廣州白雲山医药集团股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

OVERSEAS REGULATORY ANNOUNCEMENT 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**" or **"GYBYS"**) dated 28 December 2018 and 30 December 2018 regarding the receipt by the Company of 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**") on 28 December 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 Enquiry Letter to the SSE and published an announcement dated 4 January 2019 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, 4 January 2019

As at the Announcement Date, 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.

Stock Code: 600332 Stock Name: Baiyunshan Announcement No.: 2019-001

Announcement on the Reply of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited to 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 from the Shanghai Stock Exchange

IMPORTANT:

- In relation to the expected gains on the acquisition by the Company of 420 trademarks under the "Wang Lao Ji" series held by its controlling shareholder, namely GPHL, main influential parameters include trademark royalty rate, ratio of distribution to GPHL, discount rate, etc.. In particular, the trademark royalty rate for WLJ Great Health was adjusted from 2.1% to 2.5% according to the Trademark Licensing Contract dated 28 May 2018. According to the Supplemental Agreement to the Trademark Custody Agreement signed by the Company and GPHL on the same date, the profit-sharing ratio was adjusted to 20%:80%. Due to the solution of equity disputes, Wang Lao Ji Pharmaceutical was changed from a joint venture to a controlled subsidiary. In order to accurately reflect the contributions made by the Company and GPHL to authorize Wang Lao Ji Pharmaceutical to use the trademarks, we intend to sign a licensing agreement in relation to the permission of Wang Lao Ji Pharmaceutical to use relevant trademarks based on the profit-sharing principles determined by the Trademark Custody Contract signed in 2012 and its supplemental agreement. The profit-sharing ratio of trademark royalty fees was adjusted to 20%:80%. Such adjustments are not special arrangements designed to increase the valuation of subject assets and do not jeopardize the interests of the listed company. This transaction is instrumental in ensuring the completeness of the Company's assets, reducing connected transactions and guaranteeing the Company's operational safety.

- In consideration of the slow progress of Phase 1 of the production base for “Grand Southern TCM” and the project for the establishment of information platform, the Company intends to extend the construction project of the above two projects for two years. In addition, as the work of investing the extension project of modern medical logistics services with proceeds has not yet commenced, the Company intends to change the use of RMB 1.08 billion out of the proceeds for the extension project of modern medical logistics services and the project for the establishment of information platform to the acquisition of the “Wang Lao Ji” series trademarks held by GPHL, the controlling shareholder of the Company.

In respect of the requirements set out in 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) issued by the Shanghai Stock Exchange and received by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (hereinafter referred to as “GYBYS” or the “Company”) on 28 December 2018, and according to the requirements of the SSE, the Company reply on the relevant issues set out in the Enquiry Letter as follows:

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 (the “Wang Lao Ji Pharmaceutical”), Guangzhou WLJ Great Health Industry Co., Ltd (the “WLJ Great Health”), Hutchison Whampoa Great Health Products Guangzhou Baiyunshan Company Limited (the “Hutchison Whampoa Great Health”), Guangzhou Baiyunshan Xing Qun Pharmaceutical Co.,Ltd(the “Xing Qun”), Guangzhou Wang Lao Ji Dazhai Beverage Co.,Ltd(the “Wang Lao Ji Dazhai”), Guangdong Guangliang Industrial Co., Ltd, and Guangzhou WLJ Catering Management Development Co., Ltd(the “WLJ Catering”) 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:

(I)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.*

Reply: (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..

1. Explanation on the selection of the key parameters during the calculation procedure of the forecast income from the Subject Assets

A.Fee basis

The fee basis (except Guangzhou WLJ Catering Management Development Co., Ltd, hereinafter referred to as “WLJ Catering”)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. The fee basis of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (hereinafter referred to as “Wang Lao Ji Pharmaceutical”), Guangzhou WLJ Great Health Industry Co., Ltd (hereinafter referred to as “WLJ Great Health”) and Guangzhou Wang Lao Ji Dazhai Beverage Co., Ltd (hereinafter referred to as “Wang Lao Ji Dazhai”) is the revenue from principal businesses; and the fee basis of Hutchison Whampoa Great Health Products Guangzhou Baiyunshan Company Limited (hereinafter referred to as “Hutchison Whampoa Great Health”) and Guangzhou Baiyunshan Xing Qun Pharmaceutical Co. ,Ltd (hereinafter referred to as “Xing Qun”) is the sales amount (before tax) of the licensed products, i.e. the revenue from principal businesses generated during the sale of the licensed products. The fee basis of WLJ Catering is calculated by the fixed minimum guaranteed amount or payment of commissions based on its net profit. As Guangzhou Pharmaceutical Holdings Limited(hereinafter referred to as the “GPHL”) has terminated the license contract with Guangdong Guangliang Industrial Co., Ltd in advance, the future earnings of the license contract and the possible direct and indirect impact on the trademark value have not been taken into account in this valuation.

During the calculation procedure of the income for the forecast period, the fee basis in respect of the above-mentioned enterprises for the forecast period includes: the expected sales amount from July to December 2018 based on the sales amount of the first half of 2018, January to September 2018 and previous years; the expected growth rate of 2019 to 2023 based on the relevant sales amount of 2018, and assuming that the relevant sales amount after

2023 remains at the level of 2023.

