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LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

**MAJOR TRANSACTION
ACQUISITION OF EQUITY INTEREST IN BEIJING JIALIN
PHARMACEUTICAL CO., LTD.**

On 25 August 2014 (after trading hours), the Company entered into the Agreements with the Sellers and the Target pursuant to which the Sellers have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest, representing an aggregate 57.98% equity interest in the Target, for an aggregate consideration of RMB3,683,870,000 in cash.

Upon Completion and assuming that the Other Target Shareholders do not sell their equity interest in the Target to the Purchaser under the Contemplated Acquisition, the Purchaser will hold 57.98% equity interest in the Target; the Target will become a non-wholly owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Agreements, as calculated under Rule 14.07 of the Listing Rules, is greater than 25%, and all the applicable percentage ratios are less than 100% the entering into of the Agreements constitutes a major transaction for the Company under the Listing Rules subject to the Shareholders' approval. The Company will convene a special general meeting to seek the Shareholders' approval accordingly.

Trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 26 August 2014 at the request of the Company pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the shares with effect from 9:00 a.m. on 28 August 2014.

Shareholders and potential investors should note that Completion is subject to conditions precedent to be fulfilled and the Contemplated Acquisition is subject to negotiations by the parties. The Acquisitions and the Contemplated Acquisition may or may not proceed as contemplated or at all. Shareholders and potential investors should also note that there are risks associated with the Acquisitions and the Contemplated Acquisition and they should consider and assess all the risks carefully. Shareholders and potential investors are reminded to exercise extreme caution when dealing in the Shares and other securities of the Company.

THE ACQUISITIONS

On 25 August 2014 (after trading hours), the Company entered into the Agreements with the Sellers and the Target pursuant to which the Sellers have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest, representing an aggregate 57.98% equity interest in the Target, for an aggregate consideration of RMB3,683,870,000 in cash.

As contemplated under the First Tranche Agreement, Mylin Holdings has undertaken that it will use its best endeavours to procure the Other Target Shareholders to sell the remaining 42.02% equity interest in the Target held by them to the Purchaser.

THE AGREEMENTS

Date

25 August 2014

Parties

	The Purchaser	The Seller	The Target
First Tranche Agreement:	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.), a wholly-owned subsidiary of the Company	美林控股集團有限公司 (Mylin Holdings Group Co., Ltd.)	北京嘉林藥業股份有限公司 (Beijing Jialin Pharmaceutical Co., Ltd.)
Second Tranche Agreement:	Same as above	Same as above	Same as above

	The Purchaser	The Seller	The Target
Third Tranche Agreement:	Same as above	北京中信投資中心 (有限合夥) (Beijing CITIC Investment Centre (Limited Partnership))	Same as above

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, the Sellers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

First Tranche Acquisition: 31.81% equity interest in the Target

Second Tranche Acquisition: 15.91% equity interest in the Target

Third Tranche Acquisition: 10.26% equity interest in the Target

The assets to be acquired under the Acquisitions comprise the First Tranche Equity Interest, the Second Tranche Equity Interest and the Third Tranche Equity Interest, representing an aggregate 57.98% of the equity interest in the Target. The Sellers, as shareholders of the Target, are entitled to any dividends to be declared by the Target prior to Completion. As advised by Mylin Holdings, part of the Second Tranche Equity Interest representing 15% of the equity interest in the Target has been pledged in favour of Beijing CITIC as security for certain of its payment obligations (“**CITIC Equity Pledge**”). Under the terms of the Second Tranche Agreement, the release of the CITIC Equity Pledge is a condition precedent to the completion of the Second Tranche Acquisition.

As contemplated under the First Tranche Agreement, Mylin Holdings has undertaken that it will use its best endeavours to procure the Other Target Shareholders to sell their aggregate 42.02% equity interest in the Target to the Purchaser at a price no higher than the price (calculated on a pro-rated basis) payable by the Purchaser to Mylin Holdings for the First Tranche Acquisition. Further announcement(s) in relation to the Contemplated Acquisition (if any) will be made as and when necessary.

