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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)

VARIATIONS TO PROFIT COMPENSATION AGREEMENT

VARIATIONS TO THE PROFIT COMPENSATION AGREEMENT

On 18 August 2021, the Company and GPLH (a connected person of the Company) entered into the Profit Compensation Supplemental Agreement whereby they conditionally agreed (i) to change the guaranteed period from the three financial years ending 31 December 2019, 2020 and 2021 respectively to the financial year ended 31 December 2019 and the two financial years ending 31 December 2021 and 2022 respectively; (ii) to change the guaranteed income for the financial year ending 31 December 2021 from RMB171.45 million to RMB162.65 million; and (iii) that the guaranteed income for the financial year ending 31 December 2022 shall be RMB171.45 million.

EGM AND CIRCULAR

An extraordinary general meeting of the Company will be held for the Shareholders to consider and, if thought fit, approve the Profit Compensation Supplemental Agreement. A circular will be despatched to the Shareholders in due course.

1. INTRODUCTION

- (a) In the 2018 Announcement, it was announced, among other things, that:
 - (i) the Company and GPLH entered into (A) the Trademarks Acquisition Agreement, pursuant to which GPLH conditionally agreed to sell, and the Company conditionally agreed to acquire, the Target Trademarks at the cash consideration of RMB1,389,122,631 (exclusive of value-added tax); and (B) the Profit Compensation Agreement in relation to the compensation from GPLH to the Company in case the Audited Incomes are lower than the amounts guaranteed by GPLH thereunder;

- (ii) under the Profit Compensation Agreement, the Company and GPLH agreed that compensation shall be paid by GPLH to the Company if 80% (being GPLH’s portion of previous contributions in advancing the reputation and value of the Operation Trademarks) of the aggregated licence fee incomes generated from the Operation Trademarks minus (i) custody fees, (ii) taxation; and (iii) other expenses (the “**Audited Incomes**”, which is to be audited by an accounting firm with securities qualifications engaged by the Company) is less than RMB486.97 million (the “**Guaranteed Incomes**” (*Note 1*)) during the three financial years ending 31 December 2021, if completion of the Trademarks Acquisition shall take place in 2019. If the Audited Incomes is lower than the Guaranteed Incomes, GPLH shall compensate the Company an amount (the “**Compensation Amount**”) calculated in accordance with the formula below:

Compensation Amount =

$$\frac{(Guaranteed\ Incomes - Audited\ Incomes)}{Guaranteed\ Incomes} \times RMB1,387,748,100 \text{ (Note 2)}$$

Notes:

1. *The Guaranteed Incomes is the aggregate of the guaranteed income for 2019 (RMB152,870,000), 2020 (RMB162,650,000) and 2021 (RMB171,450,000).*
2. *Being the appraised value of the Operation Trademarks as appraised by the Independent Valuer by adopting the income-based approach valuation method, exclusive of value-added tax.*

- (iii) the transactions contemplated under the Trademarks Acquisition Agreement and the Profit Compensation Agreement constituted (A) connected transactions of the Company which were subject to the reporting and announcement requirements but were exempt from the circular, independent financial advice and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules; and (B) discloseable transactions of the Company which were subject to the notification and announcement requirements under Chapter 14 of the Listing Rules but were not required to be approved by Shareholders;
- (b) the Trademarks Acquisition was completed on 30 April 2019 as disclosed in the announcement of the Company published on the same day; and
- (c) for the reasons disclosed in section 5 of this announcement, the Company agreed to vary the Profit Compensation Agreement, and the Profit Compensation Supplemental Agreement was entered into accordingly.

2. THE PROFIT COMPENSATION SUPPLEMENTAL AGREEMENT AND RELEVANT INFORMATION

Set out below is a summary of the principal terms of the Profit Compensation Supplemental Agreement and the relevant information:

(a) Date

18 August 2021 (after trading hours).

(b) Parties

The Company and GPLH.

(c) Variations to the terms of the Profit Compensation Agreement

The Company and GPLH conditionally agreed (i) to change the guaranteed period from the three financial years ending 31 December 2019, 2020 and 2021 respectively to the financial year ended 31 December 2019 and the two financial years ending 31 December 2021 and 2022 respectively; (ii) to change the guaranteed income for the financial year ending 31 December 2021 from RMB171.45 million to RMB162.65 million; and (iii) that the guaranteed income for the financial year ending 31 December 2022 shall be RMB171.45 million. The table below summarised the aforesaid changes:

	2019 <i>(RMB in million)</i>	2020 <i>(RMB in million)</i>	2021 <i>(RMB in million)</i>	2022 <i>(RMB in million)</i>
Guarantee Incomes under the Profit Compensation Agreement	152.87	162.65	171.45	N/A
Guarantee Incomes under the Profit Compensation Supplemental Agreement	152.87	N/A	162.65	171.45

Save and except for the variations disclosed above, all the terms of the Profit Compensation Agreement (including the amount of the Guarantee Incomes) remain the same as disclosed in the 2018 Announcement.