The forecast of the sales revenue for the basis period and the future revenue growth rate among the fee basis of the major enterprises is as follows:

No.	**Name of the licensed enterprise**	Main products using licensed trademarks	Sales revenue for the basis period	Forecast of future growth rate	Remark
1	WLJ Great Health	Products such as red canned WLJ herbal tea, red bottled WLJ herbal tea and Black Herbal Tea	The growth rate of the revenue from principal businesses since 2014 to 2017 was 10.7%, 0.2%, -6.4%and 15.5%, respectively；the expected growth rate of the revenue from principal businesses for 2018 is 8.2%.	The growth rate of sales amount of herbal tea products from 2019 to 2023 shall be 6%, 6%, 5%, 4% and 3%, respectively.	
2	Wang Lao Ji Pharmaceutical	Green boxed WLJ herbal tea, WLJ Run Hou Tang (王老吉潤喉糖), Guangdong Liang Cha Ke Li (廣東涼茶顆粒）, Baoji Wan (保濟丸), Ke Gan Li Yan Oral Liquid (克感利咽口服液), Tankejing	The revenue from principal businesses for 2016 was RMB 1,222,790,000, representing a decrease of 18% over the previous year. The revenue from principal businesses in 2017 increased by 12.2% and the expected revenue from principal business in 2018 increases by	The revenue from principal businesses from 2019 to 2023 shall be 16%, 8.7%, 7.7%, 5.8%, 2.9%, respectively.	The reason for larger growth in 2019: In 2018, the arbitration of the company's joint venture contract dispute entered the implementation process, and the related negative effects were gradually ruled out. The sales of licensed products shall

		(痰咳淨), etc.	6.3% as compared to the previous year.		also enter a period of restorative growth.
3	Hutchison Whampoa Great Health	"Nei Gong (內功)", "Ding Yang (頂養)", "Ji You (吉悠)", "Ji Dong Li (吉動力)", "Si Ji Neng Liang (四季能量)", Jin Yin Hua Lu (金銀花露) beverage, Baiyunshan Herbal Tea, etc.	Hutchison Whampoa Great Health has been licensed to use the trademarks for a relatively short period, and the new products launched and old products adjusted unevenly during the previous years and the relevant products were still in aincubation stage, so its historical annual sales revenue has fluctuated significantly.	The sales revenue of licensed products from 2019 to 2023 shall increase by 7%,6%,5%, 4% and 3% as compared to the previous year, respectively. The expected sales revenue of new products is RMB23,126,000 in 2019,and the growth rate of sales revenue from 2020 to 2023 shall be 6%, 5%, 4%, 3%,respectively.	In December 2018, GYBYS signed a license agreement with Hutchison Whampoa Great Health for new products (composite tea products and lemon tea products), and the sales revenue of new products shall be forecasted from 2019.
4	Xing Qun	Xing Qun Xia Sang Ju (夏桑菊) plant beverage, drinking water products and Huang Jin Ju (黃金菊) beverage (Since June 2018, the Xia Sang Ju series have not used the "Wang Lao	In the first half of 2018, the sales revenue of Xia Sang Ju plant beverage was RMB28, 902,500. The sales revenue from drinking water products for 2018 was RMB410,600.	The growth rate of sales amount of drinking water products from 2019 to 2023 shall be -40.2%, 6%, 5%, 4% and 3%, respectively; the expected sales revenue of Huang Jin Ju beverage for 2019shall be RMB5,000,000, and its growth rate of sales revenue from	In the first half of 2018, the sales revenue of Xia Sang Ju plant beverage was RMB28, 902,500. Since June 2018, the Xia Sang Ju series have not used the "Wang Lao Ji" trademark anymore; and in December 2018, GYBYS and Xing Qun signed a

		Ji" trademark anymore).		2020 to 2023 shall be 6%, 5%, 4%and 3%, respectively.	license agreement for the Huang Jin Ju beverage.
5	Wang Lao Ji Dazhai	Dazhai Walnut Drink	Dazhai Walnut Drink began to be sold since June 2017, and its sales revenue excluding taxes from June to December was RMB 9,367,300. It was expected that its annual sales revenue for 2018 would amount to RMB34,304,200.	The expected growth rate of sales amount from 2019 to 2023 shall be 4.5%, 8%, 5%, 4% and 3%, respectively.	
6	Guangzhou WLJ Catering Management Development Co., Ltd ("WLJ Catering")	Wang Lao Ji freshly brewed herbal tea shop	The company started its trial operation in 2017. It was expected that its total profit would remain a negative figure by the end of 2018, and its net profit would not reach the performance standard of paying commissions based on net profit in 2019.	The license fee revenue for the second half of 2018 and the years since 2019 is forecasted to be at least RMB100,000, being the annual guaranteed amount.	The license fee is calculated by the fixed minimum guaranteed amount or payment of commissions based on its net profit.

B. License fee rate and the proportion attributable to GPHL

According to the new trademark license agreement entered into between GYBYS and WLJ Great Health in May 2018, the trademark license fee rate was agreed to be 2.5%，and the proportion for the trademark license fees attributable to GPHL shall be 80%. Therefore, during the forecast period, GPHL shall calculate its expected profits from its share of license fees of the Subject Assets obtained from WLJ Great Health based on the trademark license fee rate of 2.5% agreed in the new trademark license agreement and the proportion attributable to GPHL of 80%. After the expiry of the license period agreed in the license agreement, the expected profits of the trademark shall be determined by referring to the provisions herein.

