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## **REAL NUTRICEUTICAL GROUP LIMITED**

**瑞年國際有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2010)**

### **ANNOUNCEMENT**

## **VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE TARGET ENGAGING IN SALE AND DISTRIBUTION OF PHARMACEUTICAL AND HEALTHCARE PRODUCTS IN THE PRC**

### **THE AGREEMENT**

The Board is pleased to announce that on 19 April 2017 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company entered into the Agreement with the Seller, an Independent Third Party, pursuant to which the Purchaser conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target, for a total cash consideration of RMB1,550 million (equivalent to approximately HK\$1,752 million) (subject to adjustment).

The Target is a company incorporated in the BVI, through its various subsidiaries, engaging in the sale and distribution of pharmaceutical and healthcare products and the operation of over 500 points of sale in the PRC. Upon Completion, the Target will become a wholly-owned subsidiary of the Company and its financial statements will be consolidated into the accounts of the Company.

### **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios of the Acquisition are over 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **THE EGM AND DISPATCH OF CIRCULAR**

A Circular containing, among other things, (i) further details of the Acquisition and the Agreement; and (ii) notice of the EGM and forms of proxy, is expected to be dispatched to the Shareholders on or before 30 June 2017.

**SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD BE AWARE THAT THE ACQUISITION IS SUBJECT TO A NUMBER OF CONDITIONS BEING SATISFIED, AND MAY OR MAY NOT PROCEED. ACCORDINGLY, SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF THE COMPANY.**

### **I. THE AGREEMENT**

The Board is pleased to announce that on 19 April 2017 (after trading hours), Purchaser, a wholly-owned subsidiary of the Company, and the Seller entered into the Agreement in relation to the Acquisition. Details of the Agreement are set out below:

#### **The Agreement**

##### *Date*

19 April 2017

##### *Parties*

- (1) the Purchaser; and
- (2) the Seller, an individual who is the sole legal and beneficial owner of the entire issued share capital of the Target

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Seller is an Independent Third Party.

##### *Subject matter*

The Purchaser agreed to purchase, and the Seller agreed to sell, the Sale Shares, representing the entire issued share capital of the Target.

Further details of the Target are set out in the sub-paragraphs headed “Information on the Parties” below.

### *Total Consideration*

The Total Consideration for the Acquisition before Adjustment (as defined below) is RMB1,550 million (equivalent to approximately HK\$1,752 million). The Total Final Consideration shall be settled in cash as follows:

- (i) the payment of RMB200 million as Deposit by the Purchaser to the Seller within three business days of the date of the Agreement; and
- (ii) the payment of the remaining balance of the Total Final Consideration by the Purchaser to the Seller on the Completion Date.

### *Basis of the Total Consideration*

The Total Consideration of RMB1,550 million (equivalent to approximately HK\$1,752 million) before Adjustment (as defined below) was determined after arm's length negotiation between the Purchaser and the Seller on normal commercial terms after taking into account, without limitation, the following factors:

- (a) the preliminary valuation of the Target Group of approximately RMB1,537 million to RMB1,707 million prepared by International Valuation Limited (**Valuer**), an independent professional valuer, adopting an income approach using the discounted cash flow method (**Preliminary Valuation**);
- (b) the business development and future prospects of the Target Group;
- (c) the synergies to be realised to the Group as a result of the Acquisition; and
- (d) the potential growth and prospects of the pharmaceutical industry in the PRC.

### *Adjustment to the Total Consideration*

As at the date of this announcement, the Valuer is in the process of finalising the valuation of the Target Group and hence, the Preliminary Valuation is subject to further changes and may or may not be the same as the final valuation of the Target Group which will be issued on or before the date of the Circular (**Final Valuation**).

If the Final Valuation is determined to be higher than RMB1,792.35 million (being approximately 5% above the upper range of the Preliminary Valuation), then the Total Consideration will be adjusted upward by 5% to the Total Final Consideration of RMB1,627.5 million. If the Final Valuation is determined to be lower than RMB1,460.15 million (being approximately 5% below the lower range of the Preliminary Valuation), then the Total Consideration will be adjusted downward by 5% to the Total Final Consideration of RMB1,472.5 million (**Adjustment**). The Adjustment is determined after arm's length negotiation between the parties to the Agreement, taking into account the unlikelihood that the Final Valuation, which will be available within two months from the date of the Agreement, will be substantially different from the Preliminary Valuation. In the event a material adverse change has occurred resulting

in a substantial decrease in the valuation of the Target Group, the Company would be entitled to terminate the Agreement, details of which are set out in the “Conditions Precedent to Completion” section of this Announcement.

