



# LIPA PHARMACEUTICALS

Innovative Pharmaceutical Manufacturing Solutions

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## Market Announcement

3 August 2007

### **LIPA PHARMACEUTICALS ANNOUNCES RECOMMENDED OFFER OF A\$0.95 CASH PER SHARE FROM CK LIFE SCIENCES**

Following a comprehensive review of strategic options to enhance shareholder value as announced on 17 May 2007, Lipa Pharmaceuticals (ASX: LIP) today announced that it had entered into a Scheme Implementation Agreement with Hong Kong based life sciences company, CK Life Sciences Int'l., Inc. (CK Life Sciences) to acquire Lipa Pharmaceuticals for A\$0.95 in cash per share. The acquisition will be implemented by a scheme of arrangement between Lipa Pharmaceuticals and its shareholders (**Scheme**) requiring the approval of Lipa Pharmaceuticals' shareholders and the Court.

Mr John Harkness, the chairman of Lipa Pharmaceuticals, said "CK Life Sciences' offer represents good value for Lipa Pharmaceuticals shareholders. Over the past two and a half months we have completed an extensive review of alternatives to unlock the inherent value in our business, and believe the offer is in the best interests of shareholders."

CK Life Sciences is a wholly-owned subsidiary of CK Life Sciences Int'l., (Holdings) Inc., a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong, which is engaged in identifying needs and developing biotechnology solutions for the improvement of human health and environmental sustainability.

#### **The cash price of \$0.95 per share:**

- **represents a 25.3% premium to Lipa Pharmaceuticals' volume weighted average price for the five days prior to the announcement of the strategic review (17 May 2007);**
- **represents a 21.8% premium to Lipa Pharmaceuticals' closing price on 1 August 2007.**

The offer of \$0.95 per share is inclusive of any final dividend that might otherwise have been paid in respect of the financial year ending 30 June 2007 (in the sense that shareholders will not receive a final dividend if the Scheme is implemented).

The offer of \$0.95 values Lipa Pharmaceuticals, on an enterprise value basis, at approximately A\$114m based on a \$90.8m equity value plus \$23.4m of net debt<sup>1</sup>. This represents 9.8x Lipa Pharmaceuticals' FY06 EBITDA of A\$11.6m. On a price/earnings basis, the offer proposal values Lipa Pharmaceuticals shares at 15.5x FY06 NPAT

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<sup>1</sup> As of 31 December 2006

**to the independent expert concluding that the Scheme is in the best interests of Lipa Pharmaceuticals shareholders.**

Subject to those same qualifications, all the directors of Lipa Pharmaceuticals (including Gorge and Stanika Jovanov who together hold approximately 52% of Lipa Pharmaceuticals' shares) intend to vote all of the shares they hold in favour of the Scheme.

### ***Scheme Implementation and Timing***

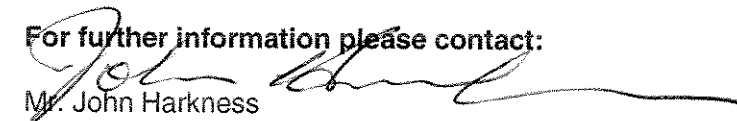
Under the terms of the Scheme Implementation Agreement, CK Life Sciences or a special purpose company nominated by CK Life Sciences Int'l., (Holdings) Inc. will acquire all of the outstanding shares in Lipa Pharmaceuticals at a cash price of A\$0.95 cents per share via the Scheme. A summary of key terms of the Scheme Implementation Agreement is contained in the Annexure.

The Scheme will be subject to the approval of Lipa Pharmaceuticals shareholders and the approval of the Court.

A Scheme Booklet containing details of the Scheme is expected to be dispatched to Lipa Pharmaceuticals' shareholders in September 2007. The Scheme Booklet will be accompanied by an independent expert's report setting out the independent expert's opinion as to whether the Scheme is in the best interests of Lipa Pharmaceuticals shareholders. The meeting of Lipa Pharmaceuticals shareholders to approve the Scheme is expected to be held in October 2007. If the Scheme is approved by Lipa Pharmaceuticals and the Court, the Scheme is expected to be completed by early to mid November 2007.

Citi, Corporate and Investment Banking is sole financial adviser to Lipa Pharmaceuticals and ABN AMRO is sole financial adviser to CK Life Sciences.

**For further information please contact:**

  
Mr. John Harkness  
Chairman  
Lipa Pharmaceuticals Limited  
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### **Background**

**Lipa Pharmaceuticals** is Australia's leading contract manufacturer to the Nutritional and Pharmaceutical industries, with products in key growth areas of Complementary and Alternative Medicines, Over-The-Counter (OTC) and Pharmaceuticals.

The company has a commitment to product quality and customer service that drives our success and delivers customer satisfaction.

Lipa Pharmaceuticals is one of only a few companies in the Asia Pacific region which can provide soft gelatin capsule dosage form and an end-to-end market solution.

