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*(a joint stock company with limited liability established in the People's Republic of China)*  
**(H Share Stock Code: 0874)**

**CONTINUING CONNECTED TRANSACTIONS:**

**(1) PURCHASE OF PHARMACEUTICAL RAW MATERIALS AND PACKAGING MATERIALS BY A CONNECTED PERSON FROM THE GROUP DURING YEAR 2017;**

**AND**

**(2) SALE OF PHARMACEUTICAL PRODUCTS FROM THE SAME CONNECTED PERSON TO THE GROUP DURING YEAR 2017**

**HUACHENG BUY CCT AND HUACHENG SALE CCT**

The Group entered into the Huacheng CCT during Y2017, pursuant to which Huacheng bought the Materials from the Group in an aggregate purchase price paid and (if any) payable of RMB72,693,961.41 and Huacheng sold the Huacheng Products to the Group in an aggregate purchase price paid and (if any) payable of RMB7,986,777.28.

**IMPLICATIONS UNDER THE HKLR**

Huacheng was a connected person of the Company at all material times. Accordingly, each of the Huacheng Buy CCT and the Huacheng Sale CCT was a continuing connected transaction of the Company.

The Huacheng Sale CCT, on a standalone basis, was a de minimis transaction and therefore was fully exempt.

The Huacheng Buy CCT, on a standalone basis, was exempt from the circular (including independent financial advice) and shareholders' approval requirements but was subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

The Huacheng Sale CCT and the Huacheng Buy CCT, on an aggregate basis, was exempt from the circular (including independent financial advice) and shareholders' approval requirements but was subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

Due to an inadvertent oversight, the Company had not announce the Huacheng Buy CCT and the Huacheng CCT in a timely manner in accordance with the HKLR. The Board will adopt measures to strengthen the relevant internal control procedures to prevent the occurrence of similar incidents in the future.

## **1. INTRODUCTION**

The Board announced that the Group entered into the Huacheng CCT during Y2017, pursuant to which Huacheng bought the Materials from the Group in an aggregate purchase price paid and (if any) payable of RMB72,693,961.41 and Huacheng sold the Huacheng Products to the Group in an aggregate purchase price paid and (if any) payable of RMB7,986,777.28. Huacheng is a connected person of the Company. Details of each of the Huacheng Buy CCT and the Huacheng Sale CCT are set out below.

## **2. PRINCIPAL TERMS OF THE HUACHENG BUY CCT**

In relation to each transaction which formed part of the Huacheng Buy CCT, the Group and Huacheng had entered into a Purchase Order. Set out below is a summary of the principal terms of the Purchase Orders:

### **(a) Parties**

Huacheng as buyer and a relevant Subsidiary as seller.

### **(b) Products**

All the products bought by Huacheng from the Subsidiaries were the Materials, the exact products and the quantity of which were more specifically set out in the Purchase Orders.

### **(c) Pricing basis**

The price of the Materials under the Huacheng Buy CCT was determined with reference to the prevailing market price of similar products at the time when the Purchase Order was placed by Huacheng and was on normal commercial terms or not less favourable terms than those available to the Group from the Independent Third Parties at the material time.

The prevailing market price of the Materials under the Huacheng Buy CCT was determined on normal commercial terms based on the price of similar products available to the Group from the Independent Third Parties in the PRC, agreed on arm's length basis and in the ordinary course of business of the Group.

(d) **Payment terms**

The consideration under each of the Purchase Orders was settled in cash on the following payment terms depending on the identity of the seller:

(i) *Cai Zhi Lin as seller*

After Huacheng had issued the quality satisfaction confirmation and within 180 days after receipt of the invoice issued by the seller.

(ii) *Pharmaceutical Import & Export as seller*

After Huacheng had issued the quality satisfaction confirmation and within 60 days after receipt of the invoice issued by the seller.

(iii) *Guangzhou Han Fang as seller*

Materials were delivered after payment of the consideration by Huacheng.

**3. PRINCIPAL TERMS OF THE HUACHENG SALE CCT**

In relation to each transaction which formed part of the Huacheng Sale CCT, Cai Zhi Lin and Huacheng had entered into a Sale Order. Set out below is a summary of the principal terms of the Sale Orders:

(a) **Parties**

Huacheng as seller and Cai Zhi Lin as buyer.

