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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 THE REMAINING EQUITY INTEREST IN
BEIJING JIALIN PHARMACEUTICAL CO., LTD.**

On 24 October 2014, the Group, through its wholly-owned subsidiary Shandong Luye, entered into the Remaining Equity Interest Agreements with the respective Remaining Equity Interest Sellers and the Target pursuant to which the Remaining Equity Interest Sellers have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Remaining Equity Interest, representing the remaining 42.02% equity interest in the Target, for an aggregate consideration of RMB2,416,150,000 in cash.

Upon completion of Acquisitions and the Remaining Equity Interest Acquisitions, the Purchaser will hold the entire equity interest in the Target; the Target will become a wholly-owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

As the Acquisitions and the Remaining Equity Interest Acquisitions are expected to be completed within 12 months from each other, the Acquisitions and the Remaining Equity Interest Acquisitions will be aggregated and treated as if they were one transaction pursuant to Rule 14.22 of the Listing Rules. 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 Remaining Equity Interest 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 on the Acquisitions and the Remaining Equity Interest Acquisitions accordingly.

Shareholders and potential investors should note that completion of the Acquisitions and the Remaining Equity Interest Acquisitions is subject to conditions precedent to be fulfilled. The Acquisitions and the Remaining Equity Interest Acquisitions 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 Remaining Equity Interest Acquisitions 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.

References are made to the announcements of the Company dated 27 August 2014 and 6 October 2014 in relation to the Group's acquisition of 57.98% equity interest in the Target, for an aggregate consideration of RMB3,683,870,000 in cash.

On 24 October 2014, the Group, through its wholly-owned subsidiary Shandong Luye, entered into the Remaining Equity Interest Agreements with the respective Remaining Equity Interest Sellers and the Target pursuant to which the Remaining Equity Interest Sellers have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Remaining Equity Interest, representing the remaining 42.02% equity interest in the Target, for an aggregate consideration of RMB2,416,150,000 in cash.

THE REMAINING EQUITY INTEREST AGREEMENTS

Date

24 October 2014

Parties, assets to be acquired and purchase price

The Purchaser	The Remaining Equity Interest Seller	The Target	Assets to be acquired	Purchase price (in RMB)
Shandong Luye	新疆梧桐樹股權投資有限公司 (Xinjiang Plane Trees Equity Investment Co., Ltd.)	北京嘉林藥業股份有限公司 (Beijing Jialin Pharmaceutical Co., Ltd.)	14.02% equity interest in the Target	806,150,000
Same as above	北京中關村國盛創業投資中心(有限合夥) (Beijing Zhongguancun Guosheng Venture Capital Center (Limited Partnership))	Same as above	8.80% equity interest in the Target	506,000,000

The Purchaser	The Remaining Equity Interest Seller	The Target	Assets to be acquired	Purchase price (in RMB)
Same as above	北京華誠宏泰有限公司(Beijing Huacheng Hongtai Co., Ltd.)	Same as above	3.00% equity interest in the Target	172,500,000
Same as above	曹樂生(Cao Lesheng)	Same as above	2.80% equity interest in the Target	161,000,000
Same as above	深圳市珠峰基石股權投資合夥企業(有限合夥)(Shenzhen Everest Cornerstone Equity Investment Partnership (Limited Partnership))	Same as above	2.20% equity interest in the Target	126,500,000
Same as above	西藏矽谷天使創業投資有限公司 (Tibet Silicon Valley Angel Venture Capital Co., Ltd.)	Same as above	2.00% equity interest in the Target	115,000,000
Same as above	寧波成潤投資管理中心(有限合夥)(Ningbo Chengrun Investment Management Centre (Limited Partnership))	Same as above	1.80% equity interest in the Target	103,500,000
Same as above	蘇州藍郡創業投資中心(有限合夥)(Suzhou Blue County Venture Capital Center (Limited Partnership))	Same as above	1.80% equity interest in the Target	103,500,000
Same as above	達孜縣中融泰山優選基金(有限合夥)(Dazi County Zhongrong Tarzan Preferred Fund (Limited Partnership))	Same as above	1.49% equity interest in the Target	85,590,164
Same as above	權葳(Quan Wei)	Same as above	1.31% equity interest in the Target	75,409,836