The Total Final Consideration (after the Adjustment mentioned above) payable by the Purchaser and a copy of the Final Valuation, together with the letter from the auditors of the Company and the letter from the financial advisers of the Company to be issued in accordance with Rule 14.62 of the Listing Rules, will be included in the Circular to be despatched to the Shareholders.

#### *Conditions Precedent to Completion*

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

- (a) approvals having been obtained from the Shareholders at the EGM for the Agreement and the transaction contemplated thereunder;
- (b) all consent(s), approval(s), waiver(s) and authorisation(s) from any relevant government authorities or other relevant third party(ies) in Hong Kong, the PRC or any other place(s) as may be considered necessary for the entering into and execution of this Agreement having been obtained;
- (c) no relevant government, governmental, quasi-governmental, statutory or regulatory body, or agency having granted any order or made any decision that restricts or prohibits the implementation of the transactions contemplated under the Agreement;
- (d) the warranties given by the Seller in the Agreement remaining true and accurate and not misleading in any material respect if they were repeated at any time prior to Completion by reference to the facts and circumstances then existing;
- (e) there being no material adverse change to the business, operation, financial position and trading prospect of the Target Group since 31 December 2016;
- (f) the Seller having performed and complied with all her undertakings, obligations and duties in accordance with the terms and conditions of the Agreement on or before Completion;
- (g) the Seller having produced to the Purchaser evidence to prove that each of the retail outlets operated by the Target Group has obtained all licences, approvals and consents that it requires for its business operations in accordance with all applicable laws and regulations and the Purchaser is satisfied with such evidence in its absolute discretion;
- (h) the Purchaser having conducted and completed due diligence on all business, assets and liabilities, legal and financial matter and all such other matters as deemed necessary by the Buyer in its absolute discretion, in relation to the Group, and the Purchaser being satisfied with the result of such due diligence in its absolute discretion;

- (i) the Seller having been delivered to the Purchaser a certificate duly signed by the Seller confirming that all the conditions set out in (b) to (g) above.

If any of the conditions has not been fulfilled or waived by the Purchaser (in respect of conditions (d) to (i) above) by the Long Stop Date, the Agreement shall be terminated and the Seller shall refund the Deposit that have been paid to the Purchaser within 7 business days after the Agreement is terminated, and no party shall have any claim against the other, except in respect of any antecedent breach of the terms and certain clauses in the Agreement.

As at the date of this Announcement, none of the above conditions have been fulfilled.

#### *Completion*

Subject to the fulfilment of the conditions precedent, completion of the Agreement shall take place on the third Business Day after fulfilment of all conditions precedent or such other date the Purchaser and the Seller shall agree in writing.

Upon Completion, the Target will become a subsidiary of the Company.

#### *Deposit*

If the Agreement is terminated due to failure of the Seller to satisfy any of the Seller's closing obligations as provided in the Agreement (including but not limited to the delivery of the closing documents customary in a sale and purchase agreement), the Seller shall refund the Deposit that have been paid to the Purchaser within 7 business days of that termination.

If the Agreement is terminated due to failure of the Purchaser to satisfy any of the Purchaser's closing obligations as provided in the Agreement (including but not limited to the payment of the balance of the Total Final Consideration), the Seller may forfeit the Deposit paid by the Purchaser in accordance with the Agreement.

#### *Profit guarantee*

The Seller guarantees and represents to the Company that the net profit after taxation of the Target Group for the financial year ending 31 December 2017 based on the audited accounts of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards shall be not less than RMB70 million (**Guaranteed Amount**). The Guaranteed Amount was determined by the parties on an arm's length basis with reference to the (i) current and potential business performance of the Target Group, including existing product supply agreements with its franchisees for the year; (ii) the business plan of the Target Group, taking into account the Group's plan to sell more health supplement products of higher gross profit margins through the Target Group and integrate its distribution network to the Real Nutri Health Club programme and the internet direct sales business of the Group after the Acquisition; and (iii) the outlook of the pharmaceutical industry in the PRC in 2017. The Seller shall indemnify the Purchaser on a dollar for dollar basis in respect of any such shortfall in the net profit within five (5) business days after the publication of the audited accounts of the Target Group.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is the leading brand in the amino acids health supplement market in the PRC with a diversified product portfolio across the health industry spectrum. The Group has an established distribution network, especially in eastern China. As at 31 December 2015, the Group's health and nutritional supplement products were sold through approximately 80,000 third-party retail outlets in China and its pharmaceutical products were sold to about 800 hospitals nationwide. Approximately over 60% of the Group's revenue was derived from sales in eastern China. In addition, the Group has also established approximately 200 Real Nutri Health Stores and online platforms for direct sales as at 31 December 2016.

