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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)

PROPOSED ISSUE OF CONVERTIBLE BONDS

On 2 September 2022, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for, the Bonds in the principal amount of Hong Kong dollars equivalent of RMB300 million, subject to certain conditions set out in the Subscription Agreement.

The Bonds may be converted into Conversion Shares pursuant to the Terms and Conditions. Assuming full conversion of the Bonds at the initial Conversion Price of HK\$3.50 per Share and no further issue of Shares, the Bonds will be convertible into a maximum of 99,154,285 Shares, representing approximately 2.79% of the issued share capital of the Company as at the date of this announcement and approximately 2.72% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Bonds. The Conversion Shares to be issued upon conversion of the Bonds will rank *pari passu* and carry the same rights and privileges in all respects with the Shares then in issue on the relevant registration date.

The net proceeds from the Bonds (after deduction of related expenses), are estimated to be approximately HK\$341.63 million representing a net issue price of approximately HK\$3.45 per Conversion Share based on the initial Conversion Price.

The Conversion Shares will be allotted and issued under the General Mandate and the issue of the Conversion Shares is not subject to the approval of the Shareholders.

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Completion of the transactions under the Subscription Agreement is subject to the satisfaction and/or waiver of certain conditions precedent therein. Accordingly, the issue of the Bonds under the Subscription Agreement may or may not proceed to completion, and the Bonds and/or the Conversion Shares may or may not be issued, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

On 2 September 2022, the Company and the Subscriber entered into the Subscription Agreement whereby the Company has conditionally agreed to issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe and pay for, the Bonds for an aggregate principal amount of RMB300 million, subject to certain conditions set out in the Subscription Agreement.

SUBSCRIPTION AGREEMENT

Date: 2 September 2022

Parties: (1) the Company, as the issuer; and
(2) the Subscriber, as subscriber.

Subscription

The Company has conditionally agreed to issue to the Subscriber the Bonds on the Closing Date. The Subscriber is the holder of the July 2023 Bonds. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are third parties independent of the Company and is not a connected person of the Company.

Conditions Precedent to the Subscription

The obligation of the Subscriber to subscribe and pay for the Bonds are conditional on:

(a) the execution and delivery by the Company not later than the Closing Date of the Subscription Agreement; and

(b) at the Closing Date:

- (i) the representations and warranties of the Company in the Subscription Agreement being true, accurate and correct in all material respects at, and as if made on such date; and
- (ii) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before such date.

The Subscriber may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of the conditions set out above.

The obligations of the Company to issue the Bonds are conditional on:

- (a) the Stock Exchange having granted the approval for the listing of the Conversion Shares and such approval not having been subsequently withdrawn; and

(b) at the Closing Date:

- (i) the representations and warranties of the Subscriber in the Subscription Agreement being true, accurate and correct in all material respects at, and as if made on such date; and
- (ii) the Subscriber having performed all of its obligations under the Subscription Agreement to be performed on or before such date.

The Company may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of condition (b) set out above. Condition (a) cannot be waived.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds are summarised as follows:

Issuer:	The Company
Principal amount of the Bonds:	Hong Kong dollars equivalent of RMB300 million (to be translated at the Agreed Exchange Rate)
Fee payable to the Subscriber:	Subject to the issue of the Bonds, the Company will pay the Subscriber a fee representing 1.50% of the principal amount of the Bonds subscribed
Closing Date:	The date on which the Bonds are issued, which is tentatively scheduled for the second business day following the grant by the Stock Exchange the approval for the listing of the Conversion Shares, or such other date (not to be later than 23 September 2022) as the Company and the Subscriber may agree (the “ Closing Date ”)

Payment Date: The Subscriber shall pay the full subscription amount for the Bonds on a date to be agreed between the Company and the Subscriber, which shall not be later than the Closing Date.

Maturity Date: 24 July 2023 (the “**Maturity Date**”)

Issue Price: 100.00% of the principal amount of the Bonds

Interest Rate: 6.50%

Status: The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

Conversion Right: Subject to and upon compliance with the Terms and Conditions, the conversion right in respect of the Bonds may be exercised, at the option of the Subscriber, at any time from two days after the Closing Date up to the close of business on the date falling five days prior to the Maturity Date (both days inclusive).

