

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



美瑞健康国际产业集团
Meilleure Health International Industry Group

MEILLEURE HEALTH INTERNATIONAL INDUSTRY GROUP LIMITED
美瑞健康國際產業集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 2327)

CLARIFICATION ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
FRAMEWORK AGREEMENT FOR INVESTMENT AND CO-OPERATIONS

Reference is made to the announcement (the “**Announcement**”) of Meilleure Health International Industry Group Limited (the “**Company**”) dated 14 February 2018 in relation to the discloseable transaction under the Framework Agreement. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

As requested by the Stock Exchange, the Company would like to clarify the following:

Subject matters of the Framework Agreement — the Co-operations

The Co-operations comprise, among others, the establishment of Yunnan New Co. Wuhu Meilleure will have the right, but not an obligation, to subscribe for a maximum of 20% equity interest in Yunnan New Co. The Company will consider factors including the development of the Target Company and the development of the cannabidiol (CBD) market in deciding whether to exercise the said right. Currently, it is uncertain whether the Company will enter into a definitive agreement for the subscription of the 20% equity interest in Yunnan New Co.

The Target Company intends to subscribe for a 35% equity interest in Yunnan New Co through injecting certain technologies owned by it. Such technologies include improved extraction technology to isolate cannabidiol (CBD), a non-psychoactive ingredient in hemp, the application of which will enable Yunnan New Co to enhance its extraction efficiency. Yunnan New Co will build up its infrastructures and product lines for the applications of such technologies. In addition, the research and development team of the Target Company is making an effort to, and has already been in a leading position in developing a variety of new hemp with higher cannabidiols (CBD).

The Company would like to clarify that Wuhu Meilleure (and not Hemp Investment Group) will subscribe for a maximum of 20% equity interest in Yunnan New Co. The reference to “Hemp Investment Group” appearing in the fourth and fifth paragraphs on page 4 of the Announcement are clerical errors and should be changed to “Wuhu Meilleure”.

Currently, there is no timetable for the formation of the New JV.

Consideration for the Acquisition and Profit Targets

The Target Company was established in December 2015 and currently has a registered capital of RMB60 million. It obtained the hemp flower and leaf processing licence in January 2017. Scaled production of the Target Company commenced in May 2017 and its production lines undertook technological upgrading in November 2017. Its unaudited net profit amounted to approximately RMB26,311,085 in 2017, which was derived from the ordinary and usual course of business, and no profit out of the ordinary and usual course of business of the Target Company was recorded.

The consideration for the Acquisition of RMB60 million is determined with reference to the valuation of the Target Company at RMB300 million, which was made based on a 2018 projected net profit of the Target Company of RMB50 million and a PE (price-to-earning) ratio of six times.

Profit Targets

In deriving the 2018 projected profit of the Target Company, the Directors gave key considerations to the projected sales volume and unit price of the Target Company’s products for 2018. The sales volume of the Target Company’s CBD products in 2017 was approximately 0.9 tonnes. Its projected sales volume for 2018 was fixed at 2 tonnes after taking into account various factors and making certain assumptions, including (i) the Target Company only commenced scaled production in May 2017, yet it achieved a sales volume of 0.9 tonnes in 2017, therefore it was anticipated that the Target Company would significantly increase its sales volume in 2018; (ii) the Target Company undertook technological upgrading of its production lines in November 2017, which helped increase its production capacity from 1 tonne to 2.7 tonnes, making a sales volume of 2 tonnes feasible; and (iii) the Target Company had entered into a memorandum of understanding (“MOU”) with a Canadian customer and a framework sales contract with a PRC domestic company for its sales of CBD products in 2018, which the Target Company believed would enable it to meet its 2 tonnes sales target for 2018. As the Canadian customer verbally committed a unit price of US\$9,000 per kilogram for its purchases under the MOU (this customer has started to order CBD products from the Target Company at such price) and the Target Company would give priority to the fulfilment of the purchase orders placed by this customer in the event that it cannot fulfil all purchase orders, and CBD products are often sold at a price of over US\$10,000 per kilogram in the international market, the Directors had taken US\$9,000 per kilogram as the unit purchase price of the Target Company’s CBD products in the calculation of its 2018 projected net profit. A projected sales volume of 2 tonnes and a unit price of US\$9,000 per kilogram would lead to a 2018 total revenue of approximately RMB113.4 million for the Target Company (i.e. US\$9,000 x 2,000 kilograms x RMB6.3 (being the exchange rate between the U.S. dollar and Renminbi)). Based on an actual gross

