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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)

IN RELATION TO REPLY TO ENQUIRY LETTER FROM THE SHANGHAI STOCK EXCHANGE

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

References are made to the announcements of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “**Company**”) dated 11 April 2018 and 12 April 2018 regarding the receipt by the Company of 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**”) from the Shanghai Stock Exchange (the “**SSE**”) on 11 April 2018, requesting the Company to elaborate on and to provide further disclosure in relation to the issues set out in the Enquiry Letter.

The Company has submitted a reply to the Letter of Enquiry (the “**Reply**”) to the SSE and published an announcement dated 17 April 2018 regarding the Reply on the website of the SSE (<http://www.sse.com.cn>), the full text of which is set out below for information purpose only.

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 18 April 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.

Announcement on the Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited to the Letter on Post Review and Enquiry on the 2017 Annual Report of the Company Limited from the Shanghai Stock Exchange

The board of directors (the “Board”) of the Company and all members of the Board warrant that this announcement does not contain any false information, misleading statements and material omissions, and are collectively and individually responsible for the truthfulness, accuracy and completeness of the content herein.

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “Company”) received “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藥集團股份有限公司 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”) from the Shanghai Stock Exchange (the “SSE”) on 11 April 2018, the reply to the questions in the Letter of Enquiry as follow (unless otherwise specified, the abbreviations or terms used in the following are the same as those disclosed in the 2017 Annual Report of the Company):

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.

Answer:

The sales models of the Group’s pharmaceutical products mainly include:

(1) The Company's affiliated subsidiaries and its holding subsidiaries organize external sale of their self-produced pharmaceutical products mainly through self-operation and agent sales models by leveraging on sales channels of distributors and agents at all levels to cover the majority of hospitals, community medical services and retail terminals in the PRC.

For products tendered by hospitals: The affiliated enterprises of the Company carry out tendering process for pharmaceutical products tendered by hospitals throughout the country according to the relevant national policies. After winning the bid, they carry out distribution

and dispatching process for relevant pharmaceutical products through the drug distribution and operation enterprises.

For products not tendered by hospitals: The Company conducts promotion mainly by agent sales and by way of distribution. The Company's affiliated enterprises dispatch their own teams to assist the distributors in terminal development and maintenance for realizing products sales and market coverage by taking advantage of the resource, distribution and delivery of the drug distribution and operation enterprises.

(2) Pharmaceutical industry sales platform

The Company established HWBYS and Baiyunshan Pharmaceutical Marketing and HWBYS as two sales platforms in 2015 in the mode of "industrial operation + commercial platform", which integrated with the Group's pharmaceutical manufacturing enterprises' marketing resources to improve the marketing capacity.

With Baiyunshan Pharmaceutical Marketing as the sales platform, the Company integrated the sales business, marketing personnel and other resources of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang to gradually engage in the businesses of several segments such as the prescription drug products marketing centre, OTC products marketing centre, general agent and e-commerce operation centre. Currently, Baiyunshan Pharmaceutical Marketing is mainly engaged in sales of pharmaceutical products (inclusive of prescription drug and OTC) of the above three enterprises, therefore the above three enterprises are not equipped with duplicated pharmaceutical sales teams. As of 31 December 2017, the sales team of the Company consists of approximately 555 employees in total and the sales in 2017 amounted to approximately RMB2.959 billion (tax inclusive).

The HWBYS OTC sales platform, with HWBYS and its affiliated enterprises as the subject drives the affiliated manufacturing enterprises of the Company to cooperate with Top 100 Chains with a view to enhancing business connection. Meanwhile, Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("HWBYS Pharmaceutical"), a wholly-owned subsidiary of HWBYS, conducted sales promotion, cultivation and development for the pharmaceutical products of a medium or small size by way of agent sales to further enhance the sales of the Group's pharmaceutical products in the pharmaceutical chain stores in other provinces. As supplement to the OTC sales system of the Group, the sales of the Group's products through this platform for 2017 amounted to approximately RMB45.80 million (tax inclusive).

(3) E-commerce sales platform

E-commerce sales platform is one of the sales channels that the Company will focus on developing. Currently, the Company's Guangyao Baiyunshan flagship store has set up e-commerce terminal sales platforms in Tmall and Jingdong, etc. which recorded a revenue of approximately RMB16 million in 2017; the Guangyao Jian Min e-commerce platform of GP Corp., the Company's joint venture, achieved a revenue of approximately RMB485 million in 2017.