**CK Life Sciences** is a wholly owned subsidiary of CK Life Sciences Int'l., (Holdings) Inc., which is listed on the Growth Enterprise Market ("GEM") of the stock exchange of Hong Kong with a market capitalization of over \$A1 billion (as at 1 August 2007).

Key areas of focus include:

- Environmental (eco-fertilizer / fertilizer / waste management)

- Health-related (pharmaceuticals/ nutraceuticals)

Engaged in identifying needs and developing biotechnology solutions for the improvement of human health and environmental sustainability, CK Life Sciences is based in Hong Kong and operates from its own 160,000 sq ft fully-integrated research complex in Tai Po Industrial Estate. It houses some of the most sophisticated and advanced scientific equipment in the Asia Pacific region. With around 1,000 employees worldwide, CK Life Sciences accommodates a substantial team of scientists in such fields as biochemistry, microbiology, pharmacology, chemistry, environmental conservation and agricultural sciences. The scientists are supported by experts in agriculture, economics, finance, business and human resources.

CK Life Sciences is an associate of Cheung Kong (Holdings) Limited, the flagship of the Cheung Kong Group, one of the largest conglomerates in Hong Kong. In Hong Kong, the combined market capitalization of the Cheung Kong Group's listed companies is in excess of A\$120 billion.

The substantial shareholders of CK Life Sciences Int'l., (Holdings) Inc. are:

- Cheung Kong (Holdings) Limited 44.3%
- Li Ka Shing Foundation Limited 29.5%

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**An analyst and investor conference call will be held at 1pm (AEST) today. Dial in details for the conference call are as follows:**

**Australian dial in number: 1800 555 619**  
**Outside Australia: +61 3 9221 4420**

**Instructions: Ignore PIN prompt and wait for operator to be connected to Lipa Pharmaceuticals' conference call.**

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## Annexure

The Scheme Implementation Agreement sets out the rights and obligations of Lipa Pharmaceuticals and CK Life Sciences in relation to the Scheme. A summary of key terms of the Scheme Implementation Agreement is set out below.

<p><b>Conditions precedent to the Scheme</b></p>	<p>The principal conditions precedent to the implementation of the Scheme include:</p> <ul style="list-style-type: none"> <li>• <b>Regulatory approvals:</b> ASIC and ASX issuing or providing such consents or approvals as are necessary or desirable to implement the Scheme;</li> <li>• <b>Restraints:</b> no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other material legal restraint or prohibition preventing the Scheme being in effect;</li> <li>• <b>No Lipa Prescribed Event:</b> no "Lipa Prescribed Event" (see below) occurring;</li> <li>• <b>Independent Expert Report:</b> the independent expert issuing its report which concludes that the Scheme is in the best interests of Lipa Pharmaceuticals' shareholders;</li> <li>• <b>Index:</b> the S&amp;P/ASX200 index does not close below 15% from the level at which it closes on the date of the Scheme Implementation Agreement for more than 5 consecutive Business Days;</li> <li>• <b>Orders convening Meeting:</b> the Court ordering the convening of the Scheme Meeting, under section 411(1) of the Corporations Act;</li> <li>• <b>Scheme participant approval:</b> the Scheme is approved at the Scheme Meeting by the requisite majorities of Lipa Pharmaceuticals' shareholders in accordance with the Corporations Act;</li> <li>• <b>Court approval:</b> the Court approving the Scheme in accordance with section 411(4)(b) of the Corporations Act; and</li> <li>• <b>No material adverse effect:</b> from the date of the agreement until 8.00 am on the Second Court Date, no Material Adverse Effect (see below) occurs.</li> <li>• <b>Options:</b> all options to subscribe for Lipa Shares issued to each of John Harkness, Philip Johnston and Rod McGeoch under the Share Option Deeds dated 17 June 2007 have been cancelled by no later than the date of lodgement of the Scheme Booklet with ASIC.</li> </ul>
<p><b>No solicitation</b></p>	<p>Prior to the date of the Scheme Meeting, Lipa Pharmaceuticals and its representatives must not actively solicit negotiations or discussions with any person other than CK Life Sciences with respect to obtaining a proposal in relation to a competing transaction without the consent of CK Life Sciences.</p>