margin ratio of approximately 74% for 2017, the gross margin for 2018 is approximately RMB83.92 million. This number, after deducting the projected selling and administrative expense of RMB11.96 million which is calculated based on the actual expenses of the Target Company in 2017 with a reasonable increase of 30% to take into account possible increased marketing expenses in 2018, comes to a profit before tax of around RMB72 million, which, after deducting the 25% income tax, arrives at a net profit of approximately RMB54 million.

In considering the 2018 projected profit, the Directors acted prudently and exercised due diligence, including the following: reviewed financial statements, sales contracts and MOUs of the Target Company; conducted site visits to the manufacturing facilities of the Target Company; conducted discussions on the financial performance and prospects of the Target Company with management of Hemp Investment Group and the Target Company; researched the regulatory framework of China's hemp industry to understand, among others, the difficulty in obtaining the hemp planting and processing licences and the potential compliance costs, and researched the PRC and North America hemp markets to understand the developing trend of the hemp industry and market demands for and prospects of products using hemp as ingredients.

In 2019, the Target Company expects to improve the efficiency of its CBD extraction by approximately 20%, which will result in an approximate 20% reduction in the cost of its CBD. As a result, the Profit Target for 2019 will be increased to RMB60 million from RMB50 million in 2018.

The Profit Target do not include income outside the ordinary and usual course of business of the Target Company.

The Directors are of the view that the basis and the assumptions used in setting the Profit Targets are reasonable, and a 20% growth in the Profit Target for 2019 as compared to 2018 is justified.

The valuation of the Target Company of RMB300 million represents the PE ratio of 11.40 times for the year 2017. Wuhu Meilleure took into account the PE ratio of certain market comparables with a range from 26.22 times to 79.64 times and considered that the PE ratio of the Target Company is fair and reasonable.

The information provided by the Seller to the Directors in relation to the valuation and projections include the following:

- Financial statements of the Target Company for 2016 and 2017;
- Sales contracts and customer orders of the Target Company;
- Making available the manufacturing facilities of the Target Company for visit by the Directors;
- Sample products of the Target Company for examination and testing; and
- The assessment of the hemp industry by the Target Company's directors, including various publications.

Given the reasons stated above, the Directors are of the view that the factors taken into account in deriving the valuation of the Target Company at RMB300 million are factually fair and reasonable.

Consideration for the Co-operations

The investment amount of Yunnan New Co is estimated at RMB180 million, which covers the costs for the construction of a factory, as well as the costs of equipment for the development and production of epilepsy, antidepressant, analgesic and Alzheimer's disease prevention and treatment products with CBD. The production capacity of Yunnan New Co will be three times the production capacity of the Target Company. The investment amount is estimated to be three times of the consideration for the Acquisition which is RMB60 million.

As the investment amount of RMB180 million will be contributed by shareholders of Yunnan New Co by way of registered capital contribution, the 100% equity interest in Yunnan New Co is valued at RMB180 million and hence, the subscription price of the 20% equity interest in Yunnan New Co by Wuhu Meilleure is RMB36 million.

The Directors are of the view that the estimated investment amount of Yunnan New Co is fair and reasonable and accordingly, the subscription price of the 20% equity interest in Yunnan New Co is also fair and reasonable.