According to the Trademark License Agreement and the Supplemental Agreement entered into by GPHL and Wang Lao Ji Pharmaceutical and the Supplemental Agreement to the Trademark License Agreement entered into between GPHL and Guangzhou Pharmaceutical Company Limited (hereinafter referred to as the "GPC") on 8 November 2004, the annual trademark license fee of Wang Lao Ji Pharmaceutical is calculated at 2.1% of net sales shown in the audited annual financial statements prepared in accordance with China Accounting Standards, and the applicable trademark license fee rate for Wang Lao Ji Pharmaceutical during the forecast period is 2.1%, which is determined by referring to the above agreements during the valuation. In 2018, the arbitration of the company's joint venture contract dispute entered the implementation process, and Wang Lao Ji Pharmaceutical became a holding subsidiary of the Company and GYBYS intends to resign a trademark license agreement with Wang Lao Ji Pharmaceutical. With reference to the proportion attributable to GPHL identified in the Trademark Custody Agreement entered into between GPHL and GPC on 29 February 2012 and the supplemental agreements in relation to the above agreements entered into on 15 June 2012 (hereinafter referred to as the "Trademark Custody Agreement and its Supplemental Agreement), the proportion of license fees attributable to GPHL shall be adjusted to 80% from 2019. Therefore, in the calculation of the share of license fees of the Subject Assets that GPHL shall obtain from Wang Lao Ji Pharmaceutical, the proportion of license fees attributable to GPHL shall remain at 53% for the second half of 2018 during the forecast period, and the proportion of license fees attributable to GPHL shall be 80% since 2019.

From 2014 to 2017, the license fee rate agreed in multiple trademark license agreements entered into by GYBYS and Hutchison Whampoa Great Health was 2.1%. As of the Valuation Benchmark Date, most of the license agreements have expired. GYBYS and Hutchison Whampoa Great Health have determined through negotiation that after 19 June 2018, the licensed Wang Lao Ji trademarks shall be used in the licensed products subject to the Wang Lao Ji trademark licensed products management standard VI and relevant management rules issued by GPHL and confirmed by GYBYS in the form of weak endorsement. In December 2018, GYBYS renewed the expired license agreements with Hutchison Whampoa Great Health, pursuant to which, the trademark license fees shall be paid at the license fee rate of 2.1% before 19 June 2018 and 0.8% after 19 June 2018. Therefore, since 19 June 2018, the license fees for the licensed products in the unexpired license agreements shall be calculated as 0.8% of the net sales of licensed products as shown in the annual financial statements x (1+VAT rate). In addition, in December 2018, GYBYS and Hutchison Whampoa Great Health entered into a license agreement in relation to new products such as composite tea series products and lemon tea products, pursuant to which, the license fee rate was 0.8%. In accordance with the Trademarks Custody Agreement and its

Supplementary Agreement, the proportion for the trademark license fees collected in the above license agreements attributable to GPHL shall be 80%. After the expiry of the license period agreed in the license agreements, the expected profits of the trademark shall be determined by referring to the provisions therein.

In accordance with the license agreement entered into by Xing Qun in March 2016, the license fee shall be calculated as 2.1% of the net sales of the licensed products stipulated in such agreement. In December 2018, in the license agreement in relation to the Huang Jin Ju beverage entered into by GYBYS and Xing Qun, the license fee rate was 0.8% (Huang Jin Ju beverage products trademark is used in the form of weak endorsement). In accordance with the Trademarks Custody Agreement and its Supplementary Agreement, the proportion for the trademark license fees collected in the above license agreements attributable to GPHL shall be 80%.

The license fee rate agreed in the trademark license agreement of Wang Lao Ji Dazhai was 2.1% of the net sales in the financial statements. In accordance with the Trademarks Custody Agreement and its Supplementary Agreement, the proportion for the license fees attributable to GPHL shall be 80%. After the expiry of the license period agreed in the license agreements, the expected profits of the trademark shall be determined by referring to the provisions hereof.

The license fee of WLJ Catering is calculated by the fixed minimum guaranteed amount or the payment of commissions based on net profit. In accordance with the Trademarks Custody Agreement and its Supplementary Agreement, the proportion for the license fees paid by WLJ Catering attributable to GPHL shall be 80%. After the expiry of the license period agreed in the license agreements, the expected profits of the trademark shall be determined by referring to the provisions therein.

2. Trademark custody fee

In accordance with the Trademarks Custody Agreement and its Supplementary Agreement and the supplementary agreement to the above agreements entered on 28 May 2018, during the custody period of Wang Lao Ji trademark, the entrusting party shall pay RMB 1 million to the entrusted party before the end of March every year as the basic annual custody fee under the Trademark Custody Agreement.

3.VAT、surcharges and taxable rates

The VAT rate applicable to the trademark license fee is 6%. Surcharges mainly include urban maintenance and construction tax at the rate of 7%, education surcharge and local education surcharge at the aggregated rate of 5%. Therefore, the aggregated rate of surcharges is 12%. Enterprise income tax is estimated at 25% of the current tax rate.

VAT= trademark license fee (VAT inclusive) /（1+VAT rate）×VAT rate

Urban maintenance and construction tax =VAT× rate of urban maintenance and construction tax
Education surcharge and local education surcharge =VAT× education surcharge rate

4.Forecast of trademark profits for the perpetual period

Trademark users shall be under the stable operation after 2023. It is expected that the sales revenue after 2023 will level off as compared to 2023, and the expected profits of trademarks will also remain on the level of 2023.

5.Discount rate

In this evaluation, the discount rate for evaluating intangible asset is calculated by reference to the average return on equity of intangible asset for comparable objects based on the below calculation formula:

$ri=（WACC - W_c \times r_c - W_f \times r_f）\div W_i$

Where：
WACC：weighted average total return on capital
W_c：refers to the proportion of operating assets (working capital) to the total value of equity and interest-bearing debts;
W_f：refers to the proportion of fixed assets (capital) to the total value of equity and interest-bearing debts
W_i：refers to the proportion of intangible assets (capital) to the total value of equity and interest-bearing debts
r_c：refers to expected rate of return on investment in operating assets (working capital);
r_f：refers to expected rate of return on investment in fixed assets (capital)；
r_i：refers to expected rate of return on investment in intangible assets (capital).