Upon Completion and assuming that the Other Target Shareholders do not sell their equity interest in the Target to the Purchaser under the Contemplated Acquisition, the Purchaser will hold 57.98% equity interest in the Target; the Target will become a non-wholly owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

Purchase Price

First Tranche Acquisition: RMB1,829,075,000

Second Tranche Acquisition: RMB1,264,845,000

Third Tranche Acquisition: RMB589,950,000

The purchase price for each of the Acquisitions is payable in cash and shall be satisfied in the following manner:

- (a) 50% of the purchase price is payable within five business days from the date that the conditions precedent to completion of the relevant Acquisition have been fulfilled or waived; and
- (b) the balance, being 50% of the purchase price, is payable within five business days from the date of completion of the relevant Acquisition.

The Purchase Price was determined after arm's length negotiations among the respective Sellers and the Purchaser taking into account various factors, including but not limited to the terms of the Agreements (including the performance guarantees as disclosed in the paragraph headed "Performance guarantees" below), the asset value of the Target Group, the historical financial information regarding the performance of the Target Group and the reasons for the Acquisitions.

The Company intends to apply HK\$2,154,000,000 (equivalent to RMB1,713,593,160) representing approximately 60% of the net proceeds it received from the Global Offering to fund part of the Purchase Price for the Acquisitions. As disclosed in the prospectus of the Company dated 26 June 2014, the Company plans to use its net proceeds received from the Global Offering as to, among others, approximately 20% to expand the Group's product portfolio, approximately 20% for investments in research and development, and approximately 20% for selective acquisitions. As explained in the paragraph headed "Reasons for and benefit of the Acquisitions" below, the Acquisitions will enable to Group to tap into the Target Group's market leading lipid regulator, A LE (阿樂), and hence expanding the Group's portfolio of cardiovascular system products. The Acquisitions will further enhance the Group's research and

development capability. The use of the proceeds of the Global Offering for the Acquisitions is consistent with the planned use of proceeds as disclosed in the Company's prospectus.

The Company will consider different alternatives to satisfy the balance of the Purchase Price which may include using its internal resources, external financing, third party funding or such other means as the Company considers appropriate.

Performance guarantees

Under the terms of the First Tranche Agreement and the Second Tranche Agreement, Mylin Holdings has provided the following performance guarantees to the Purchaser:

	First Tranche Agreement	Second Tranche Agreement
Net profit after taxation and extraordinary items of the Target in respect of the financial year ending:	31 December 2014 will not be less than RMB350 million	31 December 2015 will not be less than RMB500 million

In the event that actual amount falls below the performance guaranteed amount, Mylin Holdings undertakes to pay such shortfall amount to the Purchaser within 30 days from the date that the audited accounts are finalised.

Conditions precedent

First Tranche Acquisition

Completion of the First Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of certain conditions, the principal of which are set out below:

- (a) the approval from the Ministry of Commerce of the PRC (or the authorised local authority) in respect of the First Tranche Acquisition, the Third Tranche Acquisition and the Contemplated Acquisition (if any) having been obtained;
- (b) the Purchaser, the Company, Mylin Holdings and the Target having obtained all the necessary approvals required for the First Tranche Acquisition, the Third Tranche Acquisition and the Contemplated Acquisition (if any) including but not limited to their respective board and shareholders' approval;
- (c) an audit report in respect of the accounts of the Target Group for the financial years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014 having been issued;

- (d) the Supreme People's Court of the PRC having rendered its final judgment in favour of the Target Group in respect of certain intellectual property rights issues; and
- (e) the Target having terminated the distributorship agreement entered into with 海南康寧藥業有限公司 (Kangning Pharmaceutical Co., Ltd.) dated 27 September 2013.

Second Tranche Acquisition

Completion of the Second Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of certain conditions, the principal of which are set out below:

- (a) the First Tranche Acquisition, the Third Tranche Acquisition and the Contemplated Acquisition (if any) having been completed;
- (b) the approval from the Ministry of Commerce of the PRC (or the authorised local authority) in respect of the Second Tranche Acquisition having been obtained;
- (c) the Purchaser, the Company, Mylin Holdings and the Target having obtained all the necessary approvals required for the Second Tranche Acquisition including but not limited to their respective board and shareholders' approval; and
- (d) the CITIC Equity Pledge having been released.

