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WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

DISCLOSEABLE AND EXEMPTED CONNECTED TRANSACTION IN RELATION TO THE CAPITAL REDUCTION OF THE TARGET COMPANY

THE CAPITAL REDUCTION

On 21 February 2019 (after trading hours of the Stock Exchange), the HK Company, the PRC Minority Shareholder and the Target Company entered into the Capital Reduction Agreement in relation to the reduction of the registered capital of the Target Company by RMB20 million, representing approximately 21.86% of existing registered capital of the Target Company, of which RMB715,000 will be reduced from the registered capital owned by the HK Company and RMB19,285,000 will be reduced from the registered capital owned by the PRC Minority Shareholder.

As at the date of this announcement, the Target Company is an indirect non wholly-owned subsidiary of the Company and is held as to approximately 78.14% by the HK Company and approximately 21.86% by the PRC Minority Shareholder. Upon Completion, the registered capital of the Target Company will be reduced from RMB91.5 million to RMB71.5 million, which will be owned as to 99% by the HK Company and 1% by the PRC Minority Shareholder respectively. The Target Company will remain as a subsidiary of the Company and the PRC Minority Shareholder will cease to be a substantial shareholder of the Target Company upon Completion. The financial results of the Target Group will continue to be consolidated in the consolidated financial statements of the Group following the Completion.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Capital Reduction exceed 5% but below 25%, the Capital Reduction constitutes a discloseable transaction on the part of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the PRC Minority Shareholder is a substantial shareholder of the Target Company and thus a connected person to the Company at the subsidiary level. As such, the Capital Reduction Agreement and the transaction contemplated thereunder constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, as (i) the PRC Minority Shareholder is a connected person of the Company at the subsidiary level; and (ii) the Board, including the independent non-executive Directors, has confirmed that the terms of the Capital Reduction are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Capital Reduction is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 21 February 2019 (after trading hours of the Stock Exchange), the HK Company, the PRC Minority Shareholder and the Target Company entered into the Capital Reduction Agreement in relation to the reduction of the registered capital of the Target Company by RMB20 million, representing approximately 21.86% of existing registered capital of the Target Company.

THE CAPITAL REDUCTION AGREEMENT

Set out below are the principal terms of the Capital Reduction Agreement:

Date

21 February 2019

Parties

- (1) the Target Company;
- (2) the HK Company; and
- (3) the PRC Minority Shareholder

Subject matters

Pursuant to the Capital Reduction Agreement, the Target Company, the HK Company and the PRC Minority Shareholder have agreed to reduce the registered capital of the Target Company by RMB20 million, representing approximately 21.86% of existing registered capital of the Target Company, of which RMB715,000 will be reduced from the registered capital owned by the HK Company and RMB19,285,000 will be reduced from the registered capital owned by the PRC Minority Shareholder.

Distribution and payment

Pursuant to the Capital Reduction Agreement, the Target Group shall distribute approximately RMB17.7 million (equivalent to approximately HK\$20.5 million) to its shareholders, which is determined based on arm's length negotiation between parties with reference to (i) the business plan and future development of the Target Group; (ii) 21.86% of the total net asset value of the Target Group as at 31 December 2018 of approximately RMB85.2 million (equivalent to approximately HK\$98.8 million) (being the total net asset value of the Target Group as at 31 December 2018 of approximately RMB177.4 million (equivalent to approximately HK\$205.8 million) less the retained profits of approximately RMB92.2 million (equivalent to approximately HK\$107.0 million) prior to the Capital Injection in 2015); and (iii) a discount of 5% to the net assets value of the Target Group as at 31 December 2018, such discount is agreed among the parties to the Capital Reduction Agreement as an incentive for the Target Company to pursue for the Capital Reduction. Hence, the Target Group shall distribute approximately RMB632,000 (equivalent to approximately HK\$733,000) and approximately RMB17.1 million (equivalent to approximately HK\$19.8 million) to the HK Company and the PRC Minority respectively as a result of the Capital Reduction.