(d) Consideration

No consideration is payable by any party to the Profit Compensation Supplemental Agreement.

(e) Coming into effect of the Profit Compensation Supplemental Agreement

The Profit Compensation Supplemental Agreement was constituted upon the signing by the parties thereto but shall only come into effect on the day on which it has been considered and approved at a meeting of the Shareholders where GPLH and its connected persons shall abstain from voting on the resolution to approve the Profit Compensation Supplemental Agreement.

As disclosed in section 7 of this announcement, the approval of the Profit Compensation Supplemental Agreement by the Shareholders will be sought at the EGM.

3. GUARANTEED INCOMES AND AUDITED INCOMES IN 2019 AND 2020

Set out below is the information on the Guaranteed Incomes and the Audited Incomes for the two financial years ended 31 December 2019 and 31 December 2020 respectively:

Year	Guaranteed Income (RMB in million)	Audited Income (RMB in million)	Amount of shortfall in Guaranteed Income (RMB in million)	Percentage of shortfall in Guaranteed Income
2019	152.87	161.72	N/A	N/A
2020	162.65	122.04	40.61	24.79%

4. INFORMATION ON THE PARTIES

4.1 The Company and its subsidiaries

The Company and its subsidiaries are principally engaged in (i) the research and development, manufacturing and sales of Chinese patent medicine, Western medicine, chemical raw materials, natural medicine, biological medicine and chemical raw materials intermediates; (ii) the wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (iii) the research and development, production and sales of great health product; and (iv) the health industry investment in medical care, health management, health maintenance and elderly care, etc.

4.2 GPLH

GPLH 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% of the issued shares of the Company as at the date of this announcement.

5. REASONS FOR ENTERING INTO THE PROFIT COMPENSATION SUPPLEMENTAL AGREEMENT

The Company received a letter from GPLH (“**GPLH Letter**”) on 17 August 2021 in which GPLH stated that, since January 2020, there was an outbreak of Covid-19 in Mainland China which affected the lives and spending of the residents of Mainland China and, consequentially adversely affected the sales of the Company’s products using the “Wang Lao Ji” series trademarks, and further resulted in the actual realised net trademarks licence fee income (i.e. the Audited Income) being lower than the Guarantee Income for year 2020. GPLH is of the view that the outbreak of Covid-19 is a force majeure event, and the time of such outbreak was around Chinese New Year and hence seriously affected the sales of the products using the “Wang Lao Ji” series trademarks. The force majeure event is the reason for GPLH’s failure to fulfil its income guarantee for year 2020. Accordingly, GPLH raised to the Company a request to revise the provisions in respect of income guarantee under the Profit Compensation Agreement.

As disclosed in the section headed “Major Events – 2. PERFORMANCE OF UNDERTAKINGS – (3) Completion process of performance commitment and its effect on goodwill impairment test – (ii) Performance commitment” on page 91 of the 2020 Annual Report, “The net income of “Wang Lao Ji” series trademarks in 2020 failed to reach the forecasted value in the said evaluation report (*Note: “the said valuation report” means the “Valuation Report”*) mainly due to: since various epidemic prevention and control measures had been taken across the country since the outbreak of the epidemic in early 2020, the market demand for “Wang Lao Ji” series trademarks related products was under pressure and its sales during the 2020 Spring Festival holiday were significantly affected. Although market demand has basically recovered since the third quarter of 2020, due to the large proportion of income attributable to the Spring Festival holiday over the years, the sales volume for the whole year still dropped significantly this year, which resulted in the net income from trademark assets being unable to meet the forecasted value. The said impact brought about by the epidemic could not be predicted when the profit forecast was made in 2018.”. The aforementioned view of the Company as set out in the 2020 Annual Report does not have material difference to that expressed in the GPLH Letter.

The Company’s PRC legal adviser is of the view that, assuming the significant decrease in the sales in Wang Lao Ji Great Health Segment (王老吉大健康板塊) was caused by the epidemic of Covid-19, and such decrease has caused GPLH’s failure to achieve the expected target in income guarantee, it is very likely that these circumstances will, in Mainland China, be determined by the court as a force majeure event as stipulated in the Profit Compensation Agreement. The Company’s PRC legal adviser states that, if GPLH requests for suspension of the performance of the income guarantee for year 2020 or requests for an exemption from liability for failure to fulfil the income guarantee for year 2020 pursuant to the relevant terms of the Profit Compensation Agreement, it is likely that such request will be accepted by the PRC courts.