Third Tranche Acquisition

Completion of the Third Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (a) the Purchaser, Beijing CITIC, the Target and the Company having obtained all the necessary approvals required for the Third Tranche Acquisition including but not limited to approval by their respective board and shareholders, and the Stock Exchange (if required); and
- (b) the conditions precedent to the completion of the First Tranche Acquisition having been fulfilled or waived (as the case may be).

Completion

Completion of each Acquisition shall take place after all of its respective conditions precedent have been fulfilled or waived (as the case may be) and on the date that the business licence of the Target reflecting the change in the equity holding of the Target is obtained from the Beijing Administration and Industry and Commerce.

Termination

First Tranche Acquisition

The First Tranche Agreement may be terminated if:

- (a) the Purchaser and Mylin Holdings fail to agree to extend the Long-Stop Date;
- (b) there exists any material adverse event, which in the opinion of the Purchaser, affects the business of the Target Group;
- (c) the Supreme People's Court of the PRC has rendered its final judgment against the Target Group in respect of certain intellectual property rights issues;
- (d) the Purchaser is late in the payment of the purchase price; or
- (e) the parties mutually agree to terminate the agreement.

Second Tranche Acquisition

The Second Tranche Agreement may be terminated if the First Tranche Agreement is terminated in accordance with its terms, or the parties mutually agree to terminate the agreement.

Third Tranche Acquisition

The Third Tranche Agreement may be terminated if the First Tranche Agreement is terminated in accordance with its terms, the Purchaser is late in the payment of the purchase price, or the parties mutually agree to terminate the agreement.

In the event an Agreement is terminated, the relevant Seller will return all monies paid (if any) under the such agreement to the Purchaser (plus interest based on the prevailing bank lending interest rate). The Purchaser will return the relevant Equity Interest to the Seller if such Equity Interest has been transferred.

Upon termination of an Agreement unilaterally by a party without cause, the defaulting party shall compensate the other non-defaulting parties in damages of an amount representing 3% of the purchase price for the relevant Equity Interest and other necessary damages. In respect of late payments of the purchase price, the Purchaser will be under an obligation to pay the Sellers late payment interest of 0.05% per day on the amount of purchase price that remains outstanding.

INFORMATION ON THE SELLERS

The following table sets out certain basic information of the Sellers:

Sellers	Equity Interest in the Target to be sold	Place of establishment	Principal scope of business
Mylin Holdings	47.72%	PRC	Investment management, real estate development and management, and mineral exploration
Beijing CITIC	10.26%	PRC	Project investment, investment management and investment consultancy
Total	<u>57.98%</u>		

Information on the Other Target Shareholders will be disclosed in a separate announcement in the event that the Group enters into agreements to acquire equity interests from the Other Target Shareholders in relation to the Contemplated Acquisition.

INFORMATION ON THE GROUP AND THE PURCHASER

The Group is a pharmaceutical company based in the PRC which focuses on the development, production, marketing and selling of innovative products in oncology, cardiovascular system, and alimentary tract and metabolism.

The Purchaser is a one-person company with limited liability established in the PRC, and is an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in the business of research and development, manufacture and sale of pharmaceutical products.

INFORMATION ON THE TARGET GROUP

The Target Group is a leading player in the PRC pharmaceutical sector principally engaged in the business of developing, manufacturing, marketing and selling pharmaceutical products in cardiovascular systems and oncology. Some of its notable innovative products include A LE (阿樂) (atorvastatin calcium tablets) which is used for the reduction and treatment of high cholesterol and trimetazidine hydrochloride capsules which treat cardiovascular symptoms including angina.

Financial information on the Target Group

Based on the management accounts of the Target, the unaudited net asset value of the Target as of 31 December 2013 was approximately RMB711,418,000.

Based on the management accounts of the Target, the unaudited revenue, net profits before and after taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 are set out below:

	For the year ended 31 December	
	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	821,894	1,119,857
Net profit before taxation and extraordinary items	231,365	296,660
Net profit after taxation and extraordinary items	195,890	251,577

While the revenue of the Target increased by 36.3% from RMB821,894,000 in 2012 to RMB1,119,857,000 in 2013, the Company estimates that the Target's sales volume over the two-year period increased by approximately 50%. The higher increase in the sales volume compared to the increase in revenue is due to a change in the sales model of the Target Group introduced in 2013, whereby Target Group started to sell its products through distributors. Following Completion, the Group expects to re-align the sales model of the Target Group with the sales and distribution channel of the Group, which the Group believes should result in improvements of the revenue contribution of the Target Group to the Group.

