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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)

DISCLOSEABLE AND CONNECTED TRANSACTION RESUMPTION OF TRADING

The Directors are pleased to announce that the Company entered into the Transfer Agreement on 16 May 2006 with Rejoy Group pursuant to which Rejoy Group agreed to transfer 20% equity interests in Xi'an Lijun to the Company. Xi'an Lijun is currently owned as to 80% by the Company and 20% by Rejoy Group. The consideration is RMB102,556,452 (equivalent to approximately HK\$99,569,371) which is arrived at after arm's length negotiations between Rejoy Group and the Company.

Completion of the Transfer is conditional upon fulfillment by the relevant parties of the conditions set out in the section headed "Conditions" below.

Rejoy Group is a substantial shareholder of Xi'an Lijun, a subsidiary of the Company, and as such Rejoy Group is a connected person of the Company under the Listing Rules. The Transfer therefore constitutes a connected transaction of the Company for the purpose of the Listing Rules. In addition, as the relevant percentage ratio as defined under Rule 14.07 of the Listing Rules is 5% or more but less than 25%, the Transfer also constitutes a discloseable transaction of the Company under the Listing Rules.

The Transfer is subject to the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, a circular containing, amongst other things, details of the Transfer Agreement, a letter from the independent financial advisor containing its advice to the Independent Board Committee on the Transfer, the recommendation of the Independent Board Committee regarding the Transfer to independent shareholders and a notice convening the EGM will be despatched to the shareholders of the Company as soon as practicable.

Trading in the Shares was suspended at 9:30 a.m. on 16 May 2006 at the request of the Company pending the release of this announcement, and application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 17 May 2006.

INTRODUCTION

The Directors are pleased to announce that the Company entered into the Transfer Agreement on 16 May 2006 with Rejoy Group pursuant to which Rejoy Group agreed to transfer 20% equity interests of Xi'an Lijun to the Company. Xi'an Lijun is currently owned as to 80% by the Company and 20% by Rejoy Group. The consideration is RMB102,556,452 (equivalent to approximately HK\$99,569,371) which is arrived at after arm's length negotiations between Rejoy Group and the Company.

THE TRANSFER AGREEMENT

Date

16 May 2006

Parties

Vendor: Rejoy Group, a substantial shareholder of Xi'an Lijun (a subsidiary of the Company)

Purchaser: The Company

Consideration

Pursuant to the Transfer Agreement, the Company will pay a consideration of RMB102,556,452 (equivalent to approximately HK\$99,569,371) to Rejoy Group.

The consideration was arrived at after arm's length negotiations between the Company and Rejoy Group with reference to the valuation of Xi'an Lijun at RMB 405,874,995.49 as at 31 December 2005 prepared by 中宇資產評估有限責任公司, a qualified valuer in the PRC. The valuation was prepared in accordance with the requirement of the "Provisional Rules on Transfer of State-owned Property Rights" 《企業國有產權轉讓管理暫行辦法》. As confirmed by the PRC legal adviser of the Company, the "Provisional Rules on Transfer of State-owned Property Rights" are applicable as Rejoy Group, the vendor, is a solely state-owned company in the PRC. The Directors have confirmed that the valuer is independent to the Company and Rejoy Group. The expertise of the valuer is in the valuation of plants and equipment. The valuer has used the cost method in the valuation of Xi'an Lijun.

The consideration agreed under the Transfer Agreement represents an approximate 26.34% premium of the valuation of Xi'an Lijun which the Directors consider to be fair and reasonable in view of the pharmaceutical industry in the PRC. In particular, the Board noted that the consideration also represents a price-to-earning ratio of approximately 4.41 times which is substantially lower than that of the Company as at the date of this announcement (which is approximately 10.02 times). Furthermore, Xi'an Lijun is the main operating subsidiary of the Company.

Xi'an Lijun has a registered capital of RMB210.9 million as at the date of this announcement. As confirmed by capital verification report(s) on Xi'an Lijun, the registered capital of Xi'an Lijun has been fully paid up, with Rejoy Group having paid up its portion of the registered capital.

