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利君國際醫藥(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2005)

CONNECTED TRANSACTION

THE TRNSACTION

On 16 August 2007, the Vendor and the Purchaser entered into the Agreement pursuant to which the Vendor had agreed to sell, and the Purchaser had agreed to purchase the Sale Equity subject to the terms and conditions set out therein.

The Vendor, being a director of Lijun Modern Chinese Medicine is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the Transaction constitutes a connected transaction for the Company under the Listing Rules.

As each of the applicable percentage ratios as specified in Rule 14A.32 of the Listing Rules is less than 2.5 per cent, the Transaction is therefore subject to the reporting and announcement requirements set out in Rule 14A.32 of the Listing Rules and is exempt from the independent shareholders' approval requirements. The Company is required to publish this announcement and include the details of the Agreement in the next published annual report and accounts of the Company.

THE AGREEMENT

Date

16 August 2007

Parties

The Vendor (as the vendor) : Gao Zhihong, a director of Lijun Modern Chinese Medicine, who owns 8.175% of the fully paid-up registered capital of Lijun Modern Chinese Medicine

The Purchaser (as the purchaser) : Xian Lijun Pharmaceutical Limited Liability Company, a wholly-owned subsidiary of the Company, which owns 75.5% of the fully paid-up registered capital of Lijun Modern Chinese Medicine

The Vendor, being a director of Lijun Modern Chinese Medicine is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the Transaction constitutes a connected transaction for the Company under the Listing Rules.

The Company currently intends to finance the Transaction partly by its internal resources and/or bank borrowings as the Directors consider appropriate. The Directors consider that the Transaction is on normal commercial terms and is made in the ordinary course of business of the Company. The Board, including the independent non-executive Directors, consider that the terms of the Agreement (including the basis of Consideration), which is determined on an arm's length basis, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Subject matter of the Transaction

The Sale Equity which is equal to 5.175% of the fully paid up registered capital of Lijun Modern Chinese Medicine.

Conditions Precedent

The Agreement is conditional upon, among other things, the following conditions being fulfilled:

1. the passing by the shareholders of Lijun Modern Chinese Medicine of resolution(s) approving the transactions contemplated under the Agreement as required under the Articles of Association of Lijun Modern Chinese Medicine;
2. the Vendor having obtained all the necessary approval relating to the transactions contemplated under the Agreement;
3. the Vendor having completed the registration of change with the Administration for Industry and Commerce (工商登記變更手續);
4. the passing by the Directors of the Purchaser of resolution(s) approving the transactions contemplated under the Agreement; and
5. the parties to the Agreement having obtained all the necessary approval.

As at the date of this announcement, conditions 3 and 4 above have been fulfilled.

Completion

Completion shall take place within 7 Business Days immediately after all the conditions under the Agreement have been fulfilled or waived.

Consideration

The Consideration, for the sum of RMB2,328,000, has been arrived at after arm's length negotiations between the parties. The key factors considered by the Directors in determining the Consideration include the operations and development potential of the business of Lijun Modern Chinese Medicine and the impact of the Transaction on the management of Lijun Modern Chinese Medicine. The Directors consider that there is high development potential for the manufacturing permits for 99 types of pharmaceutical products currently held by Lijun Modern Chinese Medicine. According to the knowledge of the Directors, it is now difficult for a new company to obtain the 99 types of pharmaceutical products permits from the relevant PRC authorities. Such pharmaceutical products have strong domestic market demand and will have high development potential. The Directors are of the view that the Transaction would significantly enhance the management and administration of the business of Lijun Modern Chinese Medicine and generate greater synergy with the Group. In ascertaining the Consideration, the Directors have considered each of the above factors.

The Consideration for the purchase of the Sale Equity will be paid by the Purchaser to the Vendor in cash upon Completion.

INFORMATION OF THE PURCHASER

The Purchaser is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly categorized into finished medicines and bulk pharmaceuticals.

INFORMATION OF THE VENDOR

The Vendor is a director of Lijun Modern Chinese Medicine, who owns 8.175% of the fully paid-up registered capital of Lijun Modern Chinese Medicine.

INFORMATION ON LIJUN MODERN CHINESE MEDICINE

Lijun Modern Chinese Medicine is a company incorporated in the PRC with limited liability and is principally engaged in the sale and manufacture of Chinese medicines in the PRC.

The Purchaser is a wholly-owned subsidiary of the Company. The Purchaser currently owns 75.5% of the fully paid-up registered capital of Lijun Modern Chinese Medicine. In the premises, the Company indirectly controls 75.5% of the equity of Lijun Modern Chinese Medicine.

The table below sets forth the audited consolidated accounts of Lijun Modern Chinese Medicine prepared in accordance with the PRC accounting standards for the two years ended 31 December 2006 and as at 31 December 2005 and 31 December 2006 respectively:

	audited consolidated management accounts for the year ended 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	10,101	1,856
Loss before taxation and extraordinary items	(1,828)	(6,538)
Loss after taxation and extraordinary items	(1,828)	(6,538)
	As at 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Total asset value	40,091	37,063
Net asset/(liability) value	5,585	(954)

The reason for the increase in loss suffered by Lijun Modern Chinese Medicine for the year ended 31 December 2006 was due to the planning of relocation of its sales department which is currently taking place. The planning of relocation of the sales department started from January 2006. As the relocation of the sales department will be from Weinan city to Xian city which is three to four hours traveling time part, the relocation has caused most of its personnel to change. Also, during such period, Lijun Modern Chinese Medicine has been focusing on its planning of the sales operations in future, and has not made long time commitment to its business operation. Both of these factors have caused a decline in sales turnover and hence have resulted in a loss of the Company. In view of the relocation of the sales department, the sales intake has significantly reduced since January 2006. The relocation of the sales department is expected to be completed by end of September 2007. It is expected that Lijun Modern Chinese Medicine will gradually resume operation from then. Also, the change in net asset value of Lijun Modern Chinese Medicine as at 31 December 2006 was due to the net loss of the year.

