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廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock Code: 0874)

CONTINUING CONNECTED TRANSACTIONS

In light of the forthcoming expiry of the Existing CCT Agreement on 31 December 2019, the Group entered into the New CCT Agreement with Huacheng on 28 October 2019 for a term of two years from 1 January 2020 to 31 December 2021.

As at the Announcement Date, Huacheng is a connected person of the Company. Accordingly, the New CCT Agreement and the transactions contemplated thereunder constitute the continuing connected transactions of the Company under the Hong Kong Listing Rules.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the New CCT Agreement are conducted on normal commercial terms, in the ordinary and usual course of business of the Group and the terms of the New CCT Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As all the applicable percentage ratios (except for the profits ratio) calculated in respect of the annual caps of the transactions contemplated under the New CCT Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the New CCT Agreement are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, but are subject to, among other things, the notification and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

BACKGROUND

In the announcement of the Company dated 18 April 2018, the Company announced that the Company and Huacheng entered into the Existing CCT Agreement which constituted the continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Since the Existing CCT Agreement will expire on 31 December 2019 and it is expected that the Group will continue to purchase the Huacheng Products from, sell the Materials to, provide labour services (advertising agency and research and development services) and entrusted processing services to,

Huacheng from time to time in the ordinary course of business of the Group and Huacheng, the Company entered into the New CCT Agreement with Huacheng for a term of two years from 1 January 2020 to 31 December 2021.

PRINCIPAL TERMS OF THE NEW CCT AGREEMENT AND RELEVANT INFORMATION

1. Parties

- (i) The Company; and
- (ii) Huacheng.

2. Term

From 1 January 2020 to 31 December 2021.

3. Basis of pricing

The prices for the transactions contemplated under the New CCT Agreement shall be determined with reference to the prevailing market prices of similar products or services at the time when the Company's subsidiaries or Huacheng place the purchase orders or entering into the specific labour service contracts or processing service contracts and will be on normal commercial terms or terms no less favourable to the Group than those available to or from Independent Third Parties at the material time.

The prevailing market prices of similar products or services at the time when the Company's subsidiaries or Huacheng place the purchase orders or enter into the specific labour service contracts or processing service contracts shall be determined at the prices of similar products or services supplied or provided on arm's length basis by the Group to or from Independent Third Parties on normal commercial terms and in the ordinary course of business of the Group.

In addition to the above basis of pricing stipulated in the New CCT Agreement, the Group will consider the following principles ("**Pricing Principles**") in order of priority before determining whether to enter into the actual transactions under the New CCT Agreement:

- (a) the final confirmed prices through the bidding and tendering process conducted in accordance with the applicable rules and regulations (if any) ("**Regulatory Bidding Prices**");
- (b) the final confirmed prices through the bidding and tendering process conducted by the Group at which at least three independent bidders will be invited ("**Corporate Bidding Prices**") if the Regulatory Bidding Prices are not available or applicable;

- (c) the market prices which are offered to or by the Independent Third Parties in the ordinary and usual course of business if none of the Regulatory Bidding Prices and the Corporate Bidding Prices are available or applicable; and
- (d) the agreed prices based on the actual or reasonable cost incurred thereof (and, in the case of the sale of products or services by the Group to Huacheng, plus a reasonable profit margin), which is determined by reference to the nature of products and/or services, historical price, current market price of the similar products and/or services and changes in the market price of such products and/or services in the remaining term if none of the prices set out in (a) to (c) above are available or applicable.

The Pricing Principles basically apply to both the sale of goods or services to Huacheng and the purchase of goods from Huacheng under the New CCT Agreement. However, the Company would like to draw the attention of the shareholders of the Company that:

- (i) based on the rules and regulations applicable as at the Announcement Date (such as The Opinion of Establishment and Implementation of National Essential Medicine System* (《關於建立國家基本藥物制度的實施意見》), The Administrative Measures for the National Essential Medicines List* (《國家基本藥物目錄管理辦法》), The National Essential Medicines List* (《國家基本藥物目錄》) and The Administrative Measures for Supervision and Administration of the Centralised Procurement for Pharmaceutical Products* (《藥品集中採購監督管理辦法》)), the bidding and tendering process referred to in the Pricing Principle set out in (a) above will be conducted by the relevant provinces and Pricing Principle (a) is applicable to the purchase of the Huacheng Products from Huacheng in practice but not the other transactions contemplated under the New CCT Agreement; and
- (ii) in the case of sale of goods and/or services to Huacheng, a reasonable profit margin will be added on top of the Corporate Bidding Prices as the final prices.

