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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)

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO THE PROPOSED ACQUISITION OF  
30% OF THE EQUITY INTEREST IN GUANGZHOU PHARMACEUTICALS  
CORPORATION AND GRANT OF PUT OPTIONS TO  
THE VENDOR TO SELL 20% OF THE EQUITY INTEREST IN  
GUANGZHOU PHARMACEUTICALS CORPORATION – RECEIPT OF  
ENQUIRY LETTER FROM THE SHANGHAI STOCK EXCHANGE**

Reference is made to the announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “**Company**”) dated 22 December 2017 (the “**First HK Announcement**”) in relation to, among others, the Proposed Acquisition and the grant of the Put Options. Unless otherwise defined herein, terms used in this announcement shall have the same meanings as defined in the First HK Announcement.

On 29 December 2017, the Company received the “Enquiry Letter in relation to the Disclosure of Information on the Report on the Material Acquisition of Assets of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Shang Zheng Gong Han [2017] No. 2553)) (《關於對廣州白雲山醫葯集團股份有限公司重大資產購買報告書信息披露的問詢函》上證公函[2017] 2553號) (the “**Enquiry Letter**”) from the Shanghai Stock Exchange (the “**SSE**”) requesting the Company to elaborate on, and to provide further disclosure in relation to, the issues set out in the Enquiry Letter. In connection with the Enquiry Letter, the Company issued an overseas regulatory announcement dated 1 January 2018 (the “**ORA**”) on the Hong Kong Stock Exchange setting out the material contents of the Enquiry Letter. The content of the ORA in English is as follows:

The SSE has reviewed the Report on the Material Asset Acquisition (the “**Report**”) submitted by the Company and required the Company to elaborate on, and to provide further disclosure in relation to, the issues set out as follows:

1. As disclosed in the Report, in addition to the acquisition from Alliance BMP <sup>Note 1</sup> of 30% equity interest in Guangzhou Pharmaceuticals <sup>Note 2</sup> held by Alliance BMP by way of cash, the Company has granted a put option <sup>Note 3</sup> to Alliance BMP pursuant to which Alliance BMP has the option to sell the remaining 20% equity interest in Guangzhou Pharmaceuticals that it held

to the Company during the exercise period. The Company is required to make supplementary disclosure on: (1) the main consideration(s) in granting the aforesaid put option; (2) whether the impact of the put option has been taken into account when determining the consideration of the transaction; (3) the accounting recognition and specific quantification of the aforesaid put option and explanation of the potential impact on the operating results of the Company in the future. The financial adviser and the accountant are asked to express their views.

2. As disclosed in the Report, various reforms have been implemented in the pharmaceutical industry in recent years, of which the “Two-invoice system (兩票制)” is expected to be implemented in the pharmaceutical distribution industry. All provinces in China will fully implement the “Two-invoice system” in 2018. The Health and Family Planning Commission of Guangdong Province (廣東省衛計委) has also released the consultation paper on the implementation of the “Two-invoice system”, in which it is proposed that the “Two-invoice system” will be fully implemented from 1 April 2018. The Company is required to make supplementary disclosure on: (1) explanation of the specific impact on various business models of the “Two-invoice system” on the pharmaceutical distribution industry in conjunction with its implementation progress; (2) the impact of the “Two-invoice system” on various business segments of Guangzhou Pharmaceuticals, as well as the proposed solutions to be taken and details on the implementation, etc., and the risk in full. The financial adviser and the accountant are asked to express their views.
3. As disclosed in the Report, the target company, namely Guangzhou Pharmaceutical, conducts quality control on each step over the course of its operating activities, which includes the step of quality control and product acceptance, in which the quality inspector conducts quality inspection and sampling check against the in-stock products, rejects and returns the unqualified products to the manufacturers. During the reporting period, Guangzhou Pharmaceutical unknowingly distributed the sub-standard medicines produced by Kaifeng Yugang Pharmaceutical Co., Ltd.\*(開封豫港製藥有限公司), Guangdong Hongying Technology Co., Ltd.\*(廣東宏盈科技有限公司) and Chengdu Brilliant Pharmaceutical Co., Ltd.\*(成都倍特藥業有限公司), the fake medicines illegally produced and sold by Jilin Changzhong Pharmaceutical Co., Ltd.\*(吉林省長中製藥有限公司), and purchased and sold sub-standard injection and medical equipment. Please supplement and disclose: (1) the period of cooperation and accumulative purchase amount between the aforesaid suppliers and the target company; (2) if the sampling methodology and proportion of quality inspection for product acceptance and main inspection items of the target company are adequate to guarantee the quality control standard. Please provide the opinion from the financial adviser.
4. As disclosed in the Report, the target asset, namely Guangzhou Pharmaceutical, is principally engaged in the wholesale and retail of pharmaceutical products, with its business distributed within and outside Guangdong Province. The Company is required to make supplementary disclosure on: (1) basic financial data information on revenue, cost and gross profit margin of various business models by geographic regions, and illustrate the trend and reasons of the

changes; (2) analysis and explanation of the main competitive advantages and disadvantages of Guangzhou Pharmaceutical taking into consideration of the market capacity and competitive situation of each main region. Please provide the opinion from the financial adviser.

5. As disclosed in the Report, as at 30 September 2017, the account receivables of the target asset, namely Guangzhou Pharmaceutical, was RMB10,030,000,000, representing an increase of 60.62% as compared with the end of last year, the prepayment was RMB459,000,000, representing a decrease of RMB956,000,000 as compared with the end of last year. The Company is required to make supplementary disclosure on: (1) the changes in the account receivables and prepayments of Guangzhou Pharmaceutical as compared with the corresponding period of last year, and illustrate if there is any seasonal characteristics; (2) illustration on the reason and rationality of the significant increase in the amount of the account receivables at the end of the reporting period taking into consideration of the operational characteristics of Guangzhou Pharmaceutical. Please provide the opinion from the financial adviser and the accountant.
6. As disclosed in the Report, the net cash flow generated from the operating activities of Guangzhou Pharmaceutical, the target asset, for 2015, 2016 and January to September 2017 was RMB132,000,000, RMB354,000,00 and negative RMB1,787,000,000, respectively. Please take into consideration of the industry characteristics and changes in the business situation of the target asset, illustrate the reason and rationality of the material negative cash flow generated from the operating activities for January to September 2017. If necessary, please disclose the corresponding risks. Please provide the opinion from the financial adviser and the accountant.

Please reply us in writing in respect of the aforesaid questions prior to 6 January 2018, and modify the Material Asset Acquisition Report accordingly.

*Notes:*

1. *Referred to as the “Vendor” in the First HK Announcement;*
2. *Referred to as the “Target Company” in the First HK Announcement; and*
3. *Referred to as “Put Option A” in the First HK Announcement.*

The Board of  
**Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**

Guangzhou, the PRC, 2 January 2018

*As at the date of this announcement, the board of directors of the Company comprises Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wu Changhai as executive directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive directors.*