In which, $WACC= K_e \times E/(D+E)/ (1-T)+ K_d \times D/(D+E)$

In the equation：
K_e refers to cost of equity capital；
K_d refers to cost of debt capital;
D/E refers to debt to equity ratio of the title holder
T refers to enterprise income tax rate.

Where: $K_e = R_f + \beta \times RP_m$
R_f =Risk-free rate of return;
β= Enterprise risk parameter；
R_{Pm} =Market risk premium.

(1)Risk-free rate of return R_f

Risk-free rate of return R_f: with reference to the average interest rate of mid- and long-term government bonds issued by the PRC Government during the previous five years
, the approximation of risk free return (R_f)is determined based on the average interest rate of government bonds of more than ten years (i.e. R_f = 3.97%).

(2)Selection of Market risk premium R_{Pm}

Expected market rate of return R_{Pm}: it is generally considered that the volatility of stock index is capable to reflect the volatility of the overall market, and the long-term average rate of return of the index may reflect the average yield rate expected by the market. By using the average yield rate of Shanghai Composite Index during the period from 21 May 1992 when stock prices were fully liberalized and after free price bidding transactions were implemented to 31 December 2016 for estimation, a rate of return approximates to the market expected yield rate is obtained, that means: r_m= 9.60%, and market risk premium R_{Pm}=9.60% －3.97%=5.63%.

(3)Beta coefficient of comparable companies

Evaluators make the inquiry and selection of the listed companies in the industries in which the enterprises are engaged in by using WIND information, details of the elected companies refers to (5)Determination of the discount rate.

(4)Debt capital cost K_d

The one-year loan interest rate of 4.35% is used as the capital cost of short-term interest-bearing liabilities, the one-year to three-year loan interest rate of 4.75% is used as the capital cost of long-term interest-bearing liabilities, and the weighted average capital cost of long-term and short-term interest-bearing liabilities is used as K_d.

(5)Determination of the discount rate

The expected return on working capital investment is 3.26% after deducting income tax, calculated referring to the one-year loan interest rate of 4.35%. The expected return on fixed assets investment is 3.68% after deducting income tax, calculated referring to the interest rate of loan over five years of 4.90%. The calculation of the expected return (r_i) on intangible assets of the comparable companies are shown in the following table:

Stock code	Stock name	Weighted average capital cost (WACC) after tax	The average proportion of working capital to the total equity and interest-bearing liabilities	Return on working capital (after tax)	The average proportion of fix assets to the total equity and interest-bearing liabilities	Return on fixed assets (after tax)	Return on intangible assets (after tax)	Average return on intangible assets (after tax)
000568.SZ	LU ZHOU LAO JIAO	8.89%	10.24%	3.26%	5.60%	3.68%	9.92%	12.52%
000596.SZ	GUJING TRIBUTE WINE	9.01%	10.08%	3.26%	11.40%	3.68%	10.52%	
000729.SZ	YANJING BEER	9.40%	12.01%	3.70%	59.24%	4.17%	22.57%	
000848.SZ	CHENGDE LULU	12.17%	15.73%	3.26%	6.20%	3.68%	14.64%	
000860.SZ	SHUNXIN AGRICULTURE	7.35%	53.57%	4.35%	24.45%	4.90%	17.41%	
000869.SZ	ZHANGYU A	8.89%	12.11%	3.26%	33.81%	3.68%	13.41%	
002304.SZ	YANGHE SHARES	8.01%	8.71%	3.26%	8.15%	3.68%	8.93%	
002461.SZ	ZHUJIANG BEER	9.28%	37.94%	3.26%	24.05%	3.68%	18.85%	
200596.SZ	GUJING GONG B	7.27%	8.43%	3.26%	9.53%	3.68%	8.10%	
200869.SZ	ZHANGYU B	6.70%	10.19%	3.26%	28.47%	3.68%	8.67%	
600132.SH	CHONG QING BEER	11.79%	-0.99%	3.70%	12.54%	4.17%	12.78%	
600300.SH	WEIWEI SHARES	9.08%	25.90%	3.26%	35.97%	3.68%	18.12%	

Stock code	Stock name	Weighted average capital cost (WACC) after tax	The average proportion of working capital to the total equity and interest-bearing liabilities	Return on working capital (after tax)	The average proportion of fix assets to the total equity and interest-bearing liabilities	Return on fixed assets (after tax)	Return on intangible assets (after tax)	Average return on intangible assets (after tax)
600559.SH	LAOBAIGAN WINE	10.30%	7.10%	3.26%	5.51%	3.68%	11.29%	
600600.SH	TSINGTAO BREWERY	8.15%	7.85%	3.26%	25.84%	3.68%	10.48%	
600779.SH	SHUIJING FANG	10.91%	3.99%	3.26%	2.92%	3.68%	11.46%	
600809.SH	SHANXI FEN WINE	9.24%	5.39%	3.26%	5.43%	3.68%	9.94%	
603198.SH	YINGJIAGONG LIQUOR	13.08%	17.84%	3.26%	11.48%	3.68%	17.09%	
603369.SH	JINSHIYUAN	9.77%	16.02%	3.26%	11.11%	3.68%	12.13%	
603589.SH	KOUZI LIQUOR	5.92%	11.08%	3.26%	7.33%	3.68%	6.48%	
603711.SH	XIANG PIAOPIAO	6.75%	9.97%	3.26%	9.00%	3.68%	7.52%	
600332.SH	BAIYUNSHAN	9.16%	26.84%	3.70%	12.16%	4.17%	12.55%	

After the above calculation, the discount rate of the intangible assets assessed is 12.52%.