(b) **Products**

All the products sold by Huacheng to Cai Zhi Lin were the Huacheng Products, the exact products and the quantity of which were more specifically set out in the Sale Orders.

**(c) Pricing basis**

The price of the Huacheng Products under the Huacheng Sale CCT was determined with reference to the prevailing market price of similar products at the time when the relevant purchase order was placed by Cai Zhi Lin and was on normal commercial terms or not less favourable terms than those available to the Group from the Independent Third Parties at the material time.

The prevailing market price of the Huacheng Products under the Huacheng Sale CCT was determined on normal commercial terms based on the price of similar products available to the Group from the Independent Third Parties in the PRC, agreed on arm's length basis and in the ordinary course of business of the Group.

**(d) Payment terms**

The Huacheng Products were delivered after payment of the consideration by Cai Zhi Lin.

**4. INFORMATION ON THE GROUP AND HUACHENG**

The Group is principally engaged in (i) research, development, manufacturing and sales 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 sales 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 manufacture of pharmaceutical products and is wholly-owned by GPHL. On this basis, Huacheng was a connected person of the Company at all material times and remains a connected person of the Company as at the Announcement Date.

## **5. REASONS FOR ENTERING INTO THE HUACHENG CCT**

In relation to the Huacheng Buy CCT, the sale of the Materials to Huacheng had increased the revenue of the Group. Further, the Directors noted that the Group sold the Materials to Huacheng at prices above the costs. In relation to the Huacheng Sale CCT, the Huacheng Products were different from the pharmaceutical products produced by the Group. After purchasing the Huacheng Products, the Group had sold them through the Group's retail network and had increased the revenue of the Group as a result. After taking into account the above factors, the Directors (including the independent non-executive Directors) consider that the Huacheng CCT are of commercial benefit to the Company and the Group as a whole and entering into the Huacheng CCT had contributed to the growth of the Group's business.

The Directors (including the independent non-executive Directors) further consider that (i) the terms of each transaction under the Huacheng CCT were fair and reasonable; (ii) the Huacheng CCT were on normal commercial terms or better and in the ordinary and usual course of business of the Group, or if there were no sufficient comparable transactions to determine whether they were 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 Huacheng CCT were in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the Huacheng CCT. However, as Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning and Mr. Ni Yidong are both (i) executive Directors and (ii) the directors and/or members of the senior management of GPHL, they have abstained from voting on the Board resolution approving the Huacheng CCT. Save as disclosed above, none of the Directors has a material interest in the Huacheng CCT or is required to abstain from voting on the Board resolution considering and approving the Huacheng CCT pursuant to the HKLR and/or the articles of association of the Company.

## **6. IMPLICATIONS UNDER THE HKLR**

As disclosed in section 4 above, Huacheng was a connected person of the Company at all material times. Accordingly, each of the Huacheng Buy CCT and the Huacheng Sale CCT constituted the continuing connected transactions of the Company under Chapter 14A of the HKLR.

The Huacheng Sale CCT was conducted on normal commercial terms or better and all the applicable percentage ratios (other than the profit ratio) were below 0.1% on a standalone basis. Accordingly, the Huacheng Sale CCT was a de minimis transaction and was therefore fully exempt under the HKLR.

The Huacheng Buy CCT was conducted on normal commercial terms or better and all the applicable percentage ratios (other than the profit ratio) exceeded 0.1% but were less than 5% on a standalone basis. Accordingly, the Huacheng Buy CCT was exempt from the circular (including independent financial advice) and shareholders' approval requirements but was subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

As all the applicable percentage ratios (other than the profit ratio) in respect of the Huacheng Buy CCT and the Huacheng Sale CCT, on an aggregate basis, exceeded 0.1% but were less than 5%, the Huacheng Buy CCT and the Huacheng Sale CCT together were therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements but were subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

Prior to 2017, the Group did not have any transaction with Huacheng. Due to an inadvertent oversight, the Group had not entered into the written agreements with the terms specified under Rules 14A.51 and 14A.52 of the HKLR and had not announced the Huacheng Buy CCT and the Huacheng CCT in accordance with the HKLR after the applicable ratios reached 0.1%. It was not until about 6 March 2018 that the Company noted the existence of the transactions between the Group and Huacheng when reviewing the draft of the audited financial statements of the Group for the financial year ended 31 December 2017. The Company took prompt actions to make all reasonable enquiries and realised that the transactions between the Group and Huacheng in Y2017 constituted the continuing connected transactions of the Company which were required to be disclosed under the HKLR.

