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LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in the Bermuda with limited liability)

(Stock Code: 02186)

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF TWO BIOLOGICAL ANTIBODY PRODUCTS

ASSET TRANSFER

On 4 August 2017, Shandong Luye (a wholly-owned subsidiary of the Company) and the Seller entered into the Asset Transfer Agreements pursuant to which Shandong Luye has agreed to acquire, and the Seller has agreed to transfer to Shandong Luye, two biological antibody products under research and development, being LY01008 and LY06006, and their respective technologies, data and all rights attaching to the Products including but not limited to the clinical trials approval, for a total consideration of RMB450 million, which is payable by stages.

LISTING RULES IMPLICATIONS

The Seller is an indirect subsidiary of Luye Investment, a controlling shareholder of the Company. Accordingly, the Seller is a connected person of the Company, and the Asset Transfer under the Asset Transfer Agreements constitutes a connected transaction of the Company under the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Asset Transfer Agreements exceeds 0.1% but all applicable percentage ratios are less than 5%, the transactions contemplated under the Asset Transfer Agreements are subject to reporting and announcement requirements and are exempt from the circular and shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

THE ASSET TRANSFER AGREEMENTS

Date

4 August 2017

Parties

(1) 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.), a wholly-owned subsidiary of the Company

(2) 山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.), as the Seller

The Seller is an indirect subsidiary of, and owned as to 66.7% indirectly by, Luye Investment, a controlling shareholder of the Company. Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director, are indirectly interested in the share capital of Luye Investment. Accordingly, the Seller is a connected person of the Company.

Assets being acquired

Pursuant to the Asset Transfer Agreements, Shandong Luye has agreed to acquire, and the Seller has agreed to transfer to Shandong Luye, the Products, being LY01008 and LY06006, and their respective technologies, data and all rights attaching to the Products including but not limited to the clinical trials approval. The following table sets forth some information about the Products:

	LY01008	LY06006
Description	recombinant anti-VEGF humanised monoclonal antibody injection (重組抗VEGF人源化單克隆抗體注射液)	recombinant anti-RANKL whole human monoclonal antibody injection (dosage 60 mg/bottle) (重組抗RANKL全人單克隆抗體注射液(規格為60mg/瓶))
Indication	Colorectal cancer or non-small cell lung cancer	Osteoporosis among postmenopausal women; reducing the risk of vertebral, non-vertebral and hip fractures
Status	Going through phase I clinical trials	Obtained the CDE's approval to proceed with phase I clinical trials
Targeted launch year	Around 2021	Around 2022
Market comparable	Biosimilar to Avastin	Biosimilar to Prolia

As the Products are being developed by the Seller and the development expenses of the Products have not been capitalised, the Products carry no book value as at the date of the Asset Transfer Agreements.

Closing

Completion of the Asset Transfer is scheduled to take place within 5 days from the date of the Asset Transfer Agreements, whereupon the Seller shall pass all title deeds and other documents related to the Products to Shandong Luye and make the necessary filings to register Shandong Luye as the owner of the Products.

Consideration

The total consideration for the Asset Transfer is RMB450 million (RMB250 million for LY01008 and RMB200 million for LY06006) and is payable by stages according to the following timetable:

Time	% of the consideration
Within 5 days following the signing of the respective Asset Transfer Agreement.....	20%
Within 5 days following the completion of phase III clinical trials of the respective Product according to the requirements of the CDE and the results of such clinical trials being successful.....	50%
Within 5 days following the submission to the CDE of the application for the marketing authorisation of the respective Product.....	20%
Within 5 days following the CDE's grant of the marketing authorisation of the respective Product.....	10%

The Seller is responsible for all three phases of the clinical trials of the Products, and Shandong Luye will not be responsible for the costs related to the undertaking of such clinical trials. Other than the initial payment of 20% of the consideration, the payment of the consideration for each Product is contingent upon the success of all three phases of the clinical trials for the Products. If the clinical trials were not successful, Shandong Luye shall not be liable to make any further payment of consideration, and shall have the right to demand the Seller to refund all consideration already paid.

If the Products eventually obtain the marketing authorisation and commences sale, Shandong Luye has agreed to pay royalties representing 10% of the revenue generated from the sale of such Products to the Seller. Should these royalty payments constitute continuing connected transactions under the Listing Rules when they arise, the Company will comply with all applicable requirements under the Listing Rules in respect of such royalty payments.

The consideration of the Asset Transfer was determined after arm's length negotiations between Shandong Luye and the Seller taking into account various factors, including but not limited to the status of the development of the Products, their market potential, the competitive landscape for acquiring potential biological and antibody drug candidates in the PRC market and the contingent payment arrangements. The Board intends to fund the payment of the consideration from its internal resources and/or external financing.

INFORMATION ON THE GROUP AND THE SELLER

The Group

The Group is a pharmaceutical company based in the PRC which focuses on the development, production, marketing and sale of innovative products in four of the largest and fastest growing therapeutic areas — oncology, cardiovascular system, metabolism and CNS.

The Seller

The Seller is a biotechnology company established in 2013. It focuses on the development of biopharmaceutical products, and operates a 1,200 sq.m. GMP-compliant pilot plant.

REASONS FOR AND BENEFIT OF THE ASSET TRANSFER

The Products are two monoclonal antibody drugs developed by the Seller. Monoclonal antibodies are a type of biopharmaceutical developed using genetic engineering technologies, and cause limited side effects when applied clinically because of their structural specificity. Hence, the application of monoclonal antibodies has become increasingly prevalent in the treatment of diseases such as malignant tumours.

The global pharmaceutical industry has witnessed significant growth in the sales of biopharmaceuticals in recent decades, and this trend is expected to continue in the future. In 2016, the size of the global biopharmaceutical market has reached US\$238 billion, with a share of 23.6% of the global prescription drugs market and an annual growth rate of 11.7%. The IMS predicts that by 2020, the size of the global biopharmaceutical market will exceed US\$390 billion, representing a 28% share in the prescription drugs market. In China, the market size of the biopharmaceutical market in 2015 reached RMB297.883 billion. According to public financial reports, Avastin (which is a market comparable of LY01008) achieved sales of 6,780 million Swiss francs globally, while its sales in China were RMB640 million in 2016. Sales of Prolia (which is a market comparable to LY06006) amounted to US\$1,635 million in 2016 and the product has not been launched in China yet. The Board believes that the inclusion of the Products in the Group's product portfolio represents an excellent growth opportunity.

In recent years, a number of Chinese pharmaceutical companies have commenced significant investment in biological products through their own research and development efforts or through forming joint ventures with and acquisitions of products from other biotech companies. In order to remain competitive and maintain a long-term sustainable growth, the Board believes that it is important for the Group to develop its own biological antibodies.

The Directors (including the independent non-executive Directors) considered that the terms of the Asset Transfer Agreements are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group; and the Asset Transfer is in the interests of the Company and the Shareholders as a whole. As Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each through various holding companies, are indirectly interested in Luye Investment (and hence the Seller), each of Mr. Liu, Mr. Yang and Mr. Yuan had abstained from voting on the board resolution approving the Asset Transfer Agreements.

LISTING RULES IMPLICATIONS

The Seller is an indirect subsidiary of, and owned as to 66.7% indirectly by, Luye Investment, a controlling shareholder of the Company. Accordingly, the Seller is a connected person of the Company and the Asset Transfer under the Asset Transfer Agreements constitutes a connected transaction of the Company under the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Asset Transfer Agreements exceeds 0.1% but all applicable percentage ratios are less than 5%, the transactions contemplated under the Asset Transfer Agreements are subject to reporting and announcements and are exempt from the circular and shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Asset Transfer”	the acquisition of the Products by Shandong Luye from the Seller pursuant to the terms of the Asset Transfer Agreements
“Asset Transfer Agreements”	the two asset transfer agreements dated 4 August 2017 in respect of the acquisition of the Products by Shandong Luye from the Seller
“Board”	the board of Directors
“CDE”	中國國家食品藥品監督管理總局藥品審評中心 (The Centre For Drug Evaluation of the PRC Food and Drug Administration)
“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
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luye Investment”	Luye Pharmaceutical Investment Co. Ltd., an exempt company with limited liability incorporated in the Cayman Islands, and a controlling shareholder of the Company
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Products”	LY01008 and LY06006
“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.), a company with limited liability established in the PRC, and a connected person of the Company
“Shandong Luye”	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.), a company with limited liability established in the PRC, and a wholly-owned subsidiary of the Company
“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
“US\$”	US dollars, the lawful currency of the United States

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, 4 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian and Ms. ZHU Yuan Yuan; the non-executive director is Mr. SONG Rui Lin; 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.