

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

ANNOUNCEMENT ON RECEIVING A LETTER ON POST REVIEW AND ENQUIRY ON THE 2017 ANNUAL REPORT OF THE COMPANY FROM SHANGHAI STOCK EXCHANGE

Reference is made to the Summary of the 2017 Annual Report dated 15 March 2018 and the Annual Report 2017 dated 6 April 2018 of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “**Company**”) in relation to the annual results of the Company for the year of 2017. Unless otherwise defined, capitalized terms used in this announcement shall have the same meaning as those defined in the abovementioned summary and annual report.

On 11 April 2018, the Company received a letter from Shanghai Stock Exchange (the “**SSE**”), namely the *Letter on Post Review and Enquiry on the 2017 Annual Report of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited* (Shang Zheng Gong Han [2018] No. 0295 (《關於對廣州白雲山醫葯集團股份有限公司2017年年度報告的事後審核問詢函》(上證公函[2018]0295號)) (the “**Letter of Enquiry**”), which requests the Company to clarify and provide further disclosure on the issues set out in the Letter of Enquiry. With regard to the Letter of Enquiry, the Company has published an overseas regulatory announcement (the “**Overseas Regulatory Announcement**”) on the Hong Kong Stock Exchange on 11 April 2018, which includes the main contents of the Letter of Enquiry. The English translation of the contents of the Overseas Regulatory Announcement is as follows.

In accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – The Contents and Formats of Annual Report* (《公開發行證券的公司信息披露內容與格式準則第2號—年度報告的內容與格式》) (hereinafter referred to as the “**Formats Standards No. 2**”) and the Industrial Information Disclosure Guidelines of the Shanghai Stock Exchange and based on a post review on the 2017 annual report of your company, we hereby request your company to make further disclosure on the following issues in light of the conditions of the industry for the convenience of the investors to comprehend.

- I. As disclosed in the Annual Report, during the Reporting Period, the pharmaceutical manufacturing business of your company realized a revenue of RMB7.796 billion, the manufacturing enterprises were 26 subsidiaries of your company and the sales were mainly realized through two platforms, namely HWBYS and Baiyunshan Pharmaceutical Marketing.
1. Please make further disclosure on the sales model of your pharmaceutical products, including the specific business models and manning arrangements of, and the types and quantity of pharmaceutical products sold by, HWBYS and Baiyunshan Pharmaceutical Marketing, and the sales realized by other sales platforms.
 2. Please explain, in light of the sales model of your pharmaceutical products, the specific impacts brought by the policies related to the industry, such as the removal of the price markups on medicine and the two-invoice system, on the sales of your pharmaceutical products and the countermeasures adopted by your company.
 3. As shown in the Annual Report, HWBYS is a joint venture and a related party of your company. Please further explain the reason why your company chose it as a sales platform, the mechanism and specific arrangements for the transactions between both parties, the transaction amounts and the fairness of pricing.
- II. As disclosed in the Annual Report, during the Reporting Period, the great health business of your company was mainly carried out via WLJ Great Health (hereinafter referred to as “WLJ Great Health”) which realized a revenue of RMB8.574 billion, representing a year-on-year increase of 10.35%, and a gross profit margin of 45.25%, representing a year-on-year increase of 4.47 percentage points. As at the end of the Reporting Period, your company had inventory of RMB3.7 billion, representing a year-on-year increase of nearly RMB1 billion, which was mainly due to the fact that WLJ Great Health responded to the sales peak during the Spring Festival by stocking upon goods.
4. Please explain the reasons and reasonability of the increases in the gross profit margins of the related businesses of your company, with reference to the cost composition of your products, such as Wang Lao Ji, including the changes in the prices and consumptions of main raw materials and fuels, and the breakdown and changes in labor costs, depreciation and amortization and etc.
 5. Please explain the reasonability of the increase of inventory during the Reporting Period, if there exist any activities to reduce unit production cost and enhance gross profit margin by expanding production and if there is a risk for impairment resulting from stock backlog, with reference to the year-end inventory of WLJ Great Health in the latest three years and the relationship with the time of the Spring Festival.
 6. The accountant who performed the annual audit for your company shall issue opinions on the issues mentioned in paragraphs 4 and 5.

- III. As disclosed in the Annual Report, from January 2017, your company transferred the product promotion fees (including free gifts and display fees) incurred by WLJ Great Health but not yet settled from “selling and distribution expenses – advertising and promotion fees” to “selling and distribution expenses – sales service fee”. During the Reporting Period, your company incurred sales expenses of RMB4.286 billion, including sales service fee of RMB1.279 billion, representing a year-on-year increase of RMB0.473 billion, and advertising and promotion fees of RMB0.567 billion, representing a slight year-on-year increase.
7. Please make further disclosure on the revenue, costs and net profit of WLJ Great Health in the latest two years and their percentages in such items of the listed company, the closing balances of the sales expenses, accounts receivable, other receivables and other payables of WLJ Great Health, and their percentages in such items of the listed company, as well as the breakdown and changes thereof and the underlying reasons.
 8. Please explain, in light of the sales model and promotion method of WLJ Great Health in the latest two years and the changes therein, the settlement process, accounting method and changes of relevant expenses.
 9. Please explain, in light of the abovementioned issues, the reasons for adjusting the accounting methods of the promotion fees of relevant products and if it is in compliance with relevant requirements of accounting standards.
 10. The accountant who performed the annual audit for your company shall issue opinions on the issues mentioned in paragraphs 7, 8 and 9.
- IV. As disclosed in the Annual Report, GPHL, the controlling shareholder of your company, has undertaken that, after all of the legal disputes regarding the trademark of “Wang Lao Ji” have been resolved and within two years commencing from the transferable day, it will transfer to your company the trademarks related to “Wang Lao Ji”. During the Reporting Period, your company paid GPHL license fees for the Wang Lao Ji trademark in an amount of RMB86.03 million.
11. Please explain, with reference to the provisions of relevant agreement, the basis on which your company paid the relevant trademark license fees.
 12. Please explain, in light of the progress of the legal disputes regarding the trademark of “Wang Lao Ji”, the satisfaction progress of the conditions precedent to the transfer of the trademarks related to “Wang Lao Ji” by GPHL, the controlling shareholder of your company, to your company and subsequent arrangements thereof.

Regarding the abovementioned issues, pursuant to the requirements of the Formats Standards No. 2 and the Industrial Information Disclosure Guidelines of the Shanghai Stock Exchange, if your company considers that it is not applicable or not convenient to disclose for special reasons, the Company shall disclose the reasons in details.

Your company is requested to disclose this Letter of Enquiry on 12 April 2018 and make further disclosure on the abovementioned issues and amend your regular reports accordingly by 18 April 2018.

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 12 April 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.