Taking into account the reasons described above, the Board (including all the independent non-executive Directors) considers that the terms of the Profit Compensation Supplemental Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Company agreed to vary the Profit Compensation Agreement on the terms of the Profit Compensation Supplemental Agreement.

None of the Directors has a material interest in the Profit Compensation Supplemental Agreement. However, as each of Mr. Li Chuyuan, Mr. Yang Jun, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Zhang Chunbo and Mr. Wu Changhai is both (i) an executive Director and (ii) a director and/or member of the senior management of GPLH, they have abstained from voting on the Board resolution approving the Profit Compensation Supplemental Agreement.

6. ANNOUNCEMENT ISSUED PURSUANT TO RULES 14.36, 14.36B(1) AND 14A.63(1) OF THE LISTING RULES

This announcement is issued by the Company pursuant rule 14.36 of the Listing Rules given that the variations to the Profit Compensation Agreement disclosed in this announcement constituted material variation to the terms of the Profit Compensation Agreement previously disclosed in the 2018 Announcement.

This announcement is also issued pursuant to rules 14.36B(1) and 14A.63(1) of the Listing Rules given that there are subsequent changes to the terms of the guarantee given under the Profit Compensation Agreement. As disclosed in section 5 above, the Board (including all the independent non-executive Directors) consider that the terms of the Profit Compensation Supplemental Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

7. APPROVAL OF SHAREHOLDERS REQUIRED UNDER APPLICABLE PRC REQUIREMENTS

In accordance with the relevant rules under the Rules Governing the Listing of the Stocks on Shanghai Stock Exchange, the transactions contemplated under the Profit Compensation Supplemental Agreement are required to be approved at the general meeting of the Company. In this regard, a circular containing details of the Profit Compensation Supplemental Agreement together with the notice of the EGM will be despatched by the Company to the Shareholders in due course.

By virtue of GPLH being materially interested in the Profit Compensation Supplemental Agreement, it and its associates (as defined under rule 14A.06(2) of the Listing Rules) will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Profit Compensation Supplemental Agreement.

8. DEFINITIONS

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

“2018 Announcement”	the announcement of the Company dated 27 December 2018 wherein, among other things, the entries into of the Trademarks Acquisition Agreement and the Profit Compensation Agreement were announced
“2020 Annual Report”	the annual report of the Company for the financial year ended 31 December 2020
“A Shares”	RMB-denominated domestic shares in the share capital of the Company with a nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange
“Audited Incomes”	as defined in section 1(a)(ii) of this announcement
“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
“Compensation Amount”	as defined in section 1(a)(ii) of this announcement
“connected person”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given to it under the Listing Rules
“Director”	a director of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve the Profit Compensation Supplemental Agreement (including any adjournment thereof)
“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 of the PRC* (中國廣州市人民政府國有資產監督管理委員會)

“GPHL Letter”	as defined in section 5 of this announcement
“Guaranteed Incomes”	as defined in section 1(a)(ii) of this announcement
“H Shares”	overseas listed foreign shares in the share capital of the Company with a nominal value of HKD1.00 each and are listed on the Stock Exchange
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	as defined in the 2018 Announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Operation Trademarks”	as defined in the 2018 Announcement
“PRC”	the People’s Republic of China
“Profit Compensation Agreement”	the agreement dated 27 December 2018 entered into between the Company and GPHL in relation to the compensation from GPHL to the Company in case the Audited Incomes are lower than the amounts guaranteed by GPHL thereunder
“Profit Compensation Supplemental Agreement”	the supplemental agreement entered into between the Company and GPHL to vary the Profit Compensation Agreement and dated 18 August 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder”	a holder of the A Shares and/or the H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Trademarks”	a total of 420 WangLaoJi* (王老吉) series trademarks set out in the Trademarks Acquisition Agreement, including those trademarks which had already been registered as at the date of the Trademarks Acquisition Agreement and those in respect of which trademark applications were being made as at the date of the Trademark Acquisition Agreement

“Trademarks Acquisition”	the acquisition of the Target Trademarks by the Company
“Trademarks Acquisition Agreement”	the conditional agreement dated 27 December 2018 entered into between the Company (as purchaser) and GPLH (as vendor) in relation to the Trademarks Acquisition

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 18 August 2021

As at the date of this announcement, the Board comprises Mr. Li Chuyuan, Mr. Yang Jun, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Zhang Chunbo, Mr. Wu Changhai and Mr. Li Hong as executive directors, and Mr. Wong Hin Wing, Ms. Wang Weihong, Mr. Chen Yajin and Mr. Huang Min as independent non-executive directors.

* *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this announcement in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*

^ *Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.*