The historical acquisition cost of the equity interest of Lijun Modern Chinese Medicine to the Vendor was RMB1,035,000 pursuant to rule 14A.56(5) of the Listing Rules.

The current shareholders of Lijun Modern Chinese Medicine are: (i) the Vendor, (ii) the Purchaser, (iii) Xi'an Yi Li Fertilizer Factory (西安毅力複合肥廠) which owns 13.61% of equity interest of Lijun Modern Chinese Medicine and (iv) Shaanxi Weinan Pharmaceutical Factory (陝西省渭南地區製藥廠) which owns 2.715% of equity interest of Lijun Modern Chinese Medicine. The Company would be willing to acquire the remaining interest of Lijun Modern Chinese Medicine provided that the terms of acquisition are satisfactory. In such circumstances, the Company will issue further announcement according the Listing Rules requirements as appropriate.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group is one of the leading pharmaceutical manufacturers in the PRC, and is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly categorized into finished medicines and bulk pharmaceuticals.

Antibiotics products comprise the primary sale products of the Group. However, the Group intends to further develop the business in respect of non-antibiotics medicines and non-prescriptive products in order to continue enhancing its product mix and reinforcing its efforts to develop value-added end products. Lijun Modern Chinese Medicine produced a series of Chinese medicine products such as Shayuanzi Keli (沙苑子顆粒) and Miaoji Wan (妙濟丸). Such products are not manufactured in the Group's other manufacturing operations. In view of the Group's aforesaid strategy, the Directors believe that the products of Lijun Modern Chinese Medicine are complementary to the products of the Group and may thereby enhance the product mix of the Group. Also, the Directors consider that the manufacturing permits for 99 types of pharmaceutical products currently held by Lijun Modern Chinese Medicine are valuable assets. According to the knowledge of the Directors, it is now difficult for a new company to obtain the 99 types of pharmaceutical products permits from the relevant PRC authorities. Such pharmaceutical products have strong domestic market demand and will have high development potential. By acquiring the Sale Equity, the Purchaser will become a more dominant shareholder of Lijun Modern Chinese Medicine and the Vendor will only remain to have a very minor interest in Lijun Modern Chinese Medicine. As at the date of the Transaction and up to the date of this announcement, there is no change to the board of Directors of Lijun Modern Chinese Medicine. The Purchaser will be in a better position to significantly enhance the management and administration of the business of Lijun Modern Chinese Medicine and improve the operation efficiency of Lijun Modern Chinese Medicine. The Directors believe that the Transaction would generate greater synergy with the Group in the long run. In the premises, the Directors, including the independent non-executive directors, take the view that although Lijun Modern Chinese Medicine is suffering from losses in the recent years, given its development potential for the Group and the enhanced management of the business of Lijun Modern Chinese Medicine arising out of the Transaction, it is in the interests of the Company and its shareholders as a whole for the Company to acquire the Sale Equity.

The Vendor do not propose to acquire the rest of the interest of the Vendor in Lijun Modern Chinese Medicine as the Vendor is not willing to sell it.

GENERAL

The Company did not have any connected transaction with the Vendor completed within the past 12 months and the Transaction is not otherwise related to any previous transaction involving the Vendor such that they should be aggregated pursuant to Rule 14A.25 of the Listing Rules.

DEFINITIONS

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

“Agreement”	the equity transfer agreement dated 16 August 2007 entered into between the Vendor and the Purchaser in relation to the Transaction
“Articles of Association”	the articles of association of Lijun Modern Chinese Medicine currently in force
“Board”	the board of Directors
“Business Day(s)”	any day(s) (other than Saturday) on which commercial banks in Hong Kong are generally open for business
“Company”	Lijun International Pharmaceutical (Holding) Co., Ltd., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreement
“Completion Date”	the date on which Completion takes place
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	RMB2,328,000, being consideration for the Sale Equity
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lijun Modern Chinese Medicine”	Shaanxi Lijun Modern Chinese Medicine Co., Ltd. (“陝西利君現代中藥有限公司”) (formerly known as Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd. (陝西利君恒心堂藥業有限公司)), a company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong
“Purchaser”	Xian Lijun Pharmaceutical Limited Liability Company (西安利君製藥有限責任公司), a company established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Equity”	5.175% of the fully paid up registered capital of Lijun Modern Chinese Medicine
“Transaction”	the proposed acquisition of the Sale Equity by the Purchaser from the Vendor
“Vendor”	Gao Zhihong (高志宏)
“%”	per cent

By order of the Board
Lijun International Pharmaceutical (Holding) Co., Ltd.
Wu Qin
Chairman

Hong Kong, 20 August 2007

As at the date of this announcement, the Board comprises Wu Qin, Qu Jiguang, Wu Zhihong, Huang Chao, Xie Yunfeng, Sun Xinglai, Wang Xian Jun, Duan Wei, Wang Zhizhong and Zhang Guifu as executive Directors, Liu Zhiyong as non-executive Director and Wang Yibing, Leung Chong Shun and Chow Kwok Wai as independent non-executive Directors.

The announcement is available for viewing on the website of the Stock Exchange of Hong Kong Limited at www.hkex.com.hk under “Latest Listed Companies Information” and at the website of the Company at www.lijun.com.hk.

The Notification will be published in The Standard and Hong Kong Economic Times on the date of the announcement.