The Target Company shall effect the distribution and pay to the HK Company and the PRC Minority Shareholder within ten business days after the completion of filing of industrial and commercial registration at the relevant authorities in the PRC and the expiry of the Announcement Period. The Target Group will use internal resources to pay the distribution.

The HK Company will use the distribution proceeds as general working capital.

Conditions precedent

Completion is subject to the fulfillment of the following conditions:

- (i) the notification to creditors of the Target Company within ten days from the date of passing the board resolution of the Target Company by the Target Company in relation to the Capital Reduction (the "**Resolution**") and the publication of an announcement in relation to the Capital Reduction in the newspapers (the "**Newspapers Announcement**") within 30 days from the date of passing the Resolution; and

- (ii) either (a) there being no application for repayment of debts or provision of guarantees to the corresponding debts by creditors to the Target Company within 45 days from the date of the publication of the Newspapers Announcement (the “**Announcement Period**”); or (b) if there is any such application, the Target Company having discharged the relevant liabilities or having reached to a consensus in relation to the settlement of debts with its creditors within ten days after the Announcement Period.

Completion

Upon fulfilment of all the above conditions, the Completion shall take place on the Completion Date.

INFORMATION OF THE TARGET GROUP

Background information

The Target Company is a company established in the PRC. The Target Group which is principally engaged in the pharmaceutical wholesale and distribution business (the “**Wholesale Business**”) and the hemodialysis treatment and consultancy service business (the “**Hemodialysis Business**”) in the PRC. As at the date of this announcement, approximately 78.14% equity interest in the Target Company is owned by the HK Company and the remaining approximately 21.86% equity interest in the Target Company is owned by the PRC Minority Shareholder.

Set out below is a summary of the unaudited consolidated financial information of the Target Group for the two years ended 31 March 2018.

	For the year ended 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	723,760	345,883
Profit before tax	410	5,302
(Loss)/profit after tax	(1,578)	366

The unaudited net asset value of the Target Group as at 31 December 2018 was approximately RMB177.4 million (equivalent to approximately HK\$205.8 million).

FINANCIAL EFFECT OF THE CAPITAL REDUCTION

Upon Completion, the registered capital of the Target Company will be reduced from RMB91.5 million to RMB71.5 million, which will be owned as to 99% by the HK Company and 1% by the PRC Minority Shareholder respectively. The Target Company will remain as a subsidiary of the Company and the PRC Minority Shareholder will cease to be a substantial shareholder of the Target Company upon Completion. The financial results of the Target Group will continue to be consolidated in the consolidated financial statements of the Group following the Completion.

REASONS FOR AND BENEFITS OF THE CAPITAL REDUCTION

The Target Group is principally engaged in the Wholesale Business and the Hemodialysis Business. As mentioned in the Company's annual report for the year ended 31 March 2018 and interim report for the six months ended 30 September 2018, the medical reform policy implemented in 2017 in the PRC controlled the pharmaceutical costs in public hospitals in Fujian Province and had reduced the overall size of the pharmaceutical distribution business in public hospitals. In accordance with the medical reform policy, the relevant authority of Fujian Province opened the market of distributing pharmaceutical products to hospitals which enhanced competition, and required that each drug manufacturer can only entrust one drug wholesale enterprise to distribute all its tender-winning drugs, thereby causing adverse impact on the operation and performance of the Target Group in the Wholesale Business. Since the business environment changed as a result of government policy, the Group considered that the situation will not have a turnaround in the near future. The Group therefore decided to allocate more resources in developing the Hemodialysis Business which the Group considers to be more promising while the PRC Minority Shareholder does not share the same view and decides not to pursue this business.

The PRC Minority Shareholder considered that the development of the Hemodialysis Business by the Target Group no longer matches with its original investment objective and requested withdrawal of investment by way of capital reduction. In light of less working capital is required by the Target Group as a result of completion of disposal of its pharmaceutical retail chain business as disclosed in the Company's announcement dated 15 November 2018, the Board considered that the Capital Reduction will not cause material effect on the Group's existing operations.