Since the Group is under no obligation to enter into any actual transaction under the New CCT Agreement unless it is satisfied with the terms of the relevant proposed transactions after considering the Pricing Principles, the Directors believe that such mechanism and procedures can ensure that the transactions contemplated by the New CCT Agreement will be conducted on normal commercial terms (including the prices) and not prejudicial to the interests of the Company and the minority shareholders of the Company.

4. Annual caps

The annual caps under the New CCT Agreement for the two years ending 31 December 2020 and 2021 are set out below:

Type of transaction	Annual cap for the year ending 31 December 2020 (RMB0'000)	Annual cap for the year ending 31 December 2021 (RMB0'000)
Purchase of the Huacheng Products from Huacheng	1,600	1,800
Sale of the Materials to Huacheng	18,000	20,000
Provision of labour services to Huacheng	2,400	2,600
Provision of entrusted processing services to Huacheng	<u>3,600</u>	<u>4,000</u>
Total	<u>25,600</u>	<u>28,400</u>

The annual caps are determined with reference to the following factors:

- (i) the historical amounts of such transactions as disclosed in the section headed "HISTORICAL AMOUNTS" below;
- (ii) the financial performance of the Group in the last three financial years ended 31 December 2018 and the six months ended 30 June 2019, including the growth in the assets, revenue and profits of the Group during the said periods;
- (iii) GP Corp. had been included in the scope of consolidation for the Company since 31 May 2018. As GP Corp. had been purchasing the Huacheng Products prior to becoming a member of the Group, it is anticipated that the consolidation of GP Corp. into the Group will increase the purchase of the Huacheng Products by the Group;
- (iv) the further enhancement in the resources consolidation of the Group that has created additional capacity for the Group to provide services in advertising agency, services in research and development and services in entrusted processing services, which are the services to be provided to Huacheng under the New CCT Agreement; and
- (v) the expected demand of the Company's subsidiaries and Huacheng and its subsidiaries as indicated to the Company by Huacheng during the negotiation of the New CCT Agreement.

5. Payment terms

The Group and Huacheng will separately enter into specific purchase orders under the New CCT Agreement to specify, among other things, the mode and terms of payment, the type, specification and the amount of the goods.

HISTORICAL AMOUNTS

Set out below are the historical amounts of the transactions under the Existing CCT Agreement:

Type of transaction	For the year ended 31 December 2018 (RMB0'000)	For the nine months ended 30 September 2019 (RMB0'000)
Purchase of the Huacheng Products from Huacheng	431.00	692.77
Sale of the Materials to Huacheng	13,204.44	8,618.61
Provision of labour services to Huacheng	576.48	771.60
Provision of entrusted processing services to Huacheng	<u>162.64</u>	<u>1,596.29</u>
Total	<u>14,374.56</u>	<u>11,679.27</u>

The Directors confirm that the annual cap of RMB201,000,000 for 2018 had not been exceeded and the annual cap of RMB244,000,000 for 2019 has not been exceeded as at the Announcement Date.

INFORMATION ON THE GROUP AND HUACHENG

The Group is principally engaged in (i) research, development, manufacturing and sale of Chinese and western medicine, chemical active pharmaceutical ingredients (“API”), natural medicine, biological medicine and chemical API intermediates; (ii) wholesale, retail, import and export of western medicine, Chinese medicine and medical apparatus; (iii) research, production and sale of health products; and (iv) investment in the health industry such as in the sectors of medical treatment, health management and elderly care.

GPHL is a state-owned enterprise established in the PRC. It is a connected person of the Company by virtue of it being the controlling shareholder of the Company holding approximately 45.04% shareholding interest in the Company as at the Announcement Date.

Huacheng is a company established in the PRC whose principal business is the manufacture of pharmaceutical products and is wholly-owned by GPHL. Accordingly, Huacheng is a connected person of the Company.