## **7. REMEDIAL ACTIONS AND OTHER INFORMATION**

The Board will adopt the following measures to strengthen the relevant internal control procedures to prevent the occurrence of similar incidents in the future:

- (a) the Company will review, strengthen and continue to monitor the relevant internal control measures of the Group, including but not limited to contract signing procedures, to ensure that current and future transactions will be conducted in compliance with the applicable requirements under the HKLR and other relevant rules and regulations; and

- (b) the Company will arrange for regular special and in-depth training sessions for the Directors, senior management of the Group and other relevant personnel to remind them to report transactions which may constitute notifiable and/or connected transactions under the HKLR to the Group's compliance personnel and seek professional advice, if necessary, to ensure that they understand the requirements under the HKLR and the relevant rules and regulations.

The Group has continued to sell the Materials to Huacheng and buy the Huacheng Products from Huacheng since 31 December 2017. As those transactions were on normal commercial terms or better and, whether on a standalone basis or on an aggregate basis, were de minimis transactions as at the Announcement Date, they were fully exempt under the HKLR.

## 8. DEFINITIONS

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

“Announcement Date”	the date of this announcement, being 15 March 2018
“Board”	the board of Directors
“Cai Zhi Lin”	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司), a subsidiary of the Company
“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 HKEX and the Shanghai Stock Exchange respectively
“connected person”	has the meaning given to it under the HKLR
“controlling shareholder”	has the meaning given to it under the HKLR
“Directors”	the directors 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 which holds approximately 45.04% of the issued shares of the Company as at the Announcement Date
“Group”	the Company and its subsidiaries
“Guangzhou Han Fang”	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd.* (廣州白雲山漢方現代藥業有限公司), a subsidiary of the Company
“Huacheng”	Guangzhou Huacheng Pharmaceutical Company Limited* (廣州花城藥業有限公司)
“Huacheng Buy CCT”	the continuing connected transactions constituted by the purchase of the Materials by Huacheng from the Group in Y2017 as disclosed in this announcement
“Huacheng CCT”	collectively, the Huacheng Buy CCT and the Huacheng Sale CCT
“Huacheng Products”	the pharmaceutical products produced by Huacheng which were the subject matters of the Huacheng Sale CCT
“Huacheng Sale CCT”	the continuing connected transactions constituted by the sale of the Huacheng Products by Huacheng to the Group in Y2017 as disclosed in this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKLR”	the Rules Governing the Listing of Securities on the HKEX
“HKEX”	The Stock Exchange of Hong Kong Limited
“Independent Third Party”	a party who is independent of, and not connected with, the Company or any of its connected persons



“Materials”	the pharmaceutical raw materials and packaging materials which were the subject matters of the Huacheng Buy CCT
“Pharmaceutical Import & Export”	Guangzhou Pharmaceutical Import & Export Company Limited* (廣州醫藥進出口有限公司), a subsidiary of the Company
“PRC”	the People’s Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Purchase Orders”	the purchase orders between Huacheng as buyer and the relevant Subsidiary as seller in relation to the Huacheng Buy CCT, and each a “Purchase Order”
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Orders”	the sale orders between Huacheng as seller and Cai Zhi Lin as buyer in relation to the Huacheng Sale CCT, and each a “Sale Order”
“Shareholders”	holders of the share(s) of the Company
“Subsidiaries”	collectively, Cai Zhi Lin, Guangzhou Han Fang and Pharmaceutical Import & Export, and each a “Subsidiary”
“Y2017”	year 2017

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

Guangzhou, the PRC, 15 March 2018

*As at the Announcement Date, the Board 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.*

*\* For identification purpose only*