The Target Group mainly sells a combination of Chinese and western patented drugs, imported drugs, biochemical pharmaceutical products, health-care and medical devices and health and nutritional supplements. As at 31 December 2016, the Target Group operates over 500 integrated pharmaceutical retail outlets in a number of provinces in China, including Guangdong, Hubei, Fujian, Guizhou and Hainan, comprising over 260 Shenzhen China Associate Holding pharmacy stores and about 300 Tianlong franchisee pharmacy stores. Each of Shenzhen China Associate Holding and Tianlong is a subsidiary of the Target.

The Board considers that building on the platform of the Group's existing distribution network through third-party retail outlets and hospitals in China, the Acquisition will allow the Group to further expand into the downstream direct sales and distribution of pharmaceutical and health supplement products through the Target Group's 500 retail outlets. Further, considering the Group's established distribution network in eastern China, the Target Group will be an important step for the Group to penetrate into the markets in southern and central China, which will expand the Group's distribution network in the PRC.

In addition, the Group has been setting up experience areas in its retail outlets to provide a series of services exclusively for members of the Real Nutri Health Club, including professional advice on pharmaceutical and nutritional supplements and services allowing the users to monitor the effects of these products on them. The Group expects these services will help expand its membership program and be a key driver for the business of the Group. Operating its own retail outlets allows the Group to implement these business initiatives more efficiently and effectively as compared to outlets operated by third party distributors. Through the Acquisition, the number of retail outlets operated by the Group will increase to over 700.

Apart from operating in the traditional market, the Group has been actively developing its internet direct sales business through its online sales platforms. The Acquisition will allow customers to purchase a wider range of products online and pick up at any of the retail outlets operated by the Group or the Target Group. At the same time, the Board believes this will encourage customers to purchase more products from the Group and greatly enhance consumer experience.

The Board is of the view that downstream expansion into the sale and distribution of pharmaceutical and health supplement products and geographical expansion of its distribution network to areas outside of eastern China through the Acquisition will broaden the business horizon of the Company and improve the long term growth potential of both the Target Group and the Group, which will be beneficial to the Company and the Shareholders as a whole. Although the Chinese economy has entered into a phase of adjustments, it is expected that demands for medical and healthcare products and services in the PRC will continue to grow in the future due to aging population, growing urbanisation, increasing amount of lifestyle diseases, rapid consumer wealth growth, and the advancement of universal health care insurance.

In recent years, the Group has been proactively developing new business ideas and expanding into new markets to capture the expected growth in demand for medical and healthcare products and services in the PRC. The Group considers the introduction of the Real Nutri Health Club and the development of its internet direct sales business will become key drivers for the Group's future growth. The Board considers that the opportunity to acquire a pharmaceutical retail outlet chain in the PRC is very rare, and it is especially the case considering the size, coverage and establishment of the Target Group and the high level of synergy it may potentially have with the Group. For the reasons above, despite that the Target Group had recorded net losses for the years ended 31 December 2015 and 2016, the Company believes the benefits of acquiring the Target Group hugely outweighs the net loss position of the Target Group in 2015 and 2016. Lastly, as the leading enterprise in the PRC amino acids health supplements market, the Group's health supplement products have been achieving a gross profit margin of over 60%. The Board considers that after the completion of the Acquisition, the Group will take active measures to sell more health supplement products of higher gross profit margins through the Target Group and integrate its distribution network to the Real Nutri Health Club programme and the internet direct sales business of the Group, all of which shall have the effect of improving the business and efficiency of the Target Group due to benefits from the expanded economies of scale.

For the reasons above, the Board considers that the business of the Target Group will complement the existing business of the Group and the Acquisition will allow the Group to fully capitalise on the synergy between the Group and the Target Group and create a solid platform for the Group's future development.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Group and the Shareholders as a whole.

## **INFORMATION ON THE PARTIES**

### **Information on the Company and the Purchaser**

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of health and nutritional supplements and pharmaceutical products.

