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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:  
ENTERING INTO CUSTODY SUPPLEMENTAL AGREEMENT IN  
RELATION TO TRADEMARKS WITH A CONNECTED PERSON AND  
THE ASSOCIATED SHARING OF TRADEMARKS LICENCE FEES  
WITH THE SAME CONNECTED PERSON**

**WLJGH CUSTODY SUPPLEMENTAL AGREEMENT**

In connection with the Company (on behalf of the owner of the WangLaoJi Trademarks, namely GPLH) granting a licence to its wholly-owned subsidiary (namely, WLJGH) for the use of the WangLaoJi Trademarks pursuant to the Trademarks Custody Agreement and in accordance with an undertaking entered into between the Company and GPLH, a connected person of the Company, the Company entered into the WLJGH Custody Supplemental Agreement dated 28 May 2018 with GPLH whereby, among other things, the parties agreed that, subject to the Total Caps, the licence fees payable by WLJGH shall be shared in the proportion of 20% for the Company and 80% for GPLH.

**IMPLICATIONS UNDER THE HKLR**

The transactions contemplated by the WLJGH Custody Supplemental Agreement constitute the continuing connected transactions of the Company under Chapter 14A of the HKLR. Pursuant to the applicable rules under Chapter 14A of the HKLR, those transactions, on a standalone basis, are exempt from the circular (including independent financial advice) and shareholders' approval requirements but are subject to, among other things, the notification and announcement requirements.

Each of the Existing Custody Arrangements constituted the continuing connected transactions of the Company under Chapter 14A of the HKLR. Pursuant to the applicable rules under Chapter 14A of the HKLR, (i) each of the Existing Custody Arrangements on a standalone basis is, and (ii) the Existing Custody Arrangements on an aggregate basis are, fully exempt from, among other things, the notification and announcement requirements.

The WLJGH CCT and the Existing Custody Arrangements CCT are required to be aggregated under the HKLR and, on an aggregate basis, are exempt from the circular (including independent financial advice) and shareholders' approval requirements but are subject to, among other things, the notification and announcement requirements.

## 1. INTRODUCTION

- (a) In the section headed "II. TRADEMARKS CUSTODY" on pages 50 to 54 of the 2012 Circular, it was disclosed, among other things, that:
- (i) the Company and GPHL entered into the Trademarks Custody Agreement whereby, among other things:
    - (A) the Company will be responsible for the services including but not limited to the daily management of 29 WangLaoJi Trademarks currently owned by GPHL, provision of trademark protection, promotion services and entering into any new and/or renewal trademark licence agreements with any third party;
    - (B) the Company will receive a basic custody fee of RMB1,000,000 per annum; and
    - (C) any new licensing fees of the WangLaoJi Trademarks generated from any licensing agreements entered into or renewed during the Custodian Period between the Company or (in limited circumstances) GPHL, and the licensees ("**New Licence Fees**") will be shared between GPHL and the Company in the proportion of 80% and 20% respectively, or in a lower ratio for GPHL as may be agreed by GPHL and the Company, but in any event, the proportion of the New Licence Fees that GPHL receives shall not exceed 80%; and
  - (ii) as at the latest practicable date for the purposes of the 2012 Circular (i.e. 28 August 2012), the Company was unable to estimate the amount of the New Licence Fees as the identity of new potential licensees (if any) and the terms and dates of the potential new/renewal licensing agreements (if any), etc. were not yet known to the Company. The Company and GPHL jointly entered into another undertaking on 26 March 2012 ("**2012 Undertaking**"), pursuant to which, both parties have undertaken that they will enter into a custody supplemental agreement to the Trademarks Custody Agreement ("**Custody Supplemental Agreement**") before the Company or GPHL enters into the first new or renewal licensing agreement relating to the licensing of WangLaoJi Trademarks with the potential licensee after the completion of the Major Assets Reorganization. The Custody Supplemental Agreement shall (A) acknowledge the current arrangement of the Custody Fee and the New Licence Fees as set out in the Trademarks Custody Agreement; and (B) specify the terms including but not limited to the annual cap in relation to the maximum of 20% of

New Licence Fees entitled by the Company, the term of the custody arrangement under the Custody Supplemental Agreement and other terms which are required under Chapter 14A of the HKLR.