Having considered that (i) the financial performance of the Wholesale Business has been stagnant and the prospect is uncertain; and (ii) the PRC Minority Shareholder decided to withdraw its interest in the Hemodialysis Business, the Directors including the independent non-executive Directors, are of the view that the terms of the Capital Reduction Agreement (including the amount to be distributed to the shareholders of the Target Company) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP, THE HK COMPANY, AND THE PRC MINORITY SHAREHOLDER

The Group

The Company is an investment holding company. The Group is principally engaged in pharmaceutical wholesale and distribution business and hemodialysis treatment and consultancy service business in the PRC.

The HK Company

The HK Company, being an indirect wholly-owned subsidiary of the Company, is an investment holding company.

The PRC Minority Shareholder

The PRC Minority Shareholder, being a company established in the PRC with limited liability, is principally engaged in (i) pharmaceutical research and development and technical consulting services; (ii) graphic design; (iii) business exhibition management; (iv) provision of business consultation, pharmaceutical consultation and corporate management consultation.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Capital Reduction exceed 5% but below 25%, the Capital Reduction constitutes a discloseable transaction on the part of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the PRC Minority Shareholder is a substantial shareholder of the Target Company and thus a connected person to the Company at the subsidiary level. As such, the Capital Reduction Agreement and the transaction contemplated thereunder will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, as (i) the PRC Minority Shareholder is a connected person of the Company at the subsidiary level; and (ii) the Board, including the independent non-executive Directors, has confirmed that the terms of the Capital Reduction are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, the Capital Reduction is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As none of the Directors is regarded as having a material interest in the Capital Reduction, none of the Directors is required to abstain from voting on the Resolution approving the Capital Reduction and the transactions contemplated thereunder.

Shareholders and potential investors of the Company should note that the Completion is subject to the fulfilment of the conditions precedent set out in the Capital Reduction Agreement and therefore may or may not occur. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares and other securities of the Company.

DEFINITIONS

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

“Board”	the board of Directors
“Capital Injection”	the capital injection of RMB26,938,500 to the Target Group, among which RMB20 million was applied to the registered capital and approximately RMB6.9 million was applied to capital reserve of the Target Group in 2015
“Capital Reduction”	the reduction of registered capital of the Target Company by RMB20 million, of which RMB715,000 will be reduced from registered capital owned by the HK Company and RMB19,285,000 will be reduced from registered capital owned by the PRC Minority Shareholder
“Capital Reduction Agreement”	the agreement dated 21 February 2019 and entered into among the Target Company, the HK Company and the PRC Minority Shareholder in relation to the Capital Reduction
“Company”	Wanjia Group Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 401)
“Completion”	the completion of the Capital Reduction in accordance with the terms and conditions of the Capital Reduction Agreement
“Completion Date”	a date falling within ten business days after the fulfillment of the conditions set out in the Capital Reduction Agreement and completion of filing of industrial and commercial registration at the relevant authorities in the PRC
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK Company”	Hui Hao (HK) Group Limited (惠好(香港)醫藥集團有限公司), a company incorporated in Hong Kong with limited liability, being an indirect wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Minority Shareholder”	Fuzhou Ren An Medical Technology Limited# (福州仁安醫藥科技有限公司), a company established in the PRC with limited liability, which owns approximately 21.86% of the registered capital of the Target Company as at the date of this announcement
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules

“Target Company”	Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd.# (福建省福州市惠好藥業有限公司), a company established in the PRC with limited liability, being an indirect non-wholly-owned subsidiary of the Company, of which approximately 78.14% of the registered capital is indirectly owned by the HK Company and approximately 21.86% of the registered capital is owned by the PRC Minority Shareholder as at the date of this announcement
“Target Group”	the Target Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.

For the purpose of this announcement, unless the context otherwise requires or expressly specified, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1.00 to HK\$1.16. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi has been, could have been or may be converted at such or any other rate or at all.

By order of the Board
Wanjia Group Holdings Limited
Wang Jia Jun
Executive Director

Hong Kong, 21 February 2019

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Chen Jinshan and Mr. Wang Jia Jun, and three independent non-executive Directors, namely Mr. Wong Hon Kit, Dr. Liu Yongping and Mr. Ho Man.