The Purchaser	The Remaining Equity Interest Seller	The Target	Assets to be acquired	Purchase price (in RMB)
Same as above	浙江康恩貝製藥股份有限公司 (Zhejiang Conba Pharmaceutical Co., Ltd.)	Same as above	1.10% equity interest in the Target	63,250,000
Same as above	青島海洋基石創業投資企業(有限合夥) (Qingdao Ocean Foundation Venture Capital Co., Ltd. (Limited Partnership))	Same as above	1.10% equity interest in the Target	63,250,000
Same as above	深圳市中歐基石股權投資合夥企業(有限合夥) (Shenzhen Central Cornerstone Equity Investment Partnership (Limited Partnership))	Same as above	0.60% equity interest in the Target	34,500,000

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

The assets to be acquired under the Remaining Equity Interest Acquisitions, being the Remaining Equity Interest, represent an aggregate of 42.02% equity interest in the Target.

Upon completion of Acquisitions and the Remaining Equity Interest Acquisitions, the Purchaser will hold the entire equity interest in the Target; the Target will become a wholly-owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

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

- (a) 50% of the purchase price is payable (i) within five business days from the date that the conditions precedent to completion of the relevant Remaining Equity Interest Acquisition have been fulfilled or waived, or (ii) by 20 January 2015, whichever is later; and

- (b) the balance, being 50% of the purchase price, is payable (i) within five business days from the date of completion of the relevant Remaining Equity Interest Acquisition, or (ii) by 20 February 2015, whichever is later.

The purchase price was determined after arm's length negotiations among the respective Remaining Equity Interest Sellers and the Purchaser taking into account various factors, including but not limited to the terms of the Remaining Equity Interest Agreements, the asset value of the Target Group, the historical financial information regarding the performance of the Target Group and the reasons for the Remaining Equity Interest Acquisitions.

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

Conditions precedent

Completion of the Remaining Equity Interest Acquisitions is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (a) the Purchaser, the relevant Remaining Equity Interest Sellers, the Target and the Company having obtained all the necessary approvals required for the relevant Remaining Equity Interest 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 the Remaining Equity Interest Acquisitions 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

Each of The Remaining Equity Interest Agreements 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 a Remaining Equity Interest Agreement is terminated, the relevant Remaining Equity Interest 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 Remaining Equity Interest Seller if such Equity Interest has been transferred.

Upon termination of a Remaining Equity Interest 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 Remaining Equity Interest Sellers late payment interest of 0.05% per day on the amount of purchase price that remains outstanding.

INFORMATION ON THE REMAINING EQUITY INTEREST SELLERS

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

Remaining Equity Interest Seller	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
新疆梧桐樹股權投資有限公司 (Xinjiang Plane Trees Equity Investment Co., Ltd.)	14.02%	PRC	Investment in non-listed companies, holding shares in listed companies acquired through private issues or private transfers, etc.
北京中關村國盛創業投資中心(有限合夥) (Beijing Zhongguancun Guosheng Venture Capital Center (Limited Partnership))	8.80%	PRC	Venture capital, venture capital management and venture capital consultancy
北京華誠宏泰有限公司 (Beijing Huacheng Hongtai Co., Ltd.)	3.00%	PRC	Project investment and investment management, investment consultancy, technology development, transfer, training and consultancy, information consultancy, organising culture and art exchange activities, exhibition contractors, and sale of chemical products, communication equipment, office equipment, machinery and electrical equipment, textiles, general merchandise, soil products
曹樂生(Cao Lesheng)	2.80%	N/A	N/A

