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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 EQUITY INTEREST IN BEIJING JIALIN
PHARMACEUTICAL CO., LTD.
SUPPLEMENTAL AGREEMENT**

On 1 December 2014, the Group, through its wholly-owned subsidiary Shandong Luye, entered into a Supplemental Agreement with Mylin Holdings pursuant to which the parties agreed to amend certain terms of the First Tranche Agreement and Second Tranche Agreement (including, among other things, the payment terms for the First Tranche Acquisition and the Second Tranche Acquisition).

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.

Reference is made to the announcements of the Company dated 27 August 2014, 6 October 2014, 24 October 2014, 5 November 2014 and 20 November 2014 in relation to the Group's acquisition of equity interest in Beijing Jialin Pharmaceutical Co., Ltd. Capitalised terms used herein shall have the same meanings as defined in the announcements dated 27 August 2014 (the "Announcement") and 24 October 2014, as the case may be, unless the context requires otherwise.

SUPPLEMENTAL AGREEMENT

On 1 December 2014, the Group, through its wholly-owned subsidiary Shandong Luye, entered into a supplemental agreement (the “**Supplemental Agreement**”) with Mylin Holdings and the Target pursuant to which the parties agreed to amend certain terms in the First Tranche Agreement and Second Tranche Agreement. The principal amendments contemplated under the Supplemental Agreement are summarised below:

Payment terms

Pursuant to the Supplemental Agreement, the parties agreed that the purchase price for the First Tranche Acquisition and the Second Tranche Acquisition should be payable and satisfied in the following manner:

First Tranche Acquisition

- (a) upon completion of all the business registration documents and online registration at the State Administration for Industry & Commerce of the People’s Republic of China with respect to the pledge over the 6% equity interest in the Target to be given by Mylin Holdings in favour of Shandong Luye as more particularly described below (the “**First Share Pledge**”) by 2 December 2014, Shandong Luye shall pay a refundable deposit of RMB200,000,000 (the “**First Deposit**”) to Mylin Holdings;
- (b) RMB1,200,000,000 of the purchase price (the “**First Payment**”) is payable within five business days from the date that the conditions precedent to the completion of the First Tranche Acquisition have been fulfilled or waived, pursuant to which the First Deposit shall be converted as part of the First Payment and the entire share pledge under the Supplemental Agreement shall be released; and
- (c) the balance of the purchase price is payable no later than 30 June 2015 on the condition that the First Tranche Agreement has not been terminated in accordance with the terms thereof by then.

As security for the First Deposit, Mylin Holdings shall provide the First Share Pledge to Shandong Luye and shall complete the business registration thereof within 10 workings days from the date of payment of the First Deposit by Shandong Luye. In the event that the First Tranche Agreement is terminated in accordance with the terms thereof prior to the completion of the First Tranche Acquisition, Shandong Luye shall facilitate the release of the entire share pledge under the Supplemental Agreement within five working days from the date on which Mylin Holdings refunds 50% of the First Deposit (and, the Second Deposit (as defined below), if any) and Mylin Holdings shall refund the remaining 50% of the First Deposit (and, the Second Deposit, if any) on the next working day from the date on which the share pledge is released.

Second Tranche Acquisition

The purchase price is payable no later than 30 June 2015 on the condition that the First Tranche Agreement has not been terminated in accordance with the terms thereof by then.

Completion

Completion of the First Tranche Acquisition and the Second Tranche Acquisition (representing, in aggregate, 47.72% of the equity interest in the Target) shall take place within five working days from which Shandong Luye pays the First Payment to Mylin Holdings.

Termination

In addition to the termination events as set out in the First Tranche Agreement and the Second Tranche Agreement, according to the Supplemental Agreement, the First Tranche Agreement shall be terminated automatically if Shandong Luye has not paid the entire First Payment on or before 30 December 2014, which shall be extended to 31 January 2015 if Company has already issued the Circular to the Shareholders before 30 December 2014 and Shandong Luye has already paid an additional deposit of RMB500,000,000 (the “**Second Deposit**”) to Mylin Holdings. If Shandong Luye pays the Second Deposit to Mylin Holdings, Mylin Holdings shall pledge an additional 15% equity interest in the Target in favour of Shandong Luye and shall complete the business registration thereof within 10 workings days from the date of payment of the Second Deposit.

Moreover, Shandong Luye may, subsequent to the completion of the First Tranche Acquisition and the Second Tranche Acquisition and before 30 June 2015, terminate the First Tranche Agreement and the Second Tranche Agreement if, prior to the completion, the Target fails to produce its key products in accordance with the prescriptions and procedures as approved by China Food and Drug Administration and such products have been classified as counterfeit or substandard pharmaceutical products pursuant to which penalties have been imposed in writing on the Target in suspending or discontinuing the production of the Target’s key products, or in revoking or terminating the GMP certificate, the approvals or permits for the production of the Target’s key products. In such case, the parties shall reverse the First Tranche Acquisition and the Second Tranche Acquisition within 60 days thereof pursuant to which (i) Shandong Luye shall transfer the First Tranche Equity Interest and the Second Tranche Equity Interest (representing 47.72% of the shares of the Target) to Mylin Holdings upon the refund of 50% of the purchase price that has been paid by Shandong Luye; (ii) Mylin Holdings shall refund the remaining 50% of such purchase price on the next working day from which the Target obtains the new business registration licence; and (iii) Shandong Luye and Mylin Holdings shall be responsible for the corporate tax payable arising from such transfer on an equal basis.

IP Condition Precedent

In relation to item (d) of the conditions precedent to the completion of the First Tranche Acquisition as stated in the Announcement under the “Conditions precedent - First Tranche Acquisition” (the “**IP Condition Precedent**”), if Shandong Luye waives or amends the IP Condition Precedent and the court makes a final judgment against the Target before 1 January 2018 with respect to the underlying intellectual property rights issue, Mylin Holdings shall be responsible for the damages arising out of such intellectual property rights issues prior to the completion of the First Tranche Acquisition.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT

The Directors believes that the amended terms under the Supplemental Agreement provides the Group with flexibilities in terms of the timing for payment of the purchase price and completion of the First Tranche Acquisition and the Second Tranche Acquisition, additional protection in relation to the IP Condition Precedent, and the exit mechanism up to 30 June 2015 in case the Group) identifies material production issues with respect to the Target.

On the basis set out above, the Directors take the view that the entering into the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

The Company will discuss further with the counterparties to the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions with a view to arriving at the corresponding amendments to the original terms. Further announcement(s) will be made as and when appropriate.

DESPATCH OF THE CIRCULAR

As previously announced by the Company on 20 November 2014, the Company expects to despatch the Circular (together with the notice of the special general meeting and the proxy form) to the Shareholders on or before 15 December 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.

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

Hong Kong, 1 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.