The Purchaser is an indirectly wholly-owned subsidiary of the Company and an investment holding company incorporated in the BVI.

### **Information on the Seller and the Target**

The Seller is the sole legal and beneficial owner of the entire issued share capital of the Target.

The Target is a company incorporated in the BVI, through its subsidiaries, engaging in the sale and distribution of pharmaceutical and healthcare products and the operation of over 500 points of sale in the PRC. The unaudited revenue of the Target for the years ended 31 December 2015 and 2016 were approximately RMB476 million and RMB429 million respectively.

The unaudited earnings before interest, taxation, depreciation and amortisation of the Target Group for the year ended 31 December 2015 and 2016 were approximately RMB12 million and RMB2 million respectively.

The unaudited net losses before and after taxation of the Target Group for the year ended 31 December 2015 were approximately RMB14 million and RMB15 million respectively; and the unaudited net losses before and after taxation of the Target Group for the year ended 31 December 2016 were approximately RMB67 million and RMB67 million respectively.

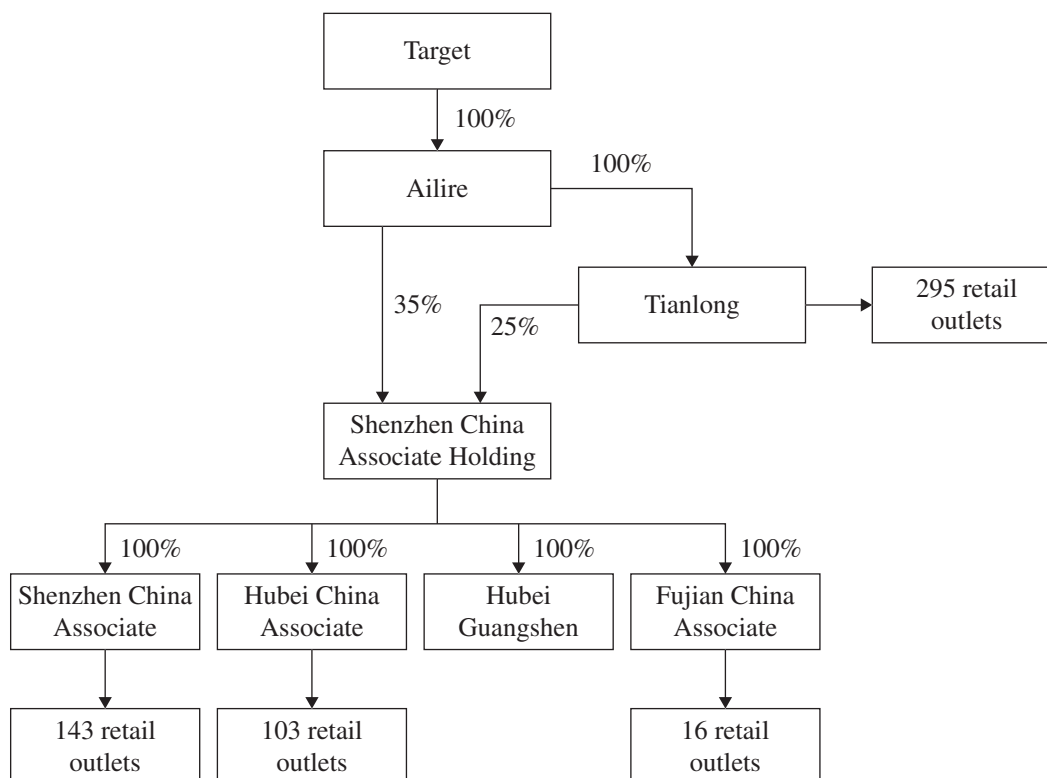
The unaudited total assets and net asset value of the Target Group as at 31 December 2016 were approximately RMB1,689 million and RMB137 million respectively.

The legal representative of Ailire, the PRC holding company within the Target Group, is Mr. Zhang Junfeng. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Zhang is an Independent Third Party.



## Shareholding structure of the Target Group

Set out below are the simplified shareholding structure of the Target Group as at the date of the Agreement:



## IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As one or more of the applicable percentage ratios of the Acquisition are over 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## DISPATCH OF CIRCULAR

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Agreement and the Acquisition.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the Acquisition. As such, no Shareholder is required to abstain from voting at the EGM in respect of the resolution approving the Agreement and the Acquisition.