The number of Conversion Shares shall be determined by dividing the principal amount of the Bonds to be converted by the Conversion Price in effect on the relevant conversion date.

Conversion Price:

The initial Conversion Price is HK\$3.50 per Share.

The Conversion Price will be subject to adjustment for, among other things, consolidation, reclassification or subdivision of Shares, capitalisation of profits or reserves, distributions, rights issue of Shares or options over Shares at less than 95% of the Current Market Price, rights issues of other securities, issues of Shares or other options over Shares at less than 95% of the Current Market Price, other issue of securities which carry the rights of conversion into, or exchange or subscription for, Shares at less than 95% of the Current Market Price, modification of rights of conversion at less than 95% of the Current Market Price and the exercise of the right of the Company to adjust the Conversion Price under circumstances which are not already specified in the Terms and Conditions.

The Conversion Price shall not in any event be reduced to below the nominal value of the Shares as a result of any adjustment under the Terms and Conditions.

“**Current Market Price**” in respect of a Share on a particular date, means, subject to certain adjustments, the average of the closing prices of a Share for the 20 consecutive trading days ending on and including (i) the trading day immediately preceding such date, or (ii) if the relevant announcement was made after the close of trading on such date (being a trading day), such date of announcement.

Ranking of Conversion Shares:

The Conversion Shares will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant registration date.

Redemption at Maturity:

Unless previously converted and cancelled, the Company will redeem the Bonds at 100% of their principal amount together with accrued but unpaid interest thereon on the Maturity Date.

CONVERSION PRICE AND CONVERSION SHARES

The initial Conversion Price is HK\$3.50 per Conversion Share, which represents:

- (a) a premium of approximately 54.2% over the closing price of HK\$2.27 per Share as quoted on the Stock Exchange on 1 September 2022 (being the last trading day before the Subscription Agreement was entered into); and
- (b) a premium of approximately 53.6% over HK\$2.278, being the average of the closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 1 September 2022.

The Conversion Price was determined with reference to (i) the prevailing market price of the Shares, (ii) the conversion price of the July 2023 Bonds and (iii) the Terms and Conditions, and was negotiated on an arm's length basis between the Company and the Subscriber. The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

The Bonds may be converted into Conversion Shares pursuant to the Terms and Conditions.

- (i) Assuming full conversion of the Bonds at the initial Conversion Price of HK\$3.50 per Share and no further Shares are issued, the Bonds will be convertible into 99,154,285 Shares, representing (A) approximately 2.79% of the issued share capital of the Company as at the date of this announcement; and (B) approximately 2.72% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Bonds.
- (ii) Assuming (a) full conversion of the Bonds at the initial Conversion Price of HK\$3.50 per Share, (b) full conversion of the July 2023 Bonds at the initial conversion price of HK\$3.50 per Share and (c) no further Shares are issued, the Bonds and the July 2023 Bonds together will be convertible into 495,771,427 Shares, representing (A) approximately 13.97% of the issued share capital of the Company as at the date of this announcement; and (B) approximately 12.26% of the issued share capital of the Company as enlarged by the issue of the conversion shares upon full conversion of the Bonds and July 2023 Bonds.

EFFECT ON SHAREHOLDING STRUCTURE

The following table summarises the potential effects on the shareholding structure of the Company as a result of the issue of the July 2023 Bonds and the Bonds (by reference to the information on shareholdings available to the Company as at the date of this announcement and assuming full conversion of the July 2023 Bonds and the Bonds (as the case may be) and no further issue of Shares):

	Shares held as at the date of this announcement		Assuming full conversion of the July 2023 Bonds at the initial conversion price of HK\$3.50		Assuming full conversion of the July 2023 Bonds and the Bonds at the initial conversion price of HK\$3.50	
	<i>Approximate % of issued share capital of the Company</i>		<i>Approximate % of issued share capital of the Company</i>		<i>Approximate % of issued share capital of the Company</i>	
	<i>Number of Shares</i>	<i>capital of the Company</i>	<i>Number of Shares</i>	<i>capital of the Company</i>	<i>Number of Shares</i>	<i>capital of the Company</i>
The Controlling Shareholder	1,257,196,703	35.42	1,257,196,703	31.86	1,257,196,703	31.08
Hillhouse NEV Holdings Limited	552,324,108	15.56	552,324,108	14.00	552,324,108	13.65
Other Shareholders	1,740,149,832	49.02	1,740,149,832	44.10	1,740,149,832	43.02
The Subscriber	—	—	<u>396,617,142</u>	<u>10.05</u>	<u>495,771,427</u>	<u>12.26</u>
Total	<u>3,549,670,643</u>	<u>100.00</u>	<u>3,946,287,785</u>	<u>100.00</u>	<u>4,045,442,070</u>	<u>100.00</u>