(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.

Two important parameters in the evaluation using income method are the trademark licensing rate and the proportion of licensing fee attributable to GPHL. The basis for the determination of such parameters mainly include the Trademark Custody Agreement and the Supplementary Agreement, and the trademark licensing agreements entered in relation to the licensing of trademarks by GPHL to the subsidiaries of GYBYS. Among the companies that mainly use Wang Lao Ji trademark, only the proportion of licensing fee attributable Wang Lao Ji Pharmaceutical has changed during the forecast period. The main reason for such change is that the licensing contract of Wang Lao Ji Pharmaceutical was signed before the Trademark Custody Agreement became effect and in accordance with the Trademark Custody Agreement and its Supplementary Agreement, the proportion of licensing fee is not subject to the latter. After the expiration of the joint venture term of Wang Lao Ji Pharmaceutical, the arbitration results and implementation progress of the equity dispute have caused a significant change in the background conditions on which the original licensing contract based. GPHL and GYBYS intended to adjust the proportion of licensing fee attributable to GPHL to 80% from 2019 as stipulated in the Trademark Custody Agreement and its Supplementary Agreement and re-sign the licensing contract. Thus, the distribution ratio of GPHL is 53% from July to December, 2018 according to the original agreement and is adjusted to 80% from 2019. Except for the adjustment to the proportion of licensing fee of Wang Lao Ji Pharmaceutical attributable to GPHL from 2019 (same adjustment onwards), the above two important parameters will not change subsequently.

(II) As disclosed in the announcement, the Subject Assets recorded an operating income of RMB111 million and a net profit of RMB81.38million 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.

Reply: 1. The calculation basis of operating income: According to the Trademark Licensing Contract entered into between GPHL, Wang Laoji Pharmaceutical and WLJ Great Health, the Trademark Licensing Contract entered into between GPHL and Guangdong Guangliang Industrial Co., Ltd.(廣東廣糧實業有限公司), as well as the Trademark Custody Agreement and its Supplementary Agreement entered into between GPHL and the Company, the basic trademarks of the Subject Assets were licensed to Wang Lao Ji Pharmaceutical, WLJ Great Health, Hutchison Whampoa Great Health, Xing Qun, Wang Lao Ji Dazhai and Guangdong Guangliang Industrial Co., Ltd., and GPHL charged certain trademark licensing fee. The trademark licensing fee (excluding tax) chargeable by GPHL in 2016, 2017 and January to June 2018 were RMB93,015,823.22, RMB110,871,679.23 and RMB73,207,648.52 respectively, which were presented as operating income of the Subject Assets. That is, operating income = fee basis * trademark licensing fee rate * proportion attributable to GPHL.

2. Calculation basis of net profit: For the trademark licensing fee chargeable by GPHL, after deducting the corresponding tax and surcharges, the amortization expense of the Subject

Assets, trademark protection expense, trademark custody fee and corporate income tax expense, the net income realized in 2016, 2017 and the period from January to June 2018 was RMB67,570,837.73, RMB81,381,003.85 and RMB53,731,307.60, which were presented as net profit of the Subject Assets. That is, net profit = operating income - tax and surcharges - amortization expense of the trademark assets - trademark protection expense - trademark custody fee - corporate income tax.

(III) 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 RMB153million, 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.

Reply: The she 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 are as follows:

RMB:0’000

	2015	2016	2017	Jan-Nov 2017	Jan-Nov 2018
Income from the principal businesses of Wang Lao Ji Pharmaceutical	149,122.86	122,279.00	137,243.56	137,321.63	151,908.14
* Growth rate		-18.0%	12.2%		10.6%
Income from the principal businesses of WLJ Great Health	711,354.74	665,676.70	769,150.18	679,569.02	792,840.85
* Growth rate		-6.4%	15.5%		16.7%
Income from the principal businesses of Hutchison Whampoa Great Health	2,199.12	1,476.14	3,930.31	3,091.94	7,899.26
* Growth rate		-32.9%	166.3%		155.5%

Income from the principal businesses of Xing Qun	3,436.64	3,784.34	3,722.32	2,961.60	3,503.70
* Growth rate		10.1%	-1.6%		18.3%
Income from the principal businesses of Wang Lao Ji Dazhai	0	0	936.73	688.20	2,005.39
* Growth rate					191.4%
Total (the basis for calculating licensing fee)	866,113.35	793,216.17	914,983.11	823,632.38	958,157.34
* Growth rate		-8.4%	15.4%		16.3%

Net income from the trademark licensing	7,126.62	6,520.91	7,550.05	6,784.69	10,589.04
* Growth rate		-8.5%	15.8%		56.2%

Note: the difference between the net income from the trademark licensing for the year of 2016 and 2017 in the above table and the net income stated in Item (II) is mainly due to that: the net income stated in Item (II) is arrived from the perspective of financial accounting for business enterprise, which includes the net income from trademark license fee payable by Guangdong Guangliang Industrial Co., Ltd.to GPHL, while the above table adopts the calculation basis as set out in the Valuation Report, which takes no account of the net income from the license fee payable by Guangdong Guangliang Industrial Co., Ltd.