Remaining Equity Interest Seller	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
深圳市珠峰基石股權投資合夥企業(有限合夥) (Shenzhen Everest Cornerstone Equity Investment Partnership (Limited Partnership))	2.20%	PRC	Equity investment
西藏矽谷天使創業投資有限公司 (Tibet Silicon Valley Angel Venture Capital Co., Ltd.)	2.00%	PRC	Project investment, investment management, investment consultancy, and import and export of goods and technology
寧波成潤投資管理中心(有限合夥) (Ningbo Chengrun Investment Management Centre (Limited Partnership))	1.80%	PRC	Industrial investment, investment management, enterprise management consultancy, real estate consultancy, investment consultancy, medical technology consultancy, market information consultancy and research
蘇州藍郡創業投資中心(有限合夥) (Suzhou Blue County Venture Capital Center (Limited Partnership))	1.80%	PRC	Industrial investment and asset management, investment consultancy, corporate management consultancy
達孜縣中融泰山優選基金(有限合夥) (Dazi County Zhongrong Tarzan Preferred Fund (Limited Partnership))	1.49%	PRC	Venture investment business, agent for other venture capital companies or individuals in handling venture capital business, venture investment consultancy business, participating in the establishment of venture capital companies and venture capital management consultancy entities
權葳(Quan Wei)	1.31%	N/A	N/A
浙江康恩貝製藥股份有限公司 (Zhejiang Conba Pharmaceutical Co., Ltd.)	1.10%	PRC	Herbs planting and research and development, production and sale of pharmaceutical products

Remaining Equity Interest Seller	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
青島海洋基石創業投資企業(有限合夥) (Qingdao Ocean Foundation Venture Capital Co., Ltd. (Limited Partnership))	1.10%	PRC	Venture investment business, agent for other venture capital companies or individuals in handling venture capital business, venture investment consultancy business, business management services for start-ups, participating in the establishment of venture capital companies and venture capital management consultancy entities
深圳市中歐基石股權投資合夥企業(有限合夥) (Shenzhen Central Cornerstone Equity Investment Partnership (Limited Partnership))	0.60%	PRC	Equity investment
Total	<u>42.02%</u>		

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
	(RMB'000)	(RMB'000)
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 at the end of 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities, which were previously carried out predominantly by its in-house teams. Following completion of the Acquisitions and Remaining Equity Interest Acquisitions, 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 REMAINING EQUITY INTEREST ACQUISITIONS

As mentioned in the Previous Announcement, 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.

The Company believes that the acquisition of the Target 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 China Food and Drug Administration. 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.

In addition, through the acquisition of the Target, 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 acquisition of the Target 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.

Shareholders are advised to refer to the Previous Announcement for more information on the reasons for and benefit of the acquisition of the Target.

In addition, the acquisition of the remaining 42.02% equity interest in the Target enables the Group to have a full control of the Target in terms of business operation and management, and to enjoy 100% of the financial results of the Target.

After taking into consideration the above factors, the Board considers that the Remaining Equity Interest 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 the Acquisitions and the Remaining Equity Interest Acquisitions are expected to be completed within 12 months from each other, the Acquisitions and the Remaining Equity Interest Acquisitions will be aggregated and treated as if they were one transaction pursuant to Rule 14.22 of the Listing Rules. 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 Remaining Equity Interest 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 on the Acquisitions and the Remaining Equity Interest Acquisitions accordingly.

The Company plans to despatch the Circular containing, among other things, information relating to the Agreements and the Remaining Equity Interest Agreements at the same time. 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 5 November 2014.

Shareholders and potential investors should note that completion of the Acquisitions and the Remaining Equity Interest Acquisitions is subject to conditions precedent to be fulfilled. The Acquisitions and the Remaining Equity Interest Acquisitions 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 Remaining Equity Interest Acquisitions 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 and the Remaining Equity Interest Agreements
“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
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company

“Equity Interest”	the equity interest in the Target
“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
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Previous Announcement”	the announcement of the Company dated 27 August 2014 in relation to the Group’s acquisition of 57.98% equity interest in the Target
“Purchase Price”	the aggregate consideration in the amount of RMB2,416,150,000 payable by the Purchaser for the Remaining Equity Interest Acquisitions in accordance with the terms of the Agreements
“Purchaser” or “Shandong Luye”	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
“Remaining Equity Interest”	an aggregate of 42.02% equity interest in the Target

“Remaining Equity Interest Acquisitions”	the acquisitions of the Remaining Equity Interest
“Remaining Equity Interest Agreements”	the conditional equity transfer agreements dated 25 August 2014 entered into among the Purchaser, the Target and the respective Remaining Equity Interest Sellers in relation to the Remaining Equity Interest Acquisitions
“Remaining Equity Interest Sellers”	the sellers as set out in the paragraph headed “The Remaining Equity Interest Agreements — Parties, assets to be acquired and purchase price” of this announcement
“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
“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.

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

Hong Kong, 24 October 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.