Payment

Subject to the satisfaction of the conditions under the Transfer Agreement, the consideration shall be satisfied in full by remittance in Hong Kong Dollars within 1 month upon obtaining the approval as set out in paragraph (b) in the section headed "Conditions" below. The consideration shall be satisfied in cash in full and the Directors' present intention is that such consideration will be wholly funded by bank financing.

Conditions

Completion of the Transfer is conditional upon, amongst other things, the following conditions precedent being satisfied:

- (a) in respect of the Transfer, both parties having complied with their respective internal approval procedures, including but not limited to the procedures as set out in their respective articles of association or their respective internal control procedures, and having obtained all written approvals in accordance with such procedures. In addition, both parties having received a duplicate copy of the aforesaid internal approval documents in relation to the Transfer Agreement from the other party;

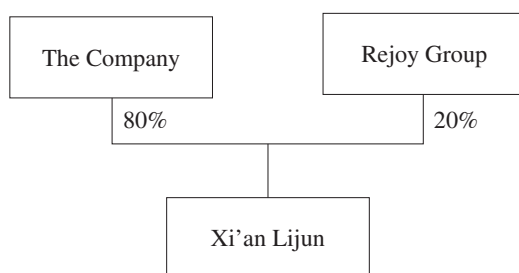
- (b) necessary approvals for the Transfer Agreement having been obtained from the State-owned Assets Supervision and Administration Commission of Shaanxi Provincial People's Government (陝西省人民政府國有資產監督管理委員會);
- (c) necessary approvals for the Transfer Agreement having been obtained from the Department of Commerce of Shaanxi Provincial People's Government (陝西省商務廳);
- (d) a wholly-foreign owned enterprise business licence (外商獨資工商登記) having been obtained from the PRC business registration authority (工商登記管理機關); and
- (e) in respect of the Transfer, the Company having complied with the requirements under the Listing Rules, including the passing of a resolution for approving the Transfer by the independent shareholders of the Company at the EGM.

If the above conditions are not fulfilled on or before 31 October 2006 or such other time as the parties may agree, the Transfer Agreement shall be of no effect and all rights and obligations of all parties under the Transfer Agreement shall lapse.

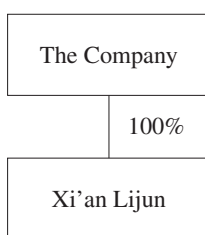
SHAREHOLDING STRUCTURE OF XI'AN LIJUN

Set out below is the shareholding structure of Xi'an Lijun before and after the Completion of the Transfer.

Before the Completion of the Transfer and as at the date of this announcement:



After the Completion of the Transfer:



INFORMATION ON XI'AN LIJUN

Xi'an Lijun, the principal non wholly-owned subsidiary of the Company, is engaged in the development, manufacture and distribution of pharmaceutical products in the PRC. The production plant of Xi'an Lijun is located in Xi'an City of Shaanxi Province and has a registered capital of RMB210.9 million as at the date of this announcement. Xi'an Lijun is one of the leading pharmaceutical manufacturers in the PRC and produces more than 100 pharmaceutical products (such as in forms of tablets, capsule, granule, injection, powder for injection and lyophilized powder for injection) for the pharmaceutical market in the PRC.

Pursuant to the restructuring of the Group for the listing of the Shares, the Company acquired an aggregate of 80% of the equity interests in Xi'an Lijun in December 2004 from parties who are not connected with Rejoy Group. Please refer to page 71 of the Prospectus for further information in that regard.

The following sets out a summary of the audited consolidated income statement and the balance sheet of Xi'an Lijun for the two years ended 31 December 2005 prepared in accordance with the PRC accounting standards.

	Year ended 31 December	
	2005	2004
	RMB ('000)	RMB ('000)
Turnover	882,570	897,997
Profit/(Loss) before tax	137,342	137,293
Profit/(Loss) after tax	137,342	114,663
Total assets	876,006	872,979
Total liabilities	393,953	524,392
Net book value	482,053	348,587

The difference in the valuation and net book value of Xi'an Lijun is mainly attributed to adjustments arising from proposed dividend and provision on Staff Welfare Fund.

INFORMATION ON REJOY GROUP

Rejoy Group is a company established in the PRC and is 100% held by Shaanxi Pharmaceutical Company (陝西省醫藥總公司), which is under the direct supervision of the Shaanxi Provincial Government (陝西省人民政府).

Rejoy Group is an investment holding company which has two principal subsidiaries as at the date of this announcement, including Shaanxi Xi'an Pharmaceutical Factory (陝西省西安製藥廠) and Xi'an Rejoy Medicine Co., Ltd. (西安利君醫藥有限責任公司)

Rejoy Group was one of the promoters of Xi'an Lijun at the time of its establishment on 28 November 1999.

Rejoy Group has no other relationship with the Group save that Mr. Wu Qin and Mr. Wu Zhihong, executive Directors, are also directors of Rejoy Group. Please refer to page 142 of the Prospectus on this issue.

REASONS FOR THE PURCHASE

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

As set out in the Prospectus, the Company has the intention to purchase the remaining 20% of Xi'an Lijun from Rejoy Group after the listing of the Shares on the Stock Exchange. As at the date hereof, Xi'an Lijun is the principal non wholly-owned subsidiary of the Company. The Directors are of the view that the purchase of the remaining 20% equity interests in Xi'an Lijun will provide a good opportunity to the Company to take the full operation benefits from Xi'an Lijun in the pharmaceutical industry in the PRC. In addition, when Xi'an Lijun becomes a wholly-owned subsidiary of the Company, Xi'an Lijun's profits will be fully attributed to the shareholders of the Company. The Directors believe that the terms of the Transfer, which was determined on an arm's length basis, are fair and reasonable and in the interests of the shareholders of the Company as a whole.

GENERAL

Rejoy Group is a substantial shareholder of Xi'an Lijun, a subsidiary of the Company, and as such Rejoy Group is a connected person of the Company under the Listing Rules. The Transfer therefore constitutes a connected transaction of the Company for the purpose of the Listing Rules. In addition, as the relevant percentage ratio as defined under Rule 14.07 of the Listing Rules is 5% or more but less than 25%, the Transfer also constitutes a discloseable transaction of the Company under the Listing Rules.

As each of the relevant percentage ratios (other than the profits ratio) is equal to or more than 2.5% but less than 25% and the total consideration for the Transfer is more than HK\$10,000,000, the Transfer is subject to approval by the independent shareholders under Chapter 14A of the Listing Rules.

The Directors have appointed the Independent Board Committee comprising the three independent non-executive Directors to advise the independent shareholders as to the fairness and reasonableness of the Transfer. An independent financial advisor would also be appointed to advise the Independent Board Committee and independent shareholders in relation to the Transfer.

A circular containing, amongst other things, details of the Transfer Agreement, a letter from the independent financial advisor containing its advice to the Independent Board Committee on the Transfer, the recommendation of the Independent Board Committee regarding the Transfer to independent shareholders and a notice convening the EGM will be despatched to the shareholders of the Company as soon as practicable.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, no shareholder of the Company is required to abstain from voting at the EGM.

RESUMPTION OF TRADING

Trading in the Shares was suspended at 9:30 a.m. on 16 May 2006 at the request of the Company pending the release of this announcement, and application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 17 May 2006.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the respective meanings ascribed opposite them:

“Board”	the board of directors of the Company
“Company”	Lijun International Pharmaceutical (Holding) Co., Ltd., a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	the completion of the Transfer
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company proposed to be convened for approval of, amongst other things, the Transfer Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of Directors appointed to advise the independent shareholders in respect of the Transfer
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People's Republic of China
“Prospectus”	the prospectus of the Company dated 2 December 2005
“Rejoy Group”	Rejoy Group Limited Liability Company (利君集團有限責任公司), a company established in the PRC with limited liability

“Shares”	Shares of HK\$0.10 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer”	the transfer of 20% equity interests in Xi’an Lijun from Rejoy Group to the Company under the Transfer Agreement
“Transfer Agreement”	the agreement dated 16 May 2006 entered into between Rejoy Group and the Company
“Xi’an Lijun”	Xi’an Lijun Pharmaceutical Co., Ltd (西安利君製藥有限責任公司), a company established in the PRC with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this announcement, (i) the exchange rate between HK\$ and RMB is stated at HK\$1 = RMB1.03; and (ii) certain English translations of Chinese names or words are included for information purpose only and should not be relied upon as the official translation of such Chinese names or words.

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

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

Hong Kong, 16 May 2006