REASONS FOR AND BENEFIT OF THE ACQUISITIONS

The Group focuses on the development, production, marketing and sale of innovative pharmaceutical products in oncology, cardiovascular system, and alimentary tract and metabolism in China. Among such therapeutic areas, cardiovascular system is one of the key development strategies of the Group. The Target's business focuses on, among other areas, cardiovascular system, and has a well-recognised brand in the cardiovascular system market and a key product, A LE (阿樂) (atorvastatin calcium

tablets), which is a leading lipid regulator in the PRC market. In addition, the Target Group has a portfolio of other cardiovascular system products which complements the Group's key development strategies.

According to China Medical and Pharmaceutical Economic Information Network (MENET), cardiovascular system was the third largest overall therapeutic area for pharmaceutical products in China in 2013 in terms of revenue, accounting for 14.4% of the market. The Group's key cardiovascular system products include (i) Xuezhikang, which is listed in the National List of Essential Drugs and enjoys exclusivity in China — according to the China Food and Drug Administration (the “CFDA”), the Group is the only manufacturer of Xuezhikang in the PRC. According to IMS Health Incorporated, Xuezhikang is the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, and (ii) Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS Health Incorporated. The Target Group's portfolio of cardiovascular system products includes A LE (阿樂) (atorvastatin calcium tablets), the best-selling domestically produced statins, which is also listed in the National List of Essential Drugs. The Company believes that the Acquisitions will supplement the Group's already existing cardiovascular system product portfolio, help drive the Group's market share, significantly increase its strategic competitiveness in the cardiovascular system market, especially in the area of lipid regulators, and considerably strengthen the Group's competitive advantage in the key strategic areas of the PRC cardiovascular system market. Furthermore, the Group is the only manufacturer of acarbose in capsules form in China according to the CFDA. The combined offering of Beixi (貝希) (acarbose capsules used in the treatment of type 2 diabetes mellitus), Xuezhikang and A LE (阿樂) is a complementary product portfolio, that will produce considerable synergies.

The Group has a well-established nationwide sales and distribution network comprising more than 50 sales offices, with sales covering over 8,000 hospitals across 30 provinces, municipalities and autonomous regions in China. The Target Group has also established a wide-coverage sales network through which it sells its products across China. Through the Acquisitions, the Group can further enhance its sales and marketing coverage and synergies, and take advantages of the multiple channels offered by the combined network.

The Group develops innovative products on the back of its strong research and development capability, and believes that this will form the basis of the Group's long-term competitiveness and serve as the drivers for the Group's future growth and development. The Target is a national high-tech enterprise and the Target Group has strong research and development capability. The Acquisitions will further enhance the

Group's research and development capability and provide valuable support to the Group's pipeline R&D projects and other product development. The combination of the Group and the Target Group will produce considerable synergies.

After taking into consideration the above factors, the Board considers that the Agreements have been made on normal commercial terms and that their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Agreements, as calculated under Rule 14.07 of the Listing Rules, is greater than 25%, and all the applicable percentage ratios are less than 100% the entering into of the Agreements constitutes a major transaction for the Company under the Listing Rules subject to the Shareholders' approval. The Company will convene a special general meeting to seek the Shareholders' approval accordingly.

In order to allow sufficient time to prepare the financial information to be included in the Circular, the Company does not expect that the Circular will be despatched within 15 business days after the date of this announcement. The Company expects that the Circular (together with the notice of the special general meeting and the proxy form) will be despatched to the Shareholders on or around 8 October 2014.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 26 August 2014 at the request of the Company pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the shares with effect from 9:00 a.m. on 28 August 2014.

Shareholders and potential investors should note that Completion is subject to conditions precedent to be fulfilled and the Contemplated Acquisition is subject to negotiations by the parties. The Acquisitions and the Contemplated Acquisition may or may not proceed as contemplated or at all. Shareholders and potential investors should also note that there are risks associated with the Acquisitions and the Contemplated Acquisition and they should consider and assess all the risks carefully. Shareholders and potential investors are reminded to exercise extreme caution when dealing in the Shares and other securities of the Company.

DEFINITIONS

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

“Acquisitions”	the First Tranche Acquisition, the Second Tranche Acquisition and the Third Tranche Acquisition in respect of an aggregate of 57.98% equity interest in the Target
“Agreements”	the First Tranche Agreement, the Second Tranche Agreement and the Third Tranche Agreement
“Beijing CITIC”	北京中信投資中心(有限合夥) (Beijing CITIC Investment Centre (Limited Partnership)), a limited partnership established in the PRC
“Board”	the board of Directors
“Circular”	a circular of the Company containing, among other things, information relating to the Agreements
“CITIC Equity Pledge”	has the meaning given to it in the paragraph headed “The Agreements — Assets to be acquired”
“Company”	Luye Pharma Group Ltd., a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisitions in accordance with the respective terms of the Agreements
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Contemplated Acquisition”	the contemplated acquisition by the Purchaser of up to 42.02% equity interest in the Target from the Other Target Shareholders
“Directors”	the directors of the Company
“Equity Interest”	the First Tranche Equity Interest, the Second Tranche Equity Interest and the Third Tranche Equity Interest
“First Tranche Acquisition”	the acquisition of the First Tranche Equity Interest by the Purchaser from Mylin Holdings pursuant to the terms of the First Tranche Agreement

“First Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Mylin Holdings in relation to the First Tranche Acquisition
“First Tranche Equity Interest”	31.81% equity interest in the Target
“Global Offering”	the global offering of 999,640,000 Shares (comprising 667,540,000 new Shares and 332,100,000 existing Shares, and subject to the over-allotment option) as described in further details in the prospectus of the Company dated 26 June 2014
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long-stop Date”	31 October 2014 (or such later date as the Purchaser and Mylin Holdings may mutually agree)
“Mylin Holdings”	美林控股集團有限公司 (Mylin Holdings Group Co., Ltd.) a company incorporated in the PRC with limited liability, which, as at the date of this announcement, owns 47.72% of the equity interest in the Target comprising the First Tranche Equity Interest and the Second Tranche Equity Interest
“Other Target Shareholders”	all the shareholders of the Target excluding the Sellers, who collectively own 42.02% of the equity interest in the Target as at the date of this announcement
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchase Price”	the aggregate consideration in the amount of RMB3,683,870,000 payable by the Purchaser for the Acquisitions in accordance with the terms of the Agreements

“Purchaser”	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.), a one-person company with limited liability established in the PRC, and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Acquisition”	the acquisition of the Second Tranche Equity Interest by the Purchaser from Mylin Holdings pursuant to the terms of the Second Tranche Agreement
“Second Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Mylin Holdings in relation to the Second Tranche Acquisition
“Second Tranche Equity Interest”	15.91% equity interest in the Target
“Sellers”	Mylin Holdings and Beijing CITIC
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of US\$0.02 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	北京嘉林藥業股份有限公司 (Beijing Jialin Pharmaceutical Co., Ltd.), a company established in the PRC with limited liability
“Target Group”	the Target and its subsidiaries
“Third Tranche Acquisition”	the acquisition of the Third Tranche Equity Interest by the Purchaser from Beijing CITIC pursuant to the terms of the Third Tranche Agreement
“Third Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Beijing CITIC in relation to the Third Tranche Acquisition
“Third Tranche Equity Interest”	10.26% equity interest in the Target

English translations for the Chinese names of the PRC entities, authorities or facilities in this announcement are for reference only. In the event of any discrepancies between the Chinese names of these PRC entities, authorities or facilities and their respective English translations, the Chinese version shall prevail.

In this announcement, certain amounts quoted in RMB have been converted into Hong Kong dollars (or vice versa) at the reference rate of HK\$1.00 to RMB0.79554 for information purpose only. Such conversion should not be construed as a representation that the relevant amounts have been, could have been, or could be, converted at that or any other rate or at all.

By Order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the Executive Directors of the Company are Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing and Ms. ZHU Yuan Yuan; the Non-executive Directors are Mr. PAN Jian, Mr. LIU Dong and Ms. WANG Xin; and the Independent Non-executive Directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.