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.

Answer:

In 2017, all public hospitals in the PRC have removed the price markups on medicine, strictly controlled the growth in medicine expenses and restricted the dosage of prescription drug, resulting in the slower growth in usage of medicine in hospitals. Due to the implementation of “enhancing capabilities of lower-level medical institutions”, “maintaining basic coverage” and hierarchical diagnosis, the medicine application center will move to the basic-tier market, and the primary medical institutions will increase the dosage of medicine. In light of this, the Group will further accelerate the sinking of resources and allocate more resources to basic-tier market, expand its sales network for primary medical services, and increase the sales volume of grassroots medicines.

In addition, the “two-invoice system” was gradually implemented in the procurement of public medical institutions in the PRC. The implementation of the “two-invoice system” will facilitate the manufacturers to speed up the transformation of the original business marketing model, deeply intervene in the market and flatten the channels. The Group sells pharmaceutical products partly by a multi-tiered distributor model. The implementation of the “two-invoice system” will bring about certain pressure on the Group’s pharmaceutical sales in the short term. Under this circumstance, on the one hand, the affiliated manufacturing companies of the Company will work with distributors to explore new models for cooperation under the flat channels, or will re-select other regional marketing and promotion service providers to carry out marketing and promotion activities so as to adapt to changes in the new model. On the other hand, the Group will proactively participate in the bidding and tendering for pharmaceutical products in all provinces, and strengthen the cooperation with drugstores, in particular chain drugstores. In addition, the Group will accelerate the transformation of product sales in hospitals and intensify academic promotion to stabilize and expand market share.

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.

Answer:

HWBYS is joint venture held as to 50% by the Company and possesses a nationwide sales network consisting of over 1,000 sales personnel. HWBYS Pharmaceutical, a wholly-owned subsidiary of HWBYS, has passed GSP certification. The commercial cooperation foundation and sales resources accumulated by HWBYS can drive the other enterprises of the Group to enhance OTC marketing. HWBYS Pharmaceutical is currently mainly engaged in agent promotion and sales of the products of certain subsidiary manufacturing enterprises of the Company.

HWBYS is a related party of the Company and both parties adopt a market mechanism for negotiation and market price as the pricing principle. In 2017, the agent sales of the Group’s products by HWBYS Pharmaceutical recorded revenue of approximately RMB45.80 million (tax inclusive).

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.

Answer: The increase in the gross profit margin of WLJ Great Health, a wholly-owned subsidiary of the Company, in 2017 was mainly due to the decrease in the sales discount rate. The enterprise implemented the measure of “control of expenses and maintenance of price” for marketing in 2017 to reduce the discount rate, resulting in a year-on-year increase of products’ gross profit margin by 4.79 percentage points.

The changes in production costs gave rise to a year-on-year decrease in gross profit margin by 1.40 percentage points in 2017. Details are as follows:

Composition of production costs	Year-on-year change of gross profit margin (%)
White granulated sugar	-0.94
Packaging materials	-0.53
Medicinal materials	0.04
Manufacturing expenses	0.09
Processing charges	0.08
Concentrated juice yield	-0.14
Total	-1.40

Note: as the products of WLJ Great Health are mainly produced by others and WLJ Great Health has a small production output, the effects of changes in fuel price, dosage, labour costs, depreciation and amortization, etc. have little effects on the production costs.

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.

Answer:

(1) Relationship between the year-end inventory of WLJ Great Health in the latest three years and the time of the Spring Festival

	2016	2017	2018
Time of Lunar New Year's Eve	7 February	27 January	15 February
Outage time	31 January	20 January	8 February
Inventory of finished products as at the end of the last year (RMB0'000)	29,743	47,818	104,932
Including: can (0'000 TEUs)	1,342	2,389	4,948
Accumulated pick-up in the period from November of last year to March of the current year (0'000 TEUs)	5,990	7,744	9,077
Including: pick-up in November – December of last year	1,786	2,788	1,609
Pick-up in January – March in the current year	4,204	4,956	7,468
Inventory as at the end of March	1,176	2,086	842

The inventory as at the end of 2017 was mainly the leading product canned herbal tea, the inventory of which was 49.48 million TEUs, representing a year-on-year increase of 25.59 million TEUs. 15 February 2018 was the Lunar New Year's Eve and the outage time for the Spring Festival was 8 February. As compared with the outage time of 2017 (20 January), there were 19 more days for pick-up of goods. The goods picked up in the period from January to March in 2018 were 74.68 million TEUs, representing a year-on-year increase of 25.12 million TEUs. The increase in pick-up was basically consistent with the year-on-year increase in inventory as at the end of last year. The inventory as at the end of March 2018 was 8.42 million TEUs, representing a year-on-year decrease of 12.44 million TEUs.

The above data shows that, the large inventory as at the end of 2017 was mainly due to the delay in pick-up as a result of the time of Spring Festival of 2018. The inventory as at the end of March 2018 was lower than that at the same period two years ago. There is no risk of depreciation due to arrear of inventory.

(2) Output data of WLJ Great Health in the recent three years is as follows:

Item	Unit	2015	2016		2017	
		Quantity	Quantity	Year-on-year increase in quantity	Quantity	Year-on-year increase in quantity
Can	0'000 TEUs	15,332	17,469	14%	19,061	9%

pet	0'000 cases	1,996	2,365	18%	3,345	41%
Others	0'000 cases	30	19	-35%	13	-30%

The above table shows that the output of the leading product canned WLJ herbal tea increased by 9% year-on-year in 2017, which is close to the year-on-year increase in sales revenue by 10.38%. The company did not improve its gross profit margin through expanded production and reduction of unit cost.

6. The accountant who performed the annual audit for your company shall issue opinions on the issues mentioned in paragraphs 4 and 5.

Answer:

BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditors for 2017, issued the following opinions on the issues mentioned in paragraphs 4 and 5:

The composition of WLJ product costs as mentioned in the Company's answer to the above question 4 including the changes in the prices and consumptions of major raw materials and fuels, changes in dosage, labour costs, depreciation and amortization, etc. is consistent with the data in our annual audit; there is no difference between the major reasons for the increase in gross profit margin of relevant products and those as understood by us in the annual audit.

The relevant data of the year-end inventory of WLJ Great Health as mentioned in the Company's answer to the above question 5 is consistent with the data obtained by us in annual audit; there is no difference between the analysis and explanation on the relationship with the time of the Spring Festival, whether the gross profit margin is improved through expanded production and reduction of unit cost, and whether there is risk of depreciation caused by arrear of inventory and the information understood by us in the annual audit.

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.

Answer:

(1) The revenue, costs, net profit of WLJ Great Health and their percentages in such items of the Company in the recent two years

(Unit: RMB0'000)

Item	2017	Percentage in the Company in 2017	2016	Percentage in the Company in 2016
Revenue	857,927.16	40.94%	778,388.22	38.85%
Revenue from principal businesses	857,874.55	41.26%	777,173.74	39.10%
Costs of principal businesses	470,303.16	36.11%	460,325.51	34.42%
Net profit	63,093.10	29.78%	43,288.90	27.77%

(2) 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 Company in the last two years

Item	2017	Percentage in the Company in 2017	2016	Percentage in the Company in 2016
Sales expenses	275,842.89	64.36%	236,073.10	61.74%
Accounts receivable	2,196.54	1.97%	2,690.61	2.43%
Other receivables	56,532.29	270.08%	27,768.10	135.37%
Other payables	137,301.30	57.22%	161,606.68	71.26%

Note: The calculation of percentages in the above table uses the amount of relevant items of the Company after combined elimination at the end of the Reporting Period.

(3) Breakdown and changes of the above accounting items of WLJ Great Health and the underlying reasons

① Sales expenses:

(Unit: RMB0'000)

Item	2017	Percentage	2016	Percentage	Reasons for changes
Employee remuneration	99,647.66	36.12%	99,231.96	42.03%	The employee remuneration is mainly for sales staff, which have not changed much.
Sales service fee	106,160.69	38.49%	58,167.93	24.64%	See note for details.

Advertising and promotion fees	27,387.66	9.93%	31,935.11	13.53%	See note for details.
Freight and miscellaneous charges	33,965.76	12.31%	37,444.20	15.86%	The freight and miscellaneous charges are mainly product transportation charges, which have not changed much.
Overhead expenses	8,681.12	3.15%	9,293.90	3.94%	The overhead expenses are mainly overhead expenses incurred by sales agencies and personnel, which have not changed much.
Total	275,842.89	100.00%	236,073.10	100.00%	

Note: WLJ Great Health further improved the accuracy of selling and distribution expenses by review and tease out the detail of that expenses and transferred the product promotion fees (including free gifts, display, exclusive sales, barcode and others fees) incurred but not yet settled from “selling and distribution expenses –advertising and promotion fees” to “selling and distribution expenses –sales service fee” since January 2017.

② Other receivables

(Unit: RMB0'000)

Item	2017	Percentage	2016	Percentage	Reasons for changes
Dividend	51,915.55	91.85%	24,215.84	87.36%	Increase in current accounts of dividend
Others	4,616.74	8.15%	3,552.26	12.64%	Mainly put tax not deducted for the internal current accounts of the Group, prepaid utilities and property

					management fee, which have not changed much.
Total	56,532.29	100.00%	27,768.10	100.00%	

③ Other payables

(Unit: RMB0'000)

Item	2017	Percentage	2016	Percentage	Reasons for changes
Sales discount incurred but not yet settled	21,394.10	15.58%	60,060.00	37.16%	In 2017, the measure of “control of expenses and maintenance of price” resulted in a year-on-year decrease in the discount that shall be settled for customers. Meanwhile, the accelerated settlement which aimed at improvement of customer satisfaction gave rise to a decrease in the closing balance of sales discount not settled.
Expenses incurred but not yet paid	108,281.21	78.86%	96,088.36	59.46%	The decrease in discount incurred but not yet settled caused an increase in the

					percentage of expenses incurred but not yet paid
Others	7,625.99	5.56%	5,458.32	3.38%	Mainly trademark license fees, input tax not deducted for the internal current accounts of the Group, deposits, etc. which have not changed much.
Total	137,301.30	100.00%	161,606.68	100.00%	

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.

Answer:

For the sales of Wang Lao Ji herbal tea and other products, WLJ Great Health mainly adopts sales model in combination of trade and distribution of customers. The product promotion of WLJ Great Health is mainly conducted by way of free gifts, display, exclusive sales, barcode, promotion, package, materials, advertising, temporary employment, etc. Upon completion of promotional activities, the distributors submit invoices, purchasing orders or relevant supporting materials of the activities to WLJ Great Health for review, the Company then gives those distributors preferential price discounts or expense reimbursement based on the results of their execution of promotional activities.

WLJ Great Health made provision for the liabilities arising from promotional activities for products which have been incurred but not yet settled at the end of each month on an accrual basis. The settlement will be conducted after reverseal of the accumulated liabilities not settled for which provision was made in the last month and review following procedures with the invoices and other original vouchers. Statistics will be re-conducted and provision will be made for the accumulated liabilities not settled at the end of the month.

Before the fourth quarter of 2016, the distributors of WLJ Great Health were allowed to choose the way of settlement at the time of actual settlement of expenses. Due to the adjustment to marketing strategy in the fourth quarter, WLJ Great Health clarified the way of settlement for promotional activities during the activities of distributors and also clarified the settlement method for the liabilities for which no settlement method was clarified in the previous period. In particular, for the liabilities for which the settlement was clarified to be

conducted by way of sales discount, the provision for advertising and promotion fees in the previous period was adjusted to provision for sales discount.

- ① Before adjusting the marketing strategy, the product promotional expenses that have incurred but not settled are recognized as expenses and liabilities.

Debtor: selling expenses- advertising and promotion fees

Creditor: other payables - accrued expenses

- ② After adjusting the marketing strategy, the product promotional expenses that have incurred but not settled are settled as agreed with distributors.

A. Settlement to be conducted by way of refund of expenses

Debtor: selling expenses- advertising and promotion fees

Creditor: other payables - accrued expenses

B. Settlement to be conducted by way of sales discount

Debtor: revenue from principal businesses

Creditor: other payables - sales discount

WLJ Great Health further improved the accuracy of selling and distribution expenses by review and tease out the detail of that expenses and transferred the product promotion fees (including free gifts, display, exclusive sales, barcode and others fees) incurred but not yet settled from “selling and distribution expenses –advertising and promotion fees” to “selling and distribution expenses –sales service fee” since January 2017.

The reply to the question 1 in the Announcement on Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to the Letter of Enquiry from Shanghai Stock Exchange dated 24 November 2017 of the Company has given detailed explanations on the settlement process, accounting method and changes of relevant expenses based on the sales model and promotion method of WLJ Great Health in the latest two years and the changes therein (for details, please refer to the relevant announcement). There was no change in the period from the date of the abovementioned announcement to 31 December 2017.

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.

Answer:

For details of the reasons for adjusting the accounting methods of the promotion fees of relevant products, please refer to the above answer to clause 8 in question III. In addition, the replies to questions I and V in the Announcement on Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to the Letter of Enquiry from Shanghai Stock Exchange dated 24 November 2017 of the Company have given detailed explanations on 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. (for details, please refer to the relevant announcement). There was no change in the period from the date of the abovementioned announcement to 31 December 2017.

10. The accountant who performed the annual audit for your company shall issue opinions on the issues mentioned in questions 7, 8 and 9.

Answer:

BDO China Shu Lun Pan Certified Public Accountants LLP, the Company’s auditors

for 2017, issued the following opinions on the issues mentioned in paragraphs 7, 8 and 9:

The Company's 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 in the above question 7 is consistent with the data obtained by us in the annual audit; there is no big difference between the explanation on the breakdown and changes thereof and the underlying reasons and the information as understood by us in the annual audit.

For the above question 8, the first point in the Announcement on Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to the Letter of Enquiry from Shanghai Stock Exchange dated 24 November 2017 of the Company has given detailed explanations on the settlement process, accounting method and changes of relevant sales expenses based on the sales model and promotion method of WLJ Great Health in the latest two years and the changes therein, and our accountants have also issued opinions and confirmed that there is no difference between the above description and the information as understood by us in the annual audit (For details, please refer to the relevant announcement). There was no change in the period from the date of the abovementioned announcement to 31 December 2017.

For the above question 9, The points 1 and 5 in the Announcement on Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to the Letter of Enquiry from Shanghai Stock Exchange dated 24 November 2017 of the Company have given detailed explanations on 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, and our accountants have also issued opinions (For details, please refer to the relevant announcement). There was no change in the period from the date of the abovementioned announcement to 31 December 2017.

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.

Answer:

Pursuant to the Trademark License agreement entered into by WLJ Great Health and GPHL on 25 May 2012 and 26 April 2013, GPHL authorized the use of 5 trademarks by Wang Lao Ji Great Health; WLJ Great Health agreed to pay license fees to GPHL at 2.1% of its aggregate net sales, GPHL and the Company are to entitled by 53% and 47% of the license fee respectively. That Trademark License agreement has expired on 31 December 2015, Wang Lao Ji Great Health and GPHL have entered into Confirm Letter in accordance with Trademark License agreement in year 2016, periods of license has been extended to 24 May 2018. For details, please refer to the Announcement on Continuing Connected Transaction of Guangzhou Pharmaceutical Company Limited dated 25 May 2012 and the

Announcement on Continuing Connected Transaction of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 15 July 2016 of the Company.

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.

Answer:

In accordance with the undertaking letter dated 29 February 2012 and the supplementary undertaking letter dated 15 June 2012, GPHL has made the promise as follows: 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, GPHL shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of “Wang Lao Ji” together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPHL after the Execution Day (inclusive of today) for the “Supplementary Agreement to the Agreement of Trademark Custody”. The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority. (For details, please refer to the Report on Absorption and Merger of Guangzhou Baiyuanshan Pharmaceutical Co., Ltd., Issuance of Shares for Purchase of Assets and Connected Transaction of Guangzhou Pharmaceutical Company Limited (Draft) dated 18 June 2012 of the Company). In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPHL, which proposed to amend the performance period of the former undertakings to “two years since the commencing date of the judgment on the law case of red can decoration”, due to the disputes of red can decoration. The resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was considered and approved at the 8th meeting of the sixth session of the Board and the first extraordinary general meeting in 2015. (For details, please refer to the Announcement Proposed Amendments to Undertaking Given by Controlling Shareholder of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 18 December 2014 of the Company).

On 16 August 2017, the Supreme People’s Court of the PRC announced the judgment on the “case of over red can decoration”, and the judgment is final. On the same day, GPHL and Wang Lao Ji Great Health, the Company’s wholly-owned subsidiary, received the relevant civil judgment of the Supreme People’s Court of the PRC on the “case over red can decoration” (For details, please refer to the Announcement of the Final Judgement on the “Case over Wang Lao Ji Red Can Decoration” of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 16 August 2017). According to GPHL’s undertaking made on 29 February 2012, the supplementary undertaking made on 15 June 2012 and the revised undertaking made in 2014, the conditions for GPHL to transfer “Wang Lao Ji” series trademarks to the Company have been satisfied. At present, relevant work is

in progress. The Company and GPLH have set up a work team and engaged relevant intermediaries to carry out evaluation and relevant work, striving to complete injection of trademarks within the period promised.

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
18 April 2018