<b>CK Life Sciences Break Fee</b>	<p>A break fee of \$A1 million is payable by CK Life Sciences to Lipa Pharmaceuticals if:</p> <ul style="list-style-type: none"> <li>(a) CK Life Sciences breaches a material term of the Scheme Implementation Agreement and Lipa Pharmaceuticals terminates the Scheme Implementation Agreement; or</li> <li>(b) either party terminates this agreement if CK Life Sciences does not obtain the approval of the Scheme by a group of companies holding more than 50% of the voting rights of CK Life Sciences by 10 August.</li> </ul>
<b>Lipa Break Fee</b>	<p>A break fee of \$A1 million is payable by Lipa Pharmaceuticals to CK Life Sciences if Lipa Pharmaceuticals breaches a material term of the Scheme Implementation Agreement and CK Life Sciences terminates the Scheme Implementation Agreement.</p>
<b>Termination</b>	<p>The Scheme Implementation Agreement may be terminated if :</p> <ul style="list-style-type: none"> <li>• a party is in material breach of the agreement and that breach continues unremedied for 7 Business Days</li> <li>• approval of the Scheme has not been obtained on or before 10 August 2007 by a group of companies holding more than 50% of the voting rights of CK Life Sciences Int'l., (Holdings) Inc.</li> <li>• the resolution submitted to the Scheme Meeting is not approved by the requisite majorities; or</li> <li>• a Court or other government agency has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;</li> <li>• or the Scheme has not become effective on or before 31 December 2007; or</li> <li>• or the conditions precedent have not been satisfied or waived.</li> </ul>
<b>Relevant definitions</b>	<p><b>Lipa Prescribed Event</b> means the occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) Lipa Pharmaceuticals converting all or any of its shares into a larger or smaller number of shares;</li> <li>(b) Lipa Pharmaceuticals resolving to reduce its share capital in any way;</li> <li>(c) Lipa Pharmaceuticals: <ul style="list-style-type: none"> <li>(i) entering into a buy-back agreement; or</li> <li>(ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;</li> </ul> </li> </ul>

- (d) Lipa Pharmaceuticals declaring, paying or distributing any dividend, bonus or other share of its shareholder profits or shareholder assets or returning or agreeing to return any capital to its members :
- (e) Lipa Pharmaceuticals or any of its Subsidiaries issuing shares, or granting an option over its shares to a person outside the Lipa Pharmaceuticals Group, or agreeing to make such an issue or grant such an option to a person outside the Lipa Pharmaceuticals Group, other than as contemplated by the agreement;
- (f) Lipa Pharmaceuticals or any of its Subsidiaries issuing or agreeing to issue securities or other instruments convertible into shares or debt securities to a person outside the Lipa Pharmaceuticals Group, other than as disclosed in writing by Lipa Pharmaceuticals to CK Life Sciences prior to the date of this agreement;
- (g) Lipa Pharmaceuticals or any of its Subsidiaries disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (h) other than in the ordinary course of business and consistent with past practice, Lipa Pharmaceuticals or any of its Subsidiaries creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;
- (i) other than in the ordinary course of business and consistent with past practice, Lipa Pharmaceuticals or any of its Subsidiaries:
  - (i) increasing the remuneration of, or otherwise varying, the employment arrangements with any of its directors or employees;
  - (ii) accelerating the rights of any of its directors or employees to compensation or benefits of any kind (including under any Lipa Pharmaceuticals executive or employee share plans); or
  - (iii) paying any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the date of this agreement);
- (j) other than in the ordinary course of business and consistent with past practice, Lipa Pharmaceuticals or any of its Subsidiaries:
  - (i) entering into any contract or commitment involving revenue or expenditure of more than \$200,000 over the term of the contract or commitment;
  - (ii) terminating or amending in a material manner any contract material to the conduct of the Lipa Pharmaceuticals

Group's business or which involves expenditure or revenue of more than \$100,000 over the term of the contract; or

- (iii) entering into any contract or commitment involving a term of more than 12 months;
- (k) Lipa Pharmaceuticals or any of its operating Subsidiaries resolving that it be wound up;
- (l) a liquidator, provisional liquidator or administrator of Lipa Pharmaceuticals or any of its operating Subsidiaries being appointed;
- (m) the making of an order by a court for the winding up of Lipa Pharmaceuticals or any of its operating Subsidiaries;
- (n) Lipa Pharmaceuticals or any of its operating Subsidiaries executing a deed of company arrangement; or
- (o) a receiver, or a receiver and manager, in relation to the whole, or a substantial part, of the property of Lipa Pharmaceuticals or any of its operating Subsidiaries being appointed,

provided that none of the above events in paragraphs (a) to (j) will constitute a Lipa Prescribed Event where Lipa Pharmaceuticals has first consulted, in reasonable detail, with CK Life Sciences in relation to the proposed event, and CK Life Sciences has either approved of the proposed event in writing or has not objected to the proposed event in writing within 10 Business Days of having been so consulted.

**Material Adverse Effect** means, in respect of Lipa Pharmaceuticals:

- (a) an event that occurs which has, or is likely to have, the net effect of reducing the audited earnings before interest and tax of Lipa Pharmaceuticals for the financial year ending 30 June 2008 by more than \$2.85 million; or
- (b) if the auditors' report on the financial statements of Lipa Pharmaceuticals in respect of the year ending 30 June 2007 is qualified in any respect, save that if within 2 business days of such auditors report being issued Lipa Pharmaceuticals is able to demonstrate to the satisfaction of CK Life Sciences that the auditors' qualification is immaterial, then such qualification will not be deemed to be an Material Adverse Effect.