A Circular containing, among other things, (i) further details of the Agreement and the Acquisition (together with the Total Final Consideration and a copy of the Final Valuation) and; (ii) notice of the EGM and forms of proxy, is expected to be dispatched to Shareholders on or before 30 June 2017 so as to allow sufficient time to prepare the required financial information and other relevant information for inclusion in the Circular.

**SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD BE AWARE THAT THE ACQUISITION IS SUBJECT TO A NUMBER OF CONDITIONS BEING SATISFIED, AND MAY OR MAY NOT PROCEED. ACCORDINGLY, SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF THE COMPANY.**

## **DEFINITIONS**

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

“Acquisition”	the acquisition of the Sale Shares by the Purchaser pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement dated 19 April 2017 entered into between the Purchaser and the Seller in respect of the Acquisition
“Ailire”	Shenzhen Ailire Investment Consulting Limited* (深圳市艾利爾投資諮詢有限公司), a limited company incorporated under the laws of the PRC
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday or days on which a tropical cyclone warning number 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9 am and 5 pm) on which the PRC and Hong Kong clearing banks are open for the transaction of normal banking business
“BVI”	British Virgin Islands
“China” or “PRC”	The People’s Republic of China
“Circular”	the circular to be sent to the Shareholders in relation to the Agreement and the Acquisition
“Company”	Real Nutraceutical Group Limited, a company incorporated in the Cayman Islands, the issued Shares of which are listed and traded on the Stock Exchange (Stock code: 2010)
“Completion”	the completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Completion Date”	the third Business Day after all the conditions precedent of the Agreement have been fulfilled or waived
“Director(s)”	director(s) of the Company

“Deposit”	deposit in the amount of RMB200 million (equivalent to approximately HK\$226 million) payable by the Purchaser to the Seller pursuant to the Agreement
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Agreement and the Acquisition
“Fujian China Associate”	Fujian China Associate Pharmacy Limited* (福建中聯大藥房有限公司), a limited company incorporated under the laws of the PRC
“Group”	the Company and its subsidiaries
“Hubei China Associate”	Hubei China Associate Pharmacy Chain Limited* (湖北中聯大藥房連鎖有限公司), a limited company incorporated under the laws of the PRC
“Hubei Guangshen”	Hubei Guangshen Pharmacy Limited* (湖北廣深醫藥有限公司), a limited company incorporated under the laws of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a party(ies) independent of and not connected with the Company and its connected person(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2017 or such later date the Purchaser and the Seller may agree in writing
“percentage ratios”	any of the five ratios set out in Rule 14.07 of the Listing Rules
“Purchaser”	Ray Sail Investments Limited, a company incorporated in BVI with limited liability and an indirectly wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	10 ordinary shares of the Target of US\$1 each, being the entire issued capital of the Target

“Seller”	Ms. Tseng Hui-che, an individual who is the legal and beneficial owner of the entire issued share capital of the Target
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shenzhen China Associate”	Shenzhen China Associate Pharmacy Limited (深圳市中聯大藥房有限公司), a limited company incorporated under the laws of the PRC
“Shenzhen China Associate Holding”	Shenzhen China Associate Pharmacy Holding Limited (深圳中聯大藥房控股有限公司), a limited company incorporated under the laws of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“the Target”	Major Express Group Limited, a company incorporated in the BVI with limited liability
“the Target Group”	the Target and its subsidiaries
“Tianlong”	Huizhou Tianlong Pharmacy Chain Limited (惠州市天龍藥業連鎖有限公司), a limited company incorporated under the laws of the PRC
“Total Consideration”	RMB1,550 million, being the total consideration for the Acquisition before adjustment
“Total Final Consideration”	the Total Consideration after Adjustment as set out in the section headed “Adjustment to the Total Consideration” in this announcement

“US\$”	United States dollars, the lawful currency of The United States of America
“%”	per cent.

*For the purpose of this announcement, unless the context otherwise requires, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.13. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.*

*The English names of Chinese entities marked with “\*” are translations of their Chinese names and are included in this announcement for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

By order of the Board  
**Real Nutraceutical Group Limited**  
**Wang Fucui**  
Chairman

The People’s Republic of China, 19 April 2017

*As at the date of this announcement, the executive Directors are Mr. Wang Fucui, Mr. Yu Yan, Mr. Li Lin, Mr. Yi Lin, Mr. Zhang Yan and Ms. Au-Yeung Kam Ling, Celeste; and the independent non-executive Directors are Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming.*