USE OF PROCEEDS

The net proceeds from the Bonds (after deduction of related expenses) are estimated to be approximately HK\$341.63 million representing a net issue price of approximately HK\$3.45 per Conversion Share based on the initial Conversion Price.

The Group intends to use the net proceeds from the issue of the Bonds to fund the Group's capital expenditure and in particular to update the Group's facilities in Sichuan, Nanjing and Yantai and to purchase equipment for such facilities. The Group expects that approximately 43.3%, 40.0% and 16.7% of the net proceeds from the Bonds will be used for the Group's facilities in Sichuan, Yantai and Nanjing, respectively, and that such capital expenditure will be completed by the end of 2024.

REASONS FOR AND BENEFITS OF THE ISSUE OF THE BONDS

The Board considers that the issue of the Bonds will provide the Company with additional funding at reasonable cost to finance its ongoing business development.

GENERAL MANDATE

The Conversion Shares will be allotted and issued under the General Mandate granted to the Directors at the annual general meeting of the Company held on 20 June 2022. The following sets out the number of Shares that may fall to be allotted and issued under the General Mandate and the use of the General Mandate up to the date of this announcement:

	Number of Shares	Approximate % of the General Mandate
Number of new Shares that may fall to be allotted and issued under the General Mandate	709,934,128	100%
Number of Shares to be issued upon full conversion of the July 2023 Bonds based on the initial conversion price of HK\$3.50	396,617,142	55.87%
Number of Conversion Shares to be issued upon full conversion of the Bonds based on the initial Conversion Price	99,154,285	13.97%
Balance of the General Mandate available	214,162,701	30.17%

Based on the above, the Board considers that the General Mandate will be sufficient for, and no further Shareholders' approval is required for, the allotment and issue of the Conversion Shares.

EQUITY FUND-RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS

On 27 May 2022, the Company issued a total of 8,298,419 Shares upon the conversion of certain 2024 Convertible Bonds. On 16 August 2022, the Company issued the July 2023 Bonds and raised gross proceeds of RMB1,200 million. Please refer to the announcements of the Company dated 28 July 2022 and 16 August 2022 for further information on the July 2023 Bonds. As at the date of this announcement, the Company has applied approximately RMB110 million of the proceeds from the issue of the July 2023 Bonds for repayment of loans.

The Company intends to utilise the balance of the proceeds from the issue of the July 2023 Bonds in accordance with the proposed use as described in the announcement of the Company dated 16 August 2022. The balance of the proceeds is deposited with licensed banks in accounts held by the Group.

Save as disclosed above, the Company has not raised any fund by issuing equity securities during the 12 months immediately before the date of this announcement.

INFORMATION OF THE GROUP

The Group is an international pharmaceutical group dedicated to the research and development (R&D), manufacturing and sale of innovative medications. The Group has established R&D centres in the PRC, the United States and Europe, with a robust pipeline of over 30 drug candidates in the PRC and more than ten drug candidates in other international markets. Along with a number of new drugs and new formulations in the central nervous system and oncology therapeutic areas under study in the United States, Europe and Japan, the Group has reached high-level international standards in novel drug delivery technologies including microspheres, liposomes, and transdermal drug delivery systems, as well as actively making strategic developments in the fields of biological antibodies, cell therapies and gene therapies, among others. The Group is developing a global supply chain of eight manufacturing sites with over 30 production lines in total, establishing GMP quality management and international standard control systems. With more than 30 products covering the central nervous system, oncology, cardiovascular, metabolism and other therapeutic areas, business of the Group is conducted in over 80 countries and regions around the world, including the largest pharmaceutical markets — the PRC, the United States, Europe and Japan, as well as in fast growing emerging markets.