Undertakings of Hemp Investment Group relating to profit guarantee

Pursuant to the Framework Agreement, Hemp Investment Group has undertaken that if the Profit Targets would not be met, Hemp Investment Group shall compensate Wuhu Meilleure by the transfer of additional equity interests in the Target Company to Wuhu Meilleure according to the valuation of the Target Company at the time of entry into the Framework Agreement.

By way of illustration, the Profit Target for 2018 is RMB50 million. If such Profit Target could not be met, Hemp Investment Group will compensate Wuhu Meilleure by transferring additional equity interest in the Target Company according to the formula below:

$$\frac{\text{RMB60 million}}{\text{Audited profit for 2018} \times 6} - 20\%$$

The Profit Target for 2019 is RMB60 million. If the Profit Targets could not be met, Hemp Investment Group will compensate Wuhu Meilleure by transferring additional equity interest in the Target Company according to the formula below:

$$\frac{\text{RMB60 million}}{\text{Audited profit for 2019} \times 5} - 20\%$$

By way of illustration:

- The numerator of the equity interest compensation formula for 2018 is RMB60 million. If the profit in 2018 is RMB50 million, the compensation formula should be $\text{RMB60 million} / (\text{RMB50 million} \times 6) - 20\%$, which is zero and no compensation is required.
- The denominator of the compensation formula must be RMB300 million, which is the Profit Target multiplied by number of times. If the Profit Target in 2018 is RMB50 million, the multiplier should be 6 times. If the Profit Target in 2019 is RMB60 million, the multiplier should be 5 times.
- The compensation would not happen if the Target Company's profit for 2018 is RMB50 million. If the Target Company's profit for 2018 is RMB40 million, the compensated equity interest should be $\text{RMB60 million} / (40 \text{ million} \times 6) - 20\% = 5\%$. Hemp Investment Group is obligated to transfer to Wuhu Meilleure a 5% equity interest in the Target Company which is calculated based on the shareholding of the Target Company as at the date of completion of the Acquisition. The same calculation mechanism will apply if the actual profit for 2019 of the Target Company fall short of the Profit Target for 2019.
- If the Target Company falls short of Profit Target for year 2019, the expected payment date of the Compensated Interest should be on or before 30 June 2020 so as to allow sufficient time for the Target Company to prepare its audited accounts. The same also applies to the payment of the Compensated Interest for 2018.
- Wuhu Meilleure considers that the chance for the Target Company to record a loss in 2018 or 2019 is remote. The Target Company only started to record sporadic sales in December 2016 and formally commenced scaled commercial production in May 2017, yet it achieved a net profit of approximately RMB26,311,085 in 2017. As such, the Directors are satisfied with the projected profit for 2018 based on all information available to them. Considering the current market demands for pharmaceuticals and other products using hemp as ingredients, the Directors do not expect that the Target Company will record a loss in 2018. In the unlikely event that the Target Company incurs a loss in 2018, the Compensated Interest will exceed 80%, as a result of which Wuhu Meilleure will take up all the equity interest in the Target Company, which the Directors believe is sufficient to safeguard the interests of the shareholders of the Company.

The Directors are of the view that the compensation mechanism is beneficial to the Company and therefore it is a reasonable mechanism.

If the Profit Target could not be met as a result of which Wuhu Meilleure acquires additional equity interest in the Target Company, the Company will fully comply with the requirements under Chapter 14 of the Listing Rules.

Information on the Target Company

Business activities of the Target Company

The Target Company has built in Kunming the world's largest industrial hemp plant extraction factory and scientific research base conforming to GMP (Good Manufacture Practices), which provides a strong guarantee for the consistency, safety and effectiveness of its products, with scientific and strict standard operating procedures (SOP) to control the entire production. The Target Company has obtained the legal hemp extraction licence issued by the Chinese government.