According to the data of the tables above, the total amount of the basis for calculating licensing fee (the tax-free sales of licensed products and income from the principal businesses of licensed enterprises) decreased 8.7% and increased 15.3% in 2016 and 2017, respectively, and increased 16.3% from January to November 2017 to January to November 2018. The growth rates of the basis for calculating licensing fee during the period from 2018 to 2023 are 8.5%, 7.4%, 6.4%, 5.4%, 4.3%, and 3.0%, respectively. The forecasted number of the basis for calculating licensing fee is in line with the normal growth curve.

The net income from the trademark licensing decreased 8.9% and increased 15.7% in 2016 and 2017, respectively and increased 56.2% from January to November 2017 to January to November 2018. The growth rates of the net income from the trademark licensing during the period from 2018 to 2023 are 45.5%, 39.2%, 6.4%, 5.4%, 4.3%, and 3.0%, respectively. The growth rates of the net income from the trademark licensing from 2020 to 2023 are the same as the growth rates of the basis for calculating licensing fee. The high growth rates in 2018 and 2019 are mainly due to the new contract entered after WLJ Great Health's original license agreement expired in May 2018 which has adjusted the license fee rate and the proportion attributable to GPHL and the effect of adjustment on the proportion for the trademark license fees paid by Wang Lao Ji Pharmaceutical attributable to GPHL in the beginning of 2019. The decision of the two companies on adjusting the license fee rate and proportion is mainly based on the Trademark Custody Agreement entered into by GPHL and GYBYS and the GYBYS's management measures on trademark licensing. The purpose of the adjustments is to uniformly implement the Trademark Custody Agreement and trademark licensing management measures, and cancel the original differences, which will be conducive to the future unified management and is consistent with the requirements of the Company's actual business management.

Based on the above, the valuation of trademark assets is reasonable.

(IV)During the prior periods, the Company entered into a Supplemental Agreement to the Trademarks Custody Agreement with GPHL and the Trademark License Agreement 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 GPHL was increased from 53% to 80%. Furthermore, the proportion for the trademark license fees paid by Wang Lao Ji Pharmaceutical attributable to GPHL shall be increased to 80% in 2019. The Company and GPHL 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 GPHL; (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.

Reply: **(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 GPHL**

According to the Asset Appraisal Law of the PRC,the Interim Measures on Evaluation and Administration of State-owned Assets in the Enterprises, the Guidelines of the Shanghai Stock Exchange on Related Party Transactions of Listed Companies and other relevant regulations and regulatory documents, income approach and cost approach are used in the evaluation. The cost approach adopts the replacement cost of assets as the value standard, reflecting the socially necessary labor consumed by the asset investment (the cost of acquisition and construction), which is applicable to 406 defensive trademarks in the subject of this transaction. The income approach adopts the expected income of assets as the valuation standard, reflecting the degree of the operating capability (profitability) of the assets. It can effectively reflect the important value contribution of the high visibility of trademarks to the sale of trademark products. This approach is applicable to 14 basic trademarks in the subject of this transaction.

Among them, the valuation of 406 defensive trademarks determined by cost approach is RMB 1,374,531, and the valuation of 14 basic trademarks determined by income approach is RMB 1,387,748,100. After negotiation between the parties, the transfer price of 420 trademarks of the “Wang Lao Ji” series is the market value of valuation subject related to the exclusive rights of the 420 trademarks evaluated by GPHL on valuation base date 30 June 2018 for the transaction, i.e. RMB 1,389,122,631.

In the income approach valuation process, the rate of license fees of the trademarks to be evaluated and the proportion for the trademark license fees attributable to GPHL are based on terms of the Trademark Custody Agreement and its Supplementary Agreement entered into by GYBYS (formerly known as GPC) and GPHL, the Trademark License Agreement entered into by the user of the licensed trademarks and WLJ Great Health and the Trademark License Agreement entered into by GYBYS on behalf of GPHL according to the Trademark Custody Agreement. According to the trademark license agreement newly entered into by GYBYS and WLJ Great Health, 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 GPHL was increased from 53% to 80%. According to the “Explanation on the Proposed Re-signing of the Trademark Licensing Agreement with Wang Lao Ji Pharmaceutical” jointly issued by GPHL and GYBYS, the proportion for the trademark license fees attributable to GPHL was increased from 53% to 80% since 1 January 2019.

The net income of the trademark license fee related to the sales of products of WLJ Great Health and Wang Lao Ji Pharmaceutical and the corresponding valuations under A and B scenarios as well as the impact of increasing such license fee rate and the proportion attributable to GPHL on the net income from the trademark license fee and such valuation are analyzed as follows:

Unit: RMB0’000

Category		**A (WLJ Great Health: the rate of license fees of 2.1%, the proportion of 53%; Wang Lao Ji Pharmaceutical : the proportion of 53%)**	**B (WLJ Great Health : the rate of license fees of 2.5%,the proportion of 80%; Wang Lao Ji Pharmaceutical: the proportion of 80%)**	**Difference (B-A）**
WLJ Great Health	Forecasted net income for the period	42,948	77,533	34,585

	Valuation	65,418	118,059	52,641
Wang Lao Ji Pharmaceutical	Forecasted net income for the period	8,082	12,206	4,124
	Valuation	12,595	19,126	6,531
Forecasted net income for the period of basic trademarks		52,109	90,819	38,710
Valuation of basic trademarks		79,603.10	138,774.81	59,171.71
Valuation of all trademarks		79,740.5531	138,912.2631	59,171.71

As shown in the table above, after adjusting the trademark license fee rate of WLJ Great Health and the proportion attributable to GPHL, the forecasted net income from the trademark license fee for the period is RMB 345.85 million, with an valuation of RMB 526.41 million; after adjusting the trademark license fee rate of Wang Lao Ji Pharmaceutical and the proportion attributable to GPHL, the forecasted net income from the trademark license fee for the period is RMB 41.24 million, with an valuation of RMB 65.31 million. Accordingly, the forecasted net income for the period of basic trademarks is RMB 387.10 million, with an valuation of RMB 591,717,100.