INFORMATION OF THE SUBSCRIBER

The Subscriber is a company incorporated in Hong Kong with limited liability and is wholly-owned by 石家莊新葉生物醫藥產業投資基金(有限合夥) (Shijiazhuang Xinye Biomedical Industry Investment Fund (Limited Partnership)) (“**SJZ Xinye Fund**”), a limited partnership established in accordance with the laws of the PRC. The Subscriber is principally engaged in investment holding. The management and control of SJZ Xinye Fund is vested in its general partner, 黃河三角洲投資管理有限公司 (Yellow River Delta Investment Management Co., Ltd.). The limited partner of SJZ Xinye Fund is 石家莊國有資本投資運營集團有限責任公司 (Shijiazhuang State-Owned Capital Investment Operation Group Limited Liability Company), which is a company incorporated in the PRC with limited liability and is principally engaged in the management of state-owned assets and investments. It is ultimately wholly-owned by 石家莊市人民政府國有資產監督管理委員會 (The State-owned Assets Supervision and Administration Commission of the Municipal People’s Government of Shijiazhuang).

黃河三角洲投資管理有限公司 (Yellow River Delta Investment Management Co., Ltd.) is a company established in the PRC with limited liability and is principally engaged in equity investment. It is ultimately owned as to 98.9% by Ms. Yufen Yang.

The Subscriber is the holder of the July 2023 Bonds.

APPLICATION FOR LISTING

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Completion of the transactions under the Subscription Agreement is subject to the satisfaction and/or waiver of certain conditions precedent therein. Accordingly, the issue of the Bonds under the Subscription Agreement may or may not proceed to completion, and the Bonds and/or the Conversion Shares may or may not be issued, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Agreed Exchange Rate”	the exchange rate RMB1.00 to HK\$1.1568, being the agreed exchange rate used for the July 2023 Bonds
“Board”	the board of Directors
“Bonds”	the convertible bonds in the principal amount of Hong Kong dollars equivalent of RMB300 million at the Agreed Exchange Rate to be issued by the Company pursuant to the Subscription Agreement
“Closing Date”	the date on which the Bonds are issued, which is tentatively scheduled to be the second business day following the grant by the Stock Exchange the approval for the listing of the Conversion Shares, or such other date (such date not later than 23 September 2022) as the Company and the Subscriber may agree
“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 person”	has the meaning given to it in the Listing Rules
“Controlling Shareholder”	LuYe Pharmaceutical Investment Co., Ltd., a controlling shareholder of the Company holding approximately 35.42% of the issued share capital of the Company as at the date of this announcement
“Conversion Price”	the price per Conversion Share (subject to adjustments) at which the Bonds may be converted into the Shares
“Conversion Shares”	the Shares to be issued by the Company upon conversion of the Bonds pursuant to the Terms and Conditions
“Directors”	the directors of the Company

“General Mandate”	the general mandate to allot and issue Shares granted to the Directors by a resolution of the Shareholders passed at the annual general meeting held on 20 June 2022
“Group”	the Company and its subsidiaries
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“July 2023 Bonds”	the 6.5% Hong Kong dollars equivalent of RMB1,200 million convertible bonds issued by the Company on 16 August 2022
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of 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
“Subscriber”	新葉生物醫藥控股有限公司 (New Leaf Biotech Holding Limited), an independent third party, being the subscriber of the Bonds
“Subscription Agreement”	the agreement dated 2 September 2022 entered into between the Company and the Subscriber in relation to the subscription of the Bonds
“Terms and Conditions”	the terms and conditions of the Bonds

In the event of any inconsistencies between the Chinese and the English version, the latter shall prevail.

The English names of Chinese entities included in this announcement are unofficial translations of their Chinese names and are included for identification purposes only.

This announcement contains certain translations at the Agreed Exchange Rate of RMB1.00 to HK\$1.1568. These translations are provided for reference only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB or HK dollars can be or could have been converted at the above rate or any other rates or at all.

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

Hong Kong, 2 September 2022

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 Directors of the Company are Mr. SONG Rui Lin and Mr. SUN Xin; and the independent non-executive Directors of the Company are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.