- (b) As the Former WLJGH Licence Agreement had expired on 24 May 2018, the Company and WLJGH proposed to enter into the New WLJGH Licence Agreement. In light of the 2012 Undertaking, the Company and GPLH entered into the WLJGH Custody Supplemental Agreement prior to the Company and WLJGH entering into the New WLJGH Licence Agreement.

## **2. WLJGH CUSTODY SUPPLEMENTAL AGREEMENT**

The Board announces that the Company and GPLH entered into the WLJGH Custody Supplemental Agreement dated 28 May 2018, a summary of the principal terms of which and relevant information is set out below.

### **2.1 Summary of the principal terms**

The principal terms of the WLJGH Custody Supplemental Agreement are summarised as follows:

- (a) the Company and GPLH acknowledge the arrangement of the Custody Fee (i.e. that the Company is entitled to an annual custody fee of RMB1,000,000 under the Trademarks Custody Agreement) and the arrangement on the sharing of the New Licence Fees as set out in the Trademarks Custody Agreement (i.e. that the New Licence Fees will be shared between GPLH and the Company in the proportion of 80% and 20% respectively);
- (b) the Company and GPLH acknowledge that entering into the WLJGH Custody Supplemental Agreement is to, among other things, facilitate the Company entering into the New WLJGH Licence Agreement with WLJGH and to set out the Total Caps;
- (c) the New WLJGH Licence Agreement shall have a validity period of three years from 25 May 2018 to 24 May 2021 or, if the WangLaoJi Trademarks shall have been transferred to the Company by GPLH, the WLJGH Custody Supplemental Agreement shall be terminated automatically;
- (d) under the New WLJGH Licence Agreement, the new trademarks licence fees shall be determined by applying the formula of “2.5% of the net revenue of WLJGH as showed in the audited financial statements of WLJGH prepared in accordance with PRC accounting standards times (1 + value added tax rate)”. During the term of the WLJGH Custody Supplemental Agreement, the total annual caps on the licence fees

shall be RMB330,000,000 for each year commenced from 25 May 2018 and shall be shared in the proportion of 80% (i.e. RMB264,000,000) for GPLH and 20% (i.e. RMB66,000,000) for the Company;

- (e) the Company shall not be obliged to pay any New Licence Fees to GPLH unless WLJGH has paid the New Licence Fees in full to the Company in accordance with the New WLJGH Licence Agreement; and
- (f) the Company shall be obliged to procure WLJGH observing the terms of the New WLJGH Licence Agreement.

## 2.2 Basis for determining the Total Caps

The Total Caps are determined after taking into account, among other things, (i) the historical figures for the term under the Former WLJGH Licence Agreement; (ii) the Group's estimation of the growth in the revenue of WLJGH during the term of the New WLJGH Licence Agreement; and (iii) the growth of the influence of the "WangLaoJi" brand and the calculation of the new trademarks licence fees stipulated under the New WLJGH Licence Agreement.

Set out in the table below are the licence fees which had been paid by WLJGH pursuant to the Former WLJGH Licence Agreement:

Period	Caps under the Former WLJGH Licence Agreement (RMB)	Approximate amount of the licence fees paid by WLJGH (RMB)
From 1 January 2016 to 31 December 2016	250 million	146.77 million
From 1 January 2017 to 31 December 2017	250 million	162.32 million
From 1 January 2018 to 24 May 2018	250 million	61.7 million <sup>(Note)</sup>

*Note: this is the amount which had been paid by WLJGH in respect of the period from 1 January 2018 to 31 March 2018.*

## 3. THE NEW WLJGH LICENCE AGREEMENT

Immediately after the Company and GPLH entering into the WLJGH Custody Supplemental Agreement, the Company and WLJGH have entered into the New WLJGH Licence Agreement.