(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.

1. Background and reasons for the change of the rate of and the proportion for license fees of WLJ Great Health

(1)Background and reasons for the change of the proportion for license fees of WLJ Great Health

In order to achieve overall listing, GPHL let GPC absorbed and merged Guangzhou Baiyuanshan Pharmaceutical Co., Ltd. and GPC issued shares to acquire the assets of GPHL (hereinafter referred to as “Previous Restructuring”) through a share swap of Guangzhou Pharmaceutical Company Limited in order to maximize the protection of the interests of small and medium investors. GPHL promised to inject the Wang Lao Ji trademark into GPC (the predecessor of GYBYS) when appropriate after the settlement of the trademark related dispute, and hand it over to Guangzhou Pharmaceutical Company Limited for custody before injection. Taking into account factors such as the contribution of the two parties to the trademark of Wang Lao Ji, after negotiation and implementation of necessary procedures, the two parties entered into the Trademark Custody Agreement between GPC and GPHL and its supplemental agreement in February and June 2012, respectively. It is agreed that the proportion for license fees of Guangzhou Pharmaceutical Company Limited and GPHL during the custody period is 20%:80%. The effective date of such agreement is the date of completion of Previous Restructuring (i.e.5 July 2013).

Prior to the effective date of the Trademark Custody Agreement and its Supplemental Agreement, GPHL and WLJ Great Health entered into the Trademark License Agreement on 25 May 2012, pursuant to which, GPHL agreed to authorize the use of five registered trademarks (registration numbers: no. 4771572, 3980709, 9095940, 958049 and 626155) by WLJ Great Health, subject to some limitations and conditions; the term of the license was commenced from 25 May 2012 and expired on 24 May 2013; the trademark license fee rate was calculated at 2.1% of WLJ Great Health's net sales in financial statements; the proportion for the trademark license fees attributable to Guangzhou Pharmaceutical Company Limited and GPHL was 47% : 53%. On 26 April 2013, pursuant to the conditions equivalent to those provided above, GPHL and WLJ Great Health renewed the Trademark License Agreement, to extend the term of the license fee to 31 December 2015, and also agreed that, upon the expiration of such renewed agreement, both parties may give priority to renewal if there is no objection, and the term of which will be extended to 24 May 2018. On 15 July 2016, GPHL and WLJ Great Health entered into Confirm Letter in accordance with their agreement, and recognized mutually to extend the term of trademark license to 24 May 2018;Before the expiration of the extended trademark licensing, the Trademark License Agreement signed by both parties was effective, which means the other provisions of the Trademark License Agreement continued to execute from 1 January 2016 to 24 May 2018 (the Trademark License Agreement and its renewal agreement, together with the Confirm Letter, hereinafter referred to as the “previous Trademark License Agreements”).

On 28 May 2018, due to the expiration of the previous Trademark License Agreements, in accordance with the Trademark Custody Agreement and its Supplemental Agreement, as well as the Undertaking Letter entered into between the Company and GPHL on 26 March 2012 in respect of the custody of trademarks, the Company and GPHL signed the Supplemental Agreement to the Trademark Custody Agreement, to determine the caps of the trademark license fees that allowed to be charged by the Company and GPHL) and re-signed the Trademark License Agreement. In view of the re-signing of the Trademark License Agreement was based on the effective the Trademark Custody Agreement and its Supplemental Agreement, the proportion for the trademark license fees attributable to the Company and GPHL under the new Trademark License Agreement was adjusted to 20%: 80%, strictly complying with the Trademark Custody Agreement and its Supplemental Agreement from 25 May 2018 to 24 May 2021.

(2)The reason for the adjustment to the trademark license fee rate of WLJ Great Health

On 25 May 2012, WLJ Great Health obtained the right to use the licensed trademarks, with a trademark license fee rate of 2.1% of the relevant net sales, and prior to 24 May 2018, it continuously maintained such license by way of entering into, among other things, renewal agreement or confirmation letter. On 24 May 2018, upon the expiration of the previous Trademark License Agreements, the Company discharged its powers and functions as the Trademark Consignee (on behalf of GPHL), to re-sign the Trademark License Agreement with WLJ Great Health. In view of the current substantial increase in the value of the trademarks under trusteeship, under the strong brand endorsement of the trademark of Wang Lao Ji, the popularity and influence of WLJ Great Health have improved gradually, thus WLJ Great Health achieved rapid development. Since its establishment in 2012, WLJ Great Health has become a company with sales income exceeding RMB 8 billion and relatively strong profitability. As the previous Trademark License Agreements have been signed for a long time, the previous trademark license fee rate of 2.1% could no longer reflecting the true value of those trademarks, while the Company has also amended the Internal Trademark Licensing Management Measures, with reference to the prevailing level of trademark license fee rate of the similar trademarks in the market. According to these measures, for those enjoying the strong brand endorsement (refers to using the relevant trademark or trade name as the main brand carrier of any goods or services, to undertake all or major brand recognition functions of a product, including the brand value, quality function and consumer awareness) provided by "Wang Lao Ji" series trademarks, the license fees shall be charged at 2.5%, and for those enjoying the weak brand endorsement (refers to using the relevant trademark or trade name as an supporting brand carrier for any commodity or services, which need to be used together with the corresponding "strong endorsement" trademark, and will not directly form a part of the brand name of a product, but provide support for the credibility and quality of the main trademark of that product), the license fees shall be charged at 0.8%. The license fees of WLJ Great Health enjoying the strong brand endorsement shall be charged at 2.5%.

