or the fourth instalment (as the case may be) are not required to be paid and the Consideration shall be adjusted accordingly.

Basis of Consideration

The Consideration was determined and arrived at after arm's length negotiation between the parties to the Assets Transfer Agreement on normal commercial terms and with reference to, among others, (i) the appraised value in the valuation report issued by an independent valuer; and (ii) the book value of the Target Assets of approximately RMB2 million as of 30 June 2023. The Directors (including the independent non-executive Directors) considered the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The methodology adopted in the preparation of the valuation report is market approach. According to the valuation report, the estimated market value of the Target Assets as of 16 October 2023 (the "**Valuation Date**") ranges from RMB60 million to RMB65 million. Details of the valuation report are set out below.

Valuation Methodology

After considering the purpose and basis of the valuation, the availability and reliability of information for analysis, and the relative pros and cons of each approach relative to the nature and circumstances of the Target Assets, the valuer is of the view that the market approach is the most appropriate valuation approach for the valuation, as compared to income approach or cost approach, because: (i) income approach would be more dependent on long-term financial forecast which requires unobservable inputs and subjective assumption; (ii) cost approach does not directly incorporate information about the economic benefits contributed by the target assets or business; (iii) the market approach better reflects current market expectations for the relevant industry since the price multiples of comparable companies under the market approach are derived from market consensus and are likely to capture the potential future development of the Target Assets and it also introduces objectivity in application as publicly available inputs are used.

There are two common methods under the market approach, namely, guideline public company method and guideline transaction method. The guideline public company method involves identifying suitable guideline public companies and selection of appropriate trading multiples. In contrast, the guideline transaction method refers to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to target company's financial parameters.

In the valuation, the market value of the Target Assets was developed through the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the Target Assets. In order to reflect the latest operation status of the Target Assets, it is considered that the suitable multiples in this valuation is EV/S ratio which are derived by the enterprise value ("EV") divided by revenue for last twelve months ("LTM") respectively as of the Valuation Date to determine the market value of the Target Assets.

Under the guideline public company method, the valuer has adopted the enterprise value (excluding cash) to sales as the key valuation metric because it is common industry practice to value tech-driven company, the category under which the Target Assets fall. The EV/Sales multiple is derived by dividing the enterprise value of the underlying company with its sales over a specific period. The formula is set out below:

$$\text{EV/Sales} = \text{Enterprise Value/Sales}$$

$$\text{Value} = \text{market capitalization} + \text{net debt} + \text{minority interest, as of the Valuation Date}$$

Valuation Assumptions

In determining the market value of the Target Assets, the following key assumptions were made:

- (1) the Target Assets are in the process of transactions and in open market, to which both transaction parties have sufficient opportunities to access, and their values are assessed according to the transaction conditions;
- (2) the Target Assets have good titles and are in use and will continue to be used for the existing purpose;
- (3) there are no hidden or unexpected conditions associated with the Target Assets that might adversely affect the reported value;
- (4) the enterprise has complied with the relevant laws and regulations and has performed its obligations of an asset owner responsibly and managed the relevant assets effectively;
- (5) there are no material changes in the relevant existing laws, regulations, policies, local political, economic and social environment of such places where the parties to the transaction are located; and

- (6) there are no other force majeure factors and unforeseeable factors that have a significant adverse impact on the Target Assets.

Selection Criteria for Comparables

In determining the price multiple, the initial selection criteria include the followings:

- (1) the comparable companies are publicly listed;
- (2) the comparable companies are mainly engaged in production and sales of ophthalmic drugs for correction and control in ophthalmic diseases and vision problems; and
- (3) EV/S ratio as of the Valuation Date of the comparable companies are available.

Based on the above mentioned selection criteria as sourced from Wind, a reliable third-party database service provider, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and four comparable companies were identified. The details of these comparable companies are shown below:

Stock Code	Company Name	Market Capitalization (RMB million)	EV (RMB million)	Revenue (RMB million)	EV/S Ratio
300573.SZ	Shenyang Xingqi Pharmaceutical Co., Ltd.	19,218	19,275	1,250	15.1**
688566.SH	Jiangsu Jibeier Pharmaceutical Co., Ltd.	5,323	5,323	655	7.0
603168.SH	Zhejiang Shapuaisi Pharmaceutical Co., Ltd.	3,464	3,540	550	5.8
1061.HK	Essex Bio-Technology Limited	1,653	2,098	1,318	1.2

Notes:

* Enterprise Value = market capitalization + net debt + minority interest, as of the Valuation Date

** As shown in the table above, the EV/S of the comparable companies ranges from approximately 1.2 times to 15.1 times with an average and median of approximately 7.3 times and 6.4 times, respectively. For illustrative purpose, an outlier is a datapoint which is more than 1 standard deviation away from the overall average. The standard deviation of the EV/Ss of the comparable companies has been calculated to be approximately 5.8 times. As a result, the upper boundary for identifying outliers is set at 13.1 (i.e. 7.3 + 5.8) times, while the lower boundary is set at 1.5 (i.e. 7.3 – 5.8) times. Therefore, the EV/S of approximately 15.1 times is regarded as outliers. If excluding this outlier, the adjusted EV/S of the comparable companies ranges from approximately 1.2 times to 7.0 times and the adopted median EV/S of approximately 5.8 times is still within the adjusted range.

Calculation of Valuation Result of the Target Assets

Under the guideline public company method, the market value depends on the market multiples of the comparable companies, sourced from Wind, as of the Valuation Date.

The calculation of the market value of Target Assets as of the Valuation Date is as follows:

**As of the
Valuation Date**
(RMB million)

Model-EV/S Ratio:

Median EV/S Ratio	5.8
Revenue for LTM ended 31 December 2022 of the Target Assets	11.1
Enterprise Value of the Target Assets	64.4

Completion

The Assets Transfer and filing procedures shall be completed by 30 June 2024. If the Assets Transfer is not completed by 30 June 2024 due to policy changes or force majeure reasons, the parties to the Assets Transfer Agreement shall then negotiate on the completion matters and payment terms thereof.

INFORMATION ON EYPROTOR

Eyprotor, an ophthalmic drug, contains active ingredients derived from calf red blood cell using proprietary and patented technology. Eyprotor can promote the replacement and utilization of glucose and oxygen by eye tissues and cells, and further promote the cell energy metabolism and organize nutrition to stimulate cell regeneration and accelerate tissue healing.

Eyprotor was 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 National Health Commission (國家衛生健康委員會) in June 2019. In January 2023, Eyprotor was released from the Second Batch of National Key Monitored Drugs for Rational Use (chemical and biological products) (第二批國家重點監控合理用藥藥品目錄 (化藥及生物製品)) by the National Health Commission.

The Group is currently manufacturing and engaged in the commercialization of Eyprotor in the PRC market. Prior to the listing of Zhaoke Ophthalmology's shares on the Stock Exchange, the Group granted the group of Zhaoke Ophthalmology a right of first refusal to purchase the commercialization and intellectual property rights of Eyprotor on commercially reasonable terms and Zhaoke Ophthalmology is entitled to consider whether or not to exercise such option when the sales demand of Eyprotor rises.

Net Profits Attributable to Eyprotor

Pursuant to the audited accounts prepared in accordance with Hong Kong Financial Reporting Standards, the net profits attributable to Eyprotor for the financial years ended 31 December 2021 and 2022 were as follows:

	For the financial year ended 31 December 2021		For the financial year ended 31 December 2022	
	Net profit before tax (RMB million)	Net profit after tax (RMB million)	Net profit before tax (RMB million)	Net profit after tax (RMB million)
Eyprotor	6.46	4.85	6.43	4.82

INFORMATION ON THE GROUP AND LEE'S PHARM HEFEI

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 Pharm Hefei is an indirect wholly-owned subsidiary of the Company, which was established in the PRC. It is principally engaged in providing contract research organization services and is currently operating a manufacturing plant located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilized powder for injection and small volume parenteral solutions.

INFORMATION ON ZHAOKE GUANGZHOU AND ZHAOKE HK

Zhaoke Guangzhou is a limited liability company established under the laws of the PRC on 16 June 2016, primarily engaging in research and development, and commercialization of ophthalmic drugs, and is the principal wholly-owned operating subsidiary of Zhaoke Ophthalmology. The Group held 25.81% of the shares of Zhaoke Ophthalmology, through Lee's Pharmaceutical International Limited and Lee's Pharm Healthcare Fund L.P..

Zhaoke HK is a limited liability company incorporated in Hong Kong on 24 July 2017 and an investment holding company and a wholly-owned subsidiary of Zhaoke Ophthalmology.

Zhaoke Ophthalmology is an ophthalmic pharmaceutical company dedicated to the R&D, manufacturing, and commercialization of therapies that address significant unmet medical needs in the PRC and globally, its shares are listed on the Stock Exchange.

REASONS FOR THE DISPOSAL

The Directors note that Eyprotor is the only ophthalmic drug that is currently being commercialized by the Group. Due to its limited market potential and lack of cost-effectiveness to the Group, fewer resources have been applied towards its market development. In addition, given the more stringent control and monitoring on the use of Eyprotor imposed by the authorities and the lack of support and reimbursement from the national medical insurance funds, the sales of Eyprotor in the PRC market remained stagnant in the prior years. Because of this, the Company has decided to gradually drop it from its current product line in 2021 and to focus on other pharmaceutical products.

In line with the Group's strategy on concentrating its resources on business other than ophthalmic related, the Directors believe that the Disposal will enable the Company to continue to allocate its resources in major therapeutic areas and to offer a wider range of products therein. Currently, the Group focuses on different medical areas and different types of pharmaceutical products and services, and has over 25 launched products in the market.

The Directors (including the independent non-executive Directors) consider that the Disposal, the terms of the Assets Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In order to avoid any actual or potential conflict of interest, both Dr. Li Xiaoyi, being a non-executive Director of the Company and also an executive director of Zhaoke Ophthalmology, and Ms. Leelalertsuphakun Wanee, being an executive Director of the Company and also a non-executive director of Zhaoke Ophthalmology, have abstained from voting on the board resolutions for considering and approving the Disposal.

FINANCIAL IMPACT ON THE GROUP AND USE OF PROCEEDS

Upon completion of the Disposal, the Group expects to recognise (a) a gain on Disposal of approximately RMB58 million (equivalent to approximately HK\$63.8 million) if there is no adjustment on the Consideration, or (b) a gain on Disposal of approximately RMB38 million (equivalent to approximately HK\$41.8 million) if there are adjustments on the Consideration, being the difference between the Consideration and the net book value based on the unaudited financial statements of Lee's Pharm Hefei attributable to the Target Assets as at 30 June 2023, before costs and expenses relating to the Disposal. The actual gain on the Disposal to be recorded by the Company is subject to audit and may be different from the estimated amount.

The Company has not formulated any investment or other plan on the utilisation of the proceeds arising from the Disposal at the moment and the proceeds are expected to be used as general working capital. The Company will comply with additional disclosure requirements under the Listing Rules as and when there is any change on the use of the proceeds, including as and when there is any investment opportunity arises that the Company intend to use such proceeds.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio for the Company in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Assets Transfer”	the transfer of the Target Assets (including the MAH of Eyprotor) from Lee’s Pharm Hefei to Zhaoke Guangzhou and the relevant filing and registration with the regulatory authority in relation to such transfer have been completed
“Assets Transfer Agreement”	the Assets Transfer Agreement dated 13 November 2023 entered into between Lee’s Pharm Hefei and Zhaoke Guangzhou pursuant to which Lee’s Pharm Hefei agreed to transfer the Target Assets relating to Eyprotor to Zhaoke Guangzhou
“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”	has the meaning ascribed to it under the paragraph headed “Consideration”
“Director(s)”	director(s) of the Company
“Disposal”	the transaction contemplated under the Assets Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the 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
“intellectual property”	any form of intellectual property including patents (including invention patents or utility models), trade dress, works of authorship, copyright, ideas, processes, trade secrets, know-how, design specifications, inventions, proprietary information, research and development data, pre-clinical and human data (de-identified), manufacturing procedures, suggestions, information, software, mask works, registered designs or design patents, or applications or priority rights for any of the foregoing
“Lee’s Pharm Hefei”	Zhaoke Pharmaceutical (Hefei) Co. Limited (兆科藥業(合肥)有限公司), previously known as Hefei Siu-Fung USTC Pharmaceutical Company Limited (合肥兆峰科大藥業有限公司), a limited liability company established in the PRC on 7 February 1994 and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MAH”	Marketing Authorization Holder, an authorization acquired by the holder upon receipt of the drug registration certificate granted by the National Medical Products Administration (國家藥品監督管理局), which allows the holder to partner with contract manufacturing organizations to manufacture the drug concerned
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“R&D”	research and development
“Shareholders”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Assets”	with regard to Eyprotor, among others, (i) the MAH and global distribution rights therefor, (ii) all intellectual property rights relating thereto, including all technologies and process relating to the R&D, registration and commercialization, (iii) contractual interests associated therewith, (iv) trademarks employed thereby, and (v) the remaining inventory thereof
“Valuation Date”	has the meaning ascribed to it under the paragraph headed “Basis of Consideration”
“Zhaoke Guangzhou”	Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Co., Ltd. (兆科(廣州)眼科藥物有限公司), a limited liability company established in the PRC on 16 June 2016 and an indirect wholly-owned subsidiary of Zhaoke Ophthalmology
“Zhaoke HK”	Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited (兆科(香港)眼科藥物有限公司), a limited liability company incorporated in Hong Kong on 24 July 2017 and a wholly-owned subsidiary of Zhaoke Ophthalmology
“Zhaoke Ophthalmology”	Zhaoke Ophthalmology Limited (兆科眼科有限公司) (previously known as China Ophthalmology Focus Limited), a company incorporated in the British Virgin Islands on 20 January 2017 with limited liability and continued in the Cayman Islands on 29 April 2020 as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6622)
“%”	per cent

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

Hong Kong, 13 November 2023

As at the date of this announcement, Ms. Lee Siu Fong (Chairman) and Ms. Leelalertsuphakun Wanee are executive Directors; Dr. Li Xiaoyi and Mr. James Charles Gale are non-executive Directors; Dr. Chan Yau Ching, Bob, Ms. Cheang Yee Wah, Eva and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.

In this announcement, RMB has been converted to HK\$ at the rate of approximately RMB1 = HK\$1.10 for illustrative purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been, or could be converted at the above rate or at any other rates or at all.

* *For identification purpose only*