Processing licence of the Target Company

The Target Company possesses hemp flower and leaf processing licence that complies with the GMP (Good Manufacturing Practice) in China.

Details of the processing licence of the Target Company are as follows:

Issuing date	:	12 January 2017
Validity	:	12 January 2017 to 11 January 2019
Scope of permitted activities	:	Hemp flower and leaf processing
Renewal requirement	:	Required to be renewed every two years by PRC regulations Renewal will be granted if the Target Company has not committed any non-compliance and its product quality complies with relevant regulations
Restriction on transfer	:	The license is not transferable

Financial Information of the Target Company

Net profit

In 2017, net profit after taxation and extraordinary item of the Target Company was approximately RMB26,311,085. Accordingly, net profit after taxation and extraordinary item attributable to the 20% Equity Interest for 2017 was approximately RMB5,262,217 (the “**2017 Net Profit Attributable to the 20% Equity Interest**”).

The projected net profit of the Target Company for 2018, which is used as the basis for the valuation of the Target Company, is RMB50 million and accordingly, the projected net profit for 2018 attributable to the 20% Equity Interest is RMB10 million, which is higher than the 2017 Net Profit Attributable to the 20% Equity Interest.

The financial information of the Target Company appearing in the Announcement relates to 100% of the equity interest of the Target Company and not the 20% Equity Interest. Therefore, the audited financial information of the Target Company attributable to the 20% Equity Interest for the financial year ended 31 December 2016 as well as the unaudited financial information of the Target Company attributable to the 20% Equity Interest for the financial year ended 31 December 2017 as appearing in the Announcement should be changed to the following:

	For the financial year ended 31 December 2016 (audited) (approximately)	For the financial year ended 31 December 2017 (unaudited) (approximately)
Net profit/(loss) before taxation and extraordinary items attributable to the 20% Equity Interest	RMB117,978	RMB5,905,950
Net profit/(loss) after taxation and extraordinary item attributable to the 20% Equity Interest	RMB44,108	RMB5,262,217

The Target Company started to provide high quality hemp extraction products including high purity CBD isolate, full spectrum hemp oil and terpenes in late 2016. The Target Company derived a fairly small amount of net profit after taxation and extraordinary items in 2016, which is approximately RMB220,538, primarily due to the pre-operation costs incurred and the fact that sales only occurred in December 2016. The net profit after taxation and extraordinary items of the Target Company for 2017 was approximately RMB26,311,085, a significant increase as compared to that of 2016, primarily because it was derived from full-year sales.

Net asset value

The net asset value of the Target Company as at 31 December 2017 is approximately RMB86.75 million.

Major assets

Set out below are a list of the major assets of the Target Company as at 31 December 2017:

Category of assets	Book value <i>(RMB'000)</i>
Factory and equipment	12,939
Leasehold improvement	12,001
Technology knowhow	22,649
Inventory	8,825
Other receivables	26,449

Operating status

The Target Company has 80 workers and its annual production capacity of CBD is 2.7 tonnes. The Target Company owns an industrial hemp plantation field in Yunnan Province of the PRC, which will serve as a guaranteed raw materials supply for its production capacity of CBD products.

Recognition of the Target Company and Yunnan New Co in the Company's financial statements

The Target Company and Yunnan New Co will, upon completion of the Acquisition and the subscription of a 20% equity interest in Yunnan New Co by Wuhu Meilleure, become associated companies of the Company and will be recognised by equity method in the financial statements of the Company.

By Order of the Board
Meilleure Health International Industry Group Limited
Zhou Wen Chuan
Chief Executive Officer

Hong Kong, 16 March 2018

As at the date of this announcement, the Board comprises Mr. Zhou Xuzhou, Mr. Liu Lailin and Ms. Zhou Wen Chuan as executive Directors, Dr. Mao Zhenhua as non-executive Director and Mr. Gao Guanjiang, Professor Chau Chi Wai, Wilton and Mr. Zeng Wentao as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.