2.The background and reason of the proportion for the trademark license fees attributed by Wang Lao Ji Pharmaceutical to be raised to 80% in 2019

From 2004 to 2018, Wang Lao Ji Pharmaceutical had been a joint venture of the Company, in which each of the Company and the joint venture partner Golden Force Pharmacy Limited held 48.0465%. The major operational decisions of Wang Lao Ji Pharmaceutical are made by the shareholders of both parties. In November 2004, the Trademark License Agreement and the Supplemental Agreement was signed by GPHL and Wang Lao Ji Pharmaceutical, and the Supplemental Agreement to the Trademark License Agreement was signed by GPHL and GPC. In July 2005, the Supplemental Agreement on Payment of Trademark License Fees was signed by GPHL, GPC and Wang Lao Ji Pharmaceutical. According to these agreements, the proportion for the trademark license fees of Wang Lao Ji Pharmaceutical attributable to the Company and GPHL was 47%:53%. According to the Custody Agreement and its supplemental agreement signed in 2012, the proportion was re-determined at 20%: 80% by the parties based on the contribution made by the licensees except Wang Lao Ji Pharmaceutical. Since Wang Lao Ji Pharmaceutical was originally a Sino-foreign joint venture, and there was equity dispute between the shareholders of the two parties, the proportion cannot be negotiated in a normal way. In order to not affect the normal operation of the company, the proportion of trademark licensing fee was kept at 47%: 53%. The Company has fulfilled its disclosure obligations in respect of the above.

In September 2018, arbitration of the JV contract dispute case involving Wang Lao Ji Pharmaceutical proceeded into the execution phase. The Company acquired the 48.0465% equity interest in Wang Lao Ji Pharmaceutical held by Golden Force Pharmacy Limited according to the arbitration award. Currently, the Company holds a 96.0930% stake in Wang Lao Ji Pharmaceutical, which enables the Company to be absolute shareholder of Wang Lao Ji Pharmaceutical and be included in the operation and management system of the listed company. In view of the solution of the afore-said equity disputes and upon negotiation, the parties intend to sign a licensing agreement in relation to the permission of Wang Lao Ji Pharmaceutical to use relevant trademarks based on the profit-sharing principles determined by the Trademark Custody Contract signed in 2012 and its supplemental agreement, so as to accurately reflect the contributions made by the Company and GPHL to authorize Wang Lao Ji Pharmaceutical to use the trademarks. According to the "Description of the proposed re-signing of the Trademark License Agreement with Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd" jointly issued by GPHL and GYBYS, the parties will sign a formal agreement in the near future to agree that the profit-sharing ratio shall be adjusted to 80%: 20%with effect from 1 January 2019. The Company will complete the approval and decision-making procedures and perform the information disclosure obligation in strict compliance with relevant laws and regulations.

3. The adjustments are not special arrangements for improving the valuation of the subject assets, and would not impair the interests of the listed company.

As mentioned above, the adjustments on trademark license fee rate and proportion are due to the stipulation of the Trademark Custody Agreement and its Supplemental Agreement signed during the Previous Restructuring, for completely and truly reflecting the value of the licensed trademarks, the Company and GPHL adjusted the license fee rate of WLJ Great Health to 2.5% in May 2018, with the proportion being adjusted to 20% : 80%, and proposed to adjusted the proportion for the license fee of Wang Lao Ji Pharmaceutical to 20% : 80%, commencing from January 1, 2019. These adjustments are not special arrangements for improving the valuation of the subject assets.

In addition, the Company held a board meeting and a meeting of the Supervisory Committee on 28 May 2018 for the issues on re-signing of the Trademark License Agreement with WLJ Great Health, and carried out the procedures for considering and approving the related transactions at both meetings, the independent directors issued its clearly confirmed independent opinions, and published an announcement dated 29 May 2018 (See "Announcement on related transaction of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. regarding re-signing the Supplemental Agreement to the Trademark Custody Agreement"(No. Lin-2018-051)). Such matters have been carried out in accordance with the necessary procedures for considering and approving, and would not impair the interests of the listed company.

Based on the above, the Company believes that these adjustments are due to the stipulation of the Trademark Custody Agreement and its Supplemental Agreement signed during the Previous Restructuring and made for reflecting the changes of market value of the trademarks, and are not special arrangements for improving the valuation of the subject assets, and would not impair the interests of the listed company.

(V)Opinions from the Valuer on each of the above issues.

Reply: Allied Appraisal Co., Ltd. expressed its views on the above issues as follows:

For above-mentioned issue (1), the Company's further disclosure of process of income forecast of the subject assets, trademark license fee rate, GPHL's distribution proportion, discount rate and other important assessment parameters; the evaluation of the basis for the relevant parameters during the forecast period, the reply to the question of whether subsequent changes in important assessment parameters will change, are consistent with the presentation of the assessment report and the valuation calculation process.

For above-mentioned issue (2), in accordance with the data basis of the assessment report, the specific calculation basis of the "operating income" and "net profit" of the supplementary explanation is consistent with that known by the valuer during the assessment process. The basis of net profit disclosed by the Company is for the purpose of enterprise financial accounting. That is, net profit = operating income - tax and surcharges - amortization expense of the trademark assets - trademark protection expense - trademark custody fee - corporate income tax. The net gains involved in the assessment process does not involve the amortization expense of the trademark assets and trademark protection expense.

The Company's reply in relation to above-mentioned issue (3) which involves presenting 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 explