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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

1. BACKGROUND

This announcement is issued by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (“**Company**”) to supplement its announcement dated 18 April 2018 in relation to the CCT Agreement (“**First Announcement**”). Unless the context otherwise requires, capitalized terms defined in the First Announcement have the same meanings when used in this announcement.

2. SUPPLEMENTAL INFORMATION

2.1 Basis of pricing

The terms of the CCT Agreement in relation to the basis of pricing for the transactions contemplated by the CCT Agreement have been disclosed in the subsection headed “3. Basis of pricing” of the First Announcement. As prescribed by the internal policy of the Group, the Group will consider the following principles (“**Pricing Principles**”) in order of priority before determining whether to enter into the actual transactions under the 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 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 date of this announcement (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 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 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 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.

2.2 Proposed annual caps

As disclosed in the announcement of the Company dated 15 March 2018, the Group did not have any transaction with Huacheng prior to 2017. Set out below is the historical transactions record for year 2017 in respect of the same subject matters under the CCT Agreement:

Type of transaction	Amount (RMB'000)
Purchase of the Huacheng Products from Huacheng	7,986.80
Sale of the Materials to Huacheng	72,694.00
Provision of labour services to Huacheng	4,992.80
Provision of entrusted processing services to Huacheng	<u>4,367.60</u>
Total	<u>90,041.20</u>

The factors which formed the assumption basis of the Company in determining the annual caps under the CCT Agreement have been disclosed in the subsection headed “4. Proposed annual caps” of the First Announcement. The Company would like to provide the following additional information:

- (a) in relation to the factor of “the continuous expansion of the business of the Group and the further enhancement in the resources consolidation of the Group”, the Directors have taken into account the business prospects of the Group by reference to, among other things:
- (i) the financial performance of the Group in the last three financial years ended 31 December 2017 and noted that the assets, revenue and profits of the Group grew in each year during the said period, which demonstrated that the scale, revenue and profits of the Group had been growing steadily in recent years. The further enhancement in the resources consolidation of the Group has created additional capacity for the Group to provide services in processing Chinese medicine raw materials, which is one of the services provided to Huacheng under the CCT Agreement; and
 - (ii) the expected increase in the expenses on pharmaceutical products as a result of the increase in the average annual disposal income of the PRC citizens from approximately RMB20,167 in 2014 to approximately RMB21,966 in 2015 and further increased to approximately RMB23,821 in 2016 (representing a year-on-year growth of 10.1%, 8.9% and 8.4% respectively) according to the data obtained from the website of the National Bureau of Statistics of China* (中華人民共和國國家統計局) and the increasing attention on personal health among the PRC citizens as recognized in the Summary of the Strategic Research Report on Healthy China

2020* (《"健康中國2020"戰略研究報告》摘要) issued by the National Health and Family Planning Commission of China* (中華人民共和國國家衛生和計劃生育委員會); and

- (b) in relation to the factor of “the expected demand of the Company’s subsidiaries and Huacheng and its subsidiaries”, the Directors have taken into account, among other things:
- (i) the business prospects of the Group based on its historical performance as disclosed in (a)(i) above and the factor disclosed in (a)(ii) above;
 - (ii) since Huacheng became a subsidiary of GPLH in January 2016, it had gradually resolved debts and other issues which hinder its business development in the past and was able to leverage on the experience and resources of GPLH and, coupled with Huacheng resuming its own operation activities in January 2017, its business grew and expanded as a result. During the negotiation of the CCT Agreement, Huacheng had also indicated to the Company that it was looking to further expand its business in years 2018 and 2019 and intended to purchase more goods and services from the Group. The Company therefore expects that Huacheng’s demand on the Materials and processing services will increase accordingly;
 - (iii) by reference to the random checking in the market conducted by the State Food and Drug Administration* (國家食品藥品監督管理總局) (“SFDA”), the market understands that SFDA expects that the pharmaceutical producers will use tortoiseshell glue and antler glue (both of which are the main raw materials in the Materials) of higher quality. The Company therefore expects that the prices for the Materials selling to Huacheng in 2018 will rise as compared to 2017 (Note: Huacheng had ordered for tortoiseshell glue and antler glue of higher quality in the first three months of 2018 as compared to those in 2017 and the prices of the tortoiseshell glue and antler glue per kilogram sold to Huacheng in the first three months of 2018 has risen more than 50% as compared to 2017);
 - (iv) in order for Huacheng to comply with the Notice on Strengthening the Supervision and Management of Extraction and Extractive of Traditional Chinese Medicine* (《關於加強中藥生產中提取和提取物監督管理的通知》) issued by the SFDA which prohibited the purchase of dry ointment, a major product under the entrusted processing services, in its finished product form directly, Huacheng must appoint a production agent which is under the control of the same shareholder as Huacheng to produce for Huacheng since Huacheng does not produce dry ointment itself as otherwise permitted under the said notice. Accordingly, it is expected that Huacheng’s demand for the entrusted processing services will rise; and

- (v) the Group and Huacheng are mutually satisfied with the quality of the products and/or services provided by each other in the historical transactions and therefore anticipated that the business between the Group and Huacheng will grow in the foreseeable future.

On the basis of the information set out in the subsection headed “4. Proposed annual caps” of the First Announcement, the additional information and the historical transactions record as disclosed above, the Directors consider that the assumptions on which the annual caps were determined are reasonable.

2.3 Transactions entered into between 1 January 2018 and 17 April 2018

During the period from 1 January 2018 to 17 April 2018, the Group and Huacheng had entered into transactions (“**Prior Agreement Transactions**”) in respect of the same subject matters under the CCT Agreement. The Prior Agreement Transactions were conducted on normal commercial terms or better and all the percentage ratios (except for the profits ratio) exceeded 0.1% but were less than 5%. Accordingly, the Prior Agreement Transactions were exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules, but were subject to, among other things, the notification and announcement requirements under Chapter 14A of the Hong Kong Listing Rules. Due to an inadvertent oversight, the Company has not complied with the aforesaid requirements under the Hong Kong Listing Rules.

The Board has adopted 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 Hong Kong Listing Rules and other relevant rules and regulations;
- (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 Hong Kong Listing Rules to the Group’s compliance personnel and seek professional advice, if necessary, to ensure that they understand the requirements under the Hong Kong Listing Rules and the relevant rules and regulations; and
- (c) (i) the Company has issued reminders to those subsidiaries of the Company principally involving in the transactions contemplated by the CCT Agreement reminding them to report transactions which may constitute notifiable and/or connected transactions under the Hong Kong Listing Rules to the Group’s compliance personnel prior to entering into the transactions; and (ii) the senior management of the Company has met the management

teams of the subsidiaries referred to in (i) during which the senior management of the Company emphasized the Company's regulatory obligations to comply with the Hong Kong Listing Rules.

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 14 May 2018

As at the date of this announcement, 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 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.*