REASONS FOR ENTERING INTO THE NEW CCT AGREEMENT

Since the Existing CCT Agreement will expire on 31 December 2019 and it is expected that the Group will continue to purchase the Huacheng Products from, sell the Materials to, provide labour services (advertising agency and research and development services) and entrusted processing services to, Huacheng from time to time in the ordinary course of business of the Group and Huacheng, the Company therefore entered into the New CCT Agreement with Huacheng. In respect of the continuing connected transactions constituted by the purchase of the Huacheng Products from Huacheng, the Huacheng Products are different from the pharmaceutical products produced by the Group. The Group will resell the Huacheng Products purchased through its retail network to increase its revenue. In respect of the continuing connected transactions constitute by the sale of the Materials, the provisions of labour services (being provision of advertising agency and research and development services to Huacheng) and entrusted processing services to Huacheng, the revenue of the Group can be increased. After taking into account the factors above, the Directors (including the independent non-executive Directors) consider that the transactions contemplated under the New CCT Agreement are of commercial benefit to the Company and the Group as a whole and entering into the New CCT Agreement can contribute to the growth of the Group's business.

The Directors (including the independent non-executive Directors) further consider that (i) the terms of the New CCT Agreement are fair and reasonable; (ii) the transactions contemplated under the New CCT Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group, or if there are no sufficient comparable transactions to determine whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) the Independent Third Parties; and (iii) the New CCT Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the New CCT Agreement. However, as Mr. Li Chuyuan, Ms. Cheng Ning and Ms. Liu Juyan are both directors and/or members of the senior management of GPL, they have abstained from voting on the Board resolution that approved the New CCT Agreement. Save as disclosed above, none of the Directors has a material interest in the New CCT Agreement and is required to abstain from voting on the Board resolution that considered and approved the New CCT Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the articles of association of the Company.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Huacheng is a connected person of the Company as disclosed above. Accordingly, the New CCT Agreement and the transactions contemplated thereunder constitute the continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the New CCT Agreement and the transactions contemplated thereunder are on normal commercial terms or better and all the applicable percentage ratios (except for the profits ratio) calculated in respect of the highest annual cap for the New CCT Agreement and the transactions contemplated

thereunder exceed 0.1% but are less than 5%, the transactions contemplated under the New CCT Agreement are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, but are subject to, among other things, the notification and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

DEFINITIONS

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

“Announcement Date”	the date of this announcement, being 28 October 2019
“Board”	the board of Directors
“Company”	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited* (廣州白雲山醫藥集團股份有限公司), a joint stock company with limited liability established in the PRC whose H shares and A shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“connected person”	has the meaning given to it under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning given to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Existing CCT Agreement”	the agreement entered into between the Company and Huacheng on 18 April 2018 in relation to the Group's purchase of the Huacheng Products from, sale of the Materials to, the provisions of labour services (advertising agency and research and development services) and entrusted processing services to, Huacheng
“GP Corp.”	Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司), a company established in the PRC and a non-wholly-owned subsidiary of the Company
“GPHL”	Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission in the PRC. It is the controlling shareholder of the Company holding approximately 45.04% of the issued shares of the Company as at the Announcement Date

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huacheng”	Guangzhou Huacheng Pharmaceutical Company Limited* (廣州花城藥業有限公司)
“Huacheng Products”	the pharmaceutical products produced by Huacheng
“Independent Third Party”	a third party who is independent of, and not connected with, the Company or any of its connected persons
“Materials”	the unpackaged pharmaceutical raw materials, medical apparatus, packaging materials and other materials
“New CCT Agreement”	the agreement entered into between the Company and Huacheng on 28 October 2019 in relation to the Group’s purchase of the Huacheng Products from, sale of the Materials to, the provisions of labour services (advertising agency and research and development services) and entrusted processing services to, Huacheng
“PRC”	the People’s Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the share(s) of the Company

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 28 October 2019

As at the Announcement Date, the Board comprises Mr. Li Chuyuan, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Li Hong, Mr. Wu Changhai and Mr. Zhang Chunbo as executive Directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive Directors.

* *For identification purpose only*