#### **4. EXISTING CUSTODY ARRANGEMENTS**

Prior to entering into the WLJGH Custody Supplemental Agreement and in accordance with the 2012 Undertaking, the Company had entered into the Existing Custody Arrangements, which are arrangements in relation to the WangLaoJi Trademarks similar to those contemplated under the WLJGH Custody Supplemental Agreement. Under each Existing Custody Arrangement:

- (a) the Company and GPHL entered into a Custody Supplemental Agreement for a term not exceeding three years containing the following principal terms:
  - (i) the Company and GPHL acknowledge the arrangements of sharing of the Custody Fee and the New Licence Fees as set out in the Trademarks Custody Agreement;
  - (ii) subject to the total annual caps as stipulated under the Custody Supplemental Agreement, the Company and GPHL shall be entitled to the licence fees in the proportion of 20% for the Company and 80% for GPHL;
  - (iii) the Company shall not be obliged to pay any licence fees to GPHL unless the licensee has paid the licence fees in full to the Company in accordance with the relevant licence agreement;
  - (iv) (in the case where the licensee is a subsidiary of the Company) the Company shall be obliged to procure the licensee observing the terms of the relevant licence agreement; and
- (b) the Company and the relevant licensee entered into a trademarks licence agreement after the Company and GPHL had entered into the Custody Supplemental Agreement.

The Board confirms that the total annual caps on the licence fees applicable to each of the Company and GPHL as set out in each of the existing Custody Supplemental Agreements have not been exceeded as at the Announcement Date.

The transactions contemplated by each of the Existing Custody Arrangements constituted the continuing connected transactions of the Company under Chapter 14A of the HKLR. Please refer to section 7 below for more information on the implications of the Existing Custody Arrangements under the HKLR.

#### **5. INFORMATION ON THE GROUP AND GPHL**

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. GPHL is the owner of the WangLaoJi Trademarks.

## **6. REASONS FOR ENTERING INTO THE WLJGH CUSTODY SUPPLEMENTAL AGREEMENT**

The Board has taken into account the following principal factors before the Company entered into the WLJGH Custody Supplemental Agreement with GPHL:

- (a) as disclosed in the announcement of the Company dated 15 July 2016, the licence for WLJGH to use the WangLaoJi Trademarks, in particular, the well-known trademarks in the 王老吉(WangLaoJi\*) series will provide leverage to the development of WLJGH, broaden the sales and distribution channels of the Group, and enhance the sales of the products of WLJGH. The resulting potential profitability for the Group is in the interests of the Company and its shareholders as a whole. As disclosed on page 95 of the annual report of the Company for the year ended 31 December 2017, the net profit of WLJGH increased from RMB433 million in 2016 to RMB631 million in 2017, representing a rise of approximately 45.85%. The revenue of WLJGH increased from RMB7,784 million in 2016 to RMB8,579 million in 2017, representing a rise of approximately 10.22%;
- (b) the Former WLJGH Licence Agreement had expired on 24 May 2018;
- (c) pursuant to the 2012 Undertaking, the Company is obliged to enter into a Custody Supplemental Agreement with GPHL prior to entering into the New WLJGH Licence Agreement;
- (d) the reasons for entering into the Trademarks Custody Agreement as disclosed in the section headed “REASONS FOR THE TRADEMARK CUSTODY” on page 53 of the 2012 Circular; and
- (e) the reasons for entering into the 2012 Undertaking as disclosed in the section headed “8. Undertakings in relation to the WangLaoJi Trademarks” on page 52 of the 2012 Circular.

The Directors (including all the independent non-executive Directors) further consider that (i) the terms of the WLJGH Custody Supplemental Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and (ii) entering into the WLJGH Custody Supplemental Agreement is in the interests of the Company and the shareholders of the Company as a whole.

None of the Directors has a material interest under the WLJGH Custody Supplemental Agreement. However, as Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning and Mr. Ni Yidong are both (i) the 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 WLJGH Custody Supplemental Agreement. Save as disclosed above, none of the Directors has a material interest in the WLJGH Custody Supplemental Agreement or is required to abstain from voting on the Board resolution considering and approving the WLJGH Custody Supplemental Agreement pursuant to the HKLR and/or the articles of association of the Company.

## **7. IMPLICATIONS UNDER THE HKLR**

### **7.1 Continuing connected transactions**

As disclosed in section 5 above, GPHL is a connected person of the Company. By virtue of GPHL being a party to the WLJGH Custody Supplemental Agreement and the associated sharing of licence fees between the Company and GPHL, the transactions contemplated by the WLJGH Custody Supplemental Agreement constitute the continuing connected transactions of the Company under Chapter 14A of the HKLR. Similarly, by virtue of GPHL being a party to each of the Custody Supplemental Agreements entered into with the Company under the Existing Custody Arrangements and the associated sharing of licence fees between the Company and GPHL, the transactions contemplated by each of the Existing Custody Arrangements constituted the continuing connected transactions of the Company under Chapter 14A of the HKLR.

### **7.2 WLJGH CCT on a standalone basis**

As the WLJGH CCT are conducted on normal commercial terms or better and, on the basis of the Total Caps, one or more of the applicable percentage ratios (other than the profit ratio) in respect of the WLJGH CCT, on a standalone basis, exceed 0.1% but are less than 5%, the WLJGH CCT are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements but are subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

### **7.3 Each of the Existing Custody Arrangements CCT on a standalone basis and the Existing Custody Arrangements CCT on an aggregate basis**

- (a) As each of the Existing Custody Arrangements CCT is conducted on normal commercial terms or better and all the applicable percentage ratios (other than the profit ratio) in respect of (i) each of the Existing Custody Arrangements CCT on a standalone basis and (ii) the Existing Custody Arrangements CCT on an aggregate

basis are below 0.1%, the Existing Custody Arrangements CCT are therefore fully exempt from, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

(b) The basis of the calculation of the applicable percentage ratios is set out below:

*(i) Each of the Existing Custody Arrangements CCT on a standalone basis*

(A) (in the case where the licensees under the Existing Custody Arrangements CCT are the subsidiaries of the Company) the aggregate of the highest annual caps on the licence fees during the terms of the relevant trademarks licence agreements which each of the Company and GPLH is entitled to; or

(B) (in the case where the licensees under the Existing Custody Arrangements CCT are not the subsidiaries of the Company) the highest annual caps on the licence fees during the terms of the relevant trademarks licence agreements which the Company is entitled to.

*(ii) The Existing Custody Arrangements CCT on an aggregate basis*

The aggregate of (b)(i)(A) and (b)(i)(B) above under all the Existing Custody Arrangements CCT.

#### **7.4 WLJGH CCT and Existing Custody Arrangements CCT on an aggregate basis**

The WLJGH CCT and the Existing Custody Arrangements CCT are required to be aggregated under the HKLR for calculation of the applicable percentage ratios. On the basis of the aggregate of the Total Caps and the amount under section 7.3(b)(ii), one or more of the applicable percentage ratios (other than the profit ratio) in respect of the WLJGH CCT and the Existing Custody Arrangements CCT, on an aggregate basis, exceed 0.1% but are less than 5%, the WLJGH CCT and the Existing Custody Arrangements CCT, on an aggregate basis, are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements but is subject to, among other things, the notification and announcement requirements under Chapter 14A of the HKLR.

## **8. DEFINITIONS**

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

“2012 Circular”

the circular of the Company dated 4 September 2012



“2012 Undertaking”	as defined in section 1(a)(ii) of this announcement (erroneously stated as dated 29 February 2012 in the 2012 Circular)
“2013 WLJGH Trademark Licence Agreement”	the trademark licence agreement dated 26 April 2013 in relation to, among other things, the WangLaoJi Trademarks and entered into between GPLH (as licensor) and WLJGH (as licensee)
“Announcement Date”	the date of this announcement, being 28 May 2018
“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 HKEX and the Shanghai Stock Exchange respectively
“Confirmation Letter”	the confirmation letter dated 15 July 2016 between GPLH (as the licensor) and WLJGH (as the licensee) whereby, among other things, GPLH and WLJGH agreed to extend the term of the 2013 WLJGH Trademark Licence Agreement to 24 May 2018 as disclosed in the announcement of the Company dated 15 July 2016
“connected person”	has the meaning given to it under the HKLR
“controlling shareholder”	has the meaning given to it under the HKLR
“Custodian Period”	the custodian period under the Trademarks Custody Agreement, being the period from the date of completion of the Major Assets Reorganization to the date (i) the WangLaoJi Trademarks are transferred to the Company or (ii) GPLH and the Company mutually agree to terminate the Trademarks Custody Agreement
“Custody Supplemental Agreement”	as defined in section 1(a)(ii) of this announcement
“Custody Fee”	the custody fee of RMB1,000,000 per annum receivable by the Company under the Trademarks Custody Agreement
“Directors”	the directors of the Company

“Existing Custody Arrangements”	collectively, the arrangements comprising (i) the Custody Supplemental Agreements entered into between the Company and GPLH; and (ii) the sharing of the licence fees under the relevant trademarks licence agreements entered into between the Company (for and on behalf of the owner of the WangLaoJi Trademarks, namely GPLH) and the relevant licensees, each as contemplated by the 2012 Undertaking and which are existing as at the Announcement Date and each an “Existing Custody Arrangement”
“Existing Custody Arrangements CCT”	the continuing connected transactions constituted by the Existing Custody Arrangements
“Former WLJGH Licence Agreement”	the 2013 WLJGH Trademark Licence Agreement as supplemented and extended by the Confirmation Letter
“GPLH”	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
“HKLR”	the Rules Governing the Listing of Securities on the HKEX
“HKEX”	The Stock Exchange of Hong Kong Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Major Assets Reorganization”	has the meaning given to it in the 2012 Circular
“New Licence Fees”	as defined in section 1(a)(i)(C) of this announcement
“New WLJGH Licence Agreement”	the trademarks licence agreement dated 28 May 2018 and entered into between the Company (for and on behalf of the owner of the WangLaoJi Trademarks, namely GPLH) and WLJGH whereby WLJGH has been granted a licence to use the WangLaoJi Trademarks
“percentage ratios”	has the meaning given to it under Ruler 14.04(9) of the HKLR

“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
“Total Caps”	the aggregate of the annual caps on the licence fees which the Company and GPHL are entitled to under the WLJGH Custody Supplemental Agreement
“Trademarks Custody Agreement”	the conditional agreement dated 29 February 2012 and entered into between the Company and GPHL in relation to the provision of custody services by the Company to GPHL for the WangLaoJi Trademarks, as supplemented by the supplemental agreement dated 15 June 2012
“WangLaoJi Trademarks”	the trademarks in WangLaoJi* (王老吉) series owned by GPHL
“WLJGH”	Guangzhou WLJ Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“WLJGH CCT”	the continuing connected transactions between the Company and GPHL as constituted by the WLJGH Custody Supplemental Agreement
“WLJGH Custody Supplemental Agreement”	the supplemental agreement dated 28 May 2018 in relation to the Trademarks Custody Agreement and entered into between the Company and GPHL as contemplated by the 2012 Undertaking

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

Guangzhou, the PRC, 28 May 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 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.*