

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.



LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

CLARIFICATION ANNOUNCEMENT

Reference is made to the announcements of Luye Pharma Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 27 August 2014, 24 October 2014, 1 December 2014, 15 December 2014 and 30 December 2014 in relation to the Group’s acquisition of equity interest in Beijing Jialin Pharmaceutical Co., Ltd. (the “**previous announcements**”). Capitalised terms used herein shall have the same meanings as defined in the previous announcements as the case may be, unless the context requires otherwise.

The Directors would like provide Shareholders with further information in relation to the Acquisitions and the Remaining Equity Interest Acquisitions as set out below.

Performance guarantees

As set out in the announcement of the Company dated 27 August 2014, 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.

The Directors would like to clarify and supplement as follows:

The purchase price for each tranche of the Acquisitions and the Remaining Equity Interest Acquisitions was determined, among other things, with reference to a price-earnings multiple of around 16 times the performance guarantee for 2014 and 2015. Specifically, the purchase price for the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions was determined, among other things, with reference to the performance guarantee of the Target Group for the financial year ending 31 December 2014 (being RMB350 million), whereas the purchase price for the Second Tranche Acquisition was determined, among other things, with reference to the profit guarantee of the Target Group for the financial year ending 31 December 2015 (being RMB500 million).

However, the performance guarantees are only provided in the First Tranche Agreement and the Second Tranche Agreement, and in the event that the actual amount falls below the performance guaranteed amount, only Mylin Holdings undertakes to pay such shortfall amount. The Board is of the view that the absence of the performance guarantee and the undertaking from other Sellers per se would not render the purchase price for each of the Acquisitions unfair or unreasonable or not in the interest of the Company as a whole on the basis of the following:

- (a) the performance guarantee was determined primarily as a result of the commercial negotiations between the parties on an arm's length basis taking into account the historical growth of Chinese pharmaceutical market, the Target Group's historical financial performance and the expected growth rate of its net profit, and the Company's in-depth knowledge of the pharmaceutical industry in the PRC, and therefore is a fair representation. The Company expects that the Target will be able to meet the targeted profit level as contemplated under the performance guarantee and has therefore taken this into account in determining the purchase price for each of the Acquisitions. The Board considers that the undertaking from Mylin Holdings provides additional comfort to the Company in entering into the Acquisitions;
- (b) Mylin Holdings, as the single largest shareholder in the Target holding 47.72% equity interest in the Target, has the actual control of the Target's business operation and management and therefore is willing to provide such a performance guarantee and an undertaking to pay the shortfall if the performance guarantee amount is not met; while the other Sellers are mainly investors in nature without substantial involvement or at all in the daily operation and management of the Target, therefore the Directors consider that it is reasonable that they do not provide any such guarantee and undertaking; the Directors believe that it is also consistent with the general market practice for the controlling shareholder (instead of the minority or passive investors) to provide such a guarantee and undertaking;
- (c) this is also driven by the Group's desire to acquire 100% of the Target in order to gain full control of the Target in terms of business operation and management, and to enjoy 100% of the financial results of the Target and maximise the synergies with the Group's existing business and therefore

this is a commercial decision of the Group to acquire the equity interest in the Target from other Sellers under the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions on a purchase price which was determined with reference to the performance guarantee; and

- (d) the Company also believes that Mylin Holdings will be motivated by its undertakings and obligations under the performance guarantee to maintain the high growth rate of the Target Group by providing full support in the integration and development of the Target Group after completion to ensure the targeted profit levels can be achieved.

Purchase price

As mentioned in the announcement of the Company dated 24 October 2014, the purchase price for the Remaining Equity Interest Acquisitions 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 Board would like to clarify and supplement as follows:

- By referring to “the asset value of the Target Group”, the Board was referring to the unaudited net asset value of the Target as of 31 December 2013 of approximately RMB711,418,000 based on the management accounts of the Target.
- By referring to “the historical financial information regarding the performance of the Target Group”, the Board was referring to the unaudited financial results of the Target Group for the year ended 31 December 2012 and 2013 based on the management accounts of the Target; including net profits before taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 of RMB231,365,000 and RMB296,660,000, respectively; and the unaudited net profits after taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 of RMB195,890,000 and RMB251,577,000, respectively.
- As mentioned above, the purchase price for the Remaining Equity Interest Acquisitions was determined, among other things, with reference to a price-earnings multiple of around 16 times the performance guarantee for 2014. As such, no price-earnings multiple are applied to the historical profit which forms basis of the purchase price.

Use of proceeds

As of the date of this announcement, the Group has utilised HK\$665 million, representing 18.5% of the net proceeds received by the Company from the global offering of its shares as described in details in the prospectus of the Company dated 26 June 2014 (the “**Global Offering**”). Set out below a summary of the latest utilisation of the net proceeds by different usage:

Use of proceeds	Amount	Balance as of the date of this announcement	Proposed to be utilised as purchase price for the Acquisitions	Balance after Completion
To expand the Group’s portfolio of pharmaceutical products	20%/HK\$718 million	20%/HK\$718 million	20%/HK\$718 million	Nil
For research and development	20%/HK\$718 million	20%/HK\$718 million	20%/HK\$718 million	Nil
For selective acquisitions of domestic or international pharmaceutical companies	20%/HK\$718 million	20%/HK\$718 million	20%/HK\$718 million	Nil
To fund capital expenditure projects to increase production capabilities	20%/HK\$718 million	10%/HK\$359 million	N/A	10%/HK\$359 million
To expand sales and marketing network	5%/HK\$180 million	3.5%/HK\$126 million	N/A	3.5%/HK\$126 million
To partially repay borrowings under our U.S. dollar secured loans	5%/HK\$180 million	Nil	N/A	Nil
For working capital and general corporate purposes	10%/HK\$360 million	8%/HK\$288 million	N/A	8%/HK\$288 million

The Directors are of the view that there has not been any change in the use of proceeds received by the Company from the Global Offering as disclosed in its prospectus dated 26 June 2014.

As previously announced by the Company on 15 December 2014, the Circular (together with the notice of the special general meeting and the proxy form) was expected to be despatched to the Shareholders on or before 31 December 2014. Shareholders are advised to refer to the circular for further information of the Acquisitions.

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.

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

Hong Kong, 30 December 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.