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廣州白雲山醫藥集團股份有限公司  
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: 00874)*

## **CHANGES IN USE OF PROCEEDS AND ACQUISITION OF TRADEMARKS FROM A CONNECTED PERSON – RECEIPT OF ENQUIRY LETTER FROM THE SHANGHAI STOCK EXCHANGE**

References are made to two announcements of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “**Company**”) both dated 27 December 2018 (the “**HK Announcements**”) in relation to, among others, the acquisition of trademarks from a connected person and the changes in use of proceeds. Unless otherwise defined herein, terms used in this announcement shall have the same meanings as defined in the HK Announcements.

On 28 December 2018, the Company received the “Enquiry Letter in relation to the Disclosure of Information on the Changes in Use of Proceeds and Acquisition of Trademarks from a Connected Person of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Shang Zheng Gong Han [2018] No. 2776) 《關於對廣州白雲山醫藥集團股份有限公司變更募投項目收購關聯方商標等事項的問詢函》上證公函[2018] 2776 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 28 December 2018 (the “**ORA**”) on the Hong Kong Stock Exchange setting out the material contents of the Enquiry Letter. The contents of the ORA are as follows:

The SSE has reviewed the announcement of the Company published on 28 December 2018 in relation to the proposed change in use of part of proceeds from the extension project of modern medical logistics services and the project for establishment of information platform to the acquisition of the “Wang Lao Ji” series trademarks held by GPL, the controlling shareholder of the Company and the proposed postponement of the implementation date of the construction project of Phase 1 of the production base for “Grand Southern TCM” and the project for the establishment of information platform. After the post review on the above announcement, in accordance with the relevant requirements under Rule 17.1 of the Rules Governing the Listing of Securities on the SSE, the Company is required to verify and make further disclosure on the following issues.

## I. The Acquisition of Trademarks from a Connected Person

According to the announcement and the Valuation Report, the Company intends to change the use of RMB1,000 million and RMB80 million out of the proceeds for the extension project of modern medical logistics services and the project for the establishment of information platform respectively to the acquisition of the “Wang Lao Ji” series trademarks (hereafter referred to as the “**Subject Assets**”) held by GPHL, the controlling shareholder of the Company. The Subject Assets are currently in the custody of the Company and are licensed to be used by, among others, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd, Guangzhou WLJ Great Health Industry Co., Ltd (the “**WLJ Great Health**”), Hutchison Whampoa Great Health Products Guangzhou Baiyunshan Company Limited, Guangzhou Baiyunshan Xing Qun Pharmaceutical Co.,Ltd, Guangzhou Wang Lao Ji Dazhai Beverage Co.,Ltd, Guangdong Guangliang Industrial Co., Ltd, and Guangzhou WLJ Catering Management Development Co., Ltd at the license fees charged by the Company and shared with GPHL in a certain proportion. In the current transaction, the Appraised Value of the Subject Assets issued by Allied Appraisal Co., Ltd\* (中聯國際評估諮詢有限公司) as of the Valuation Benchmark Date, i.e. 30 June 2018, was RMB1.39 billion, which represents a high premium over the net book value of RMB839,100. Please make further disclosure on the following issues:

(1) As stated in the Valuation Report, the income-based method was used by the Valuer primarily to value the future discounted expected revenue from the Subject Assets, which was calculated as expected income (Ri) = fee basis \* license fee rate \* (1+VAT rate) \* proportion attributable to GPHL – VAT – surcharges – trademark custody fee – enterprise income tax, whereof the fee basis is the sales amount (before tax) of the licensed products or the revenue from principal businesses recorded in the financial statements of the licensed enterprise. Please make further disclosure on: (1) the procedure of the forecast income from the Subject Assets and the assumptions for the key valuation parameters including license fee rate, the proportion attributable to GPHL and the discount rate etc.; (2) the basis of determining the relevant parameters for the forecast period during the valuation and clarification on whether the key valuation parameters are subject to subsequent changes.

(2) As disclosed in the announcement, the Subject Assets recorded an operating income of RMB111 million and a net profit of RMB81.38 million in 2017. Please make further disclosure on the specific calculation basis of the “operating revenue” and “net profit” according to the basis adopted for the information as set out in the Valuation Report.

(3) As disclosed in the announcement, GPHL has undertaken, if the current transaction completes in 2019, that the audited net income from the trademark licensing of the Subject Assets for the years from 2019 to 2021 shall not be less than RMB153 million, RMB163 million and RMB171 million, respectively. Please present the sales amount (before tax) of the licensed products, income from the principal businesses of the licensed enterprise, the net income from the trademark licensing of the Subject Assets and the year-on-year change for the recent three years and as of 30 November 2018, and explain the reasonableness of the Valuation for the Subject Assets with reference to the future income forecast on the Subject Assets as set out in

the Valuation Report.

(4) During the prior periods, the Company entered into a supplemental agreement to the trademarks custody agreement with GPLH and the trademark License agreements with WLJ Great Health, pursuant to which the rate of license fees paid by WLJ Great Health was increased from 2.1% to 2.5% since 25 May 2018 and the proportion for the trademark license fees attributable to GPLH was increased from 53% to 80%. Furthermore, the proportion for the trademark license fees paid by Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd attributable to GPLH shall be increased to 80% in 2019. The Company and GPLH are required to make further disclosure on: (1) the estimation on the specific effect on the net income from the trademark licensing and Valuation of the Subject Assets resulted from the increase in the relevant license fee rate and the proportion attributable to GPLH; (2) the explanation on the specific reasons for the adjustments mentioned above and whether the special arrangements aimed for increasing the Valuation of the Subject Assets and whether there are circumstances which would impair the interests of the listed company.

(5) The Valuer is required to express its opinions on each of the above-mentioned issues.

## **II. The Progress on the Implementation of the Previous Investment Projects**

According to the announcement, for the previous investment projects with the proceeds raised from the Proposed Placing of the Company, the construction project of Phase 1 of the production base for “Grand Southern TCM” is expected to be completed on 31 January 2019, and the extension project of modern medical logistics services and the project for the establishment of information platform are expected to be completed on 31 December 2018. As at 30 November 2018, the actual progress on the above three investment projects is 3%, 0 and 8.78%, respectively. The Company currently intends to change the extension project of modern medical logistics services and reduce the investment in the project for the establishment of information platform. Please make further disclosure on the following issues:

(1) Although the scheduled completion date is forthcoming for the above three projects, the investment amount is less than 50%, or even not started. Please explain the reason for the slow progress on the above projects and whether the decisions were made prudently according to feasibility study reports. Please provide the opinions from the independent financial adviser.

(2) The Company currently intends to postpone the implementation date of the construction project of Phase 1 of the production base for “Grand Southern TCM” and the project for the establishment of information platform to 31 January 2021 and 31 December 2020, respectively and reduce the size of investment in the project for the establishment of information platform. Please reassess the feasibility and the expected income of the above investment projects, and disclose the relevant risks.

## **III. Others**

The directors and supervisors of the Company are required to expressly give their

views on the reasonableness of those issues including, among others, the transaction and the change in the investment projects using the proceeds raised from the Proposed Placing, the fairness of the pricing and the risk control, and explain if they performed the necessary diligence obligations such as due diligence etc.

Please disclose the Enquiry Letter on 28 December 2018 and reply to us in writing prior to 4 January 2019, and perform the obligation to disclose information accordingly.

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

Guangzhou, the PRC, 30 December 2018

*As at the date of this summary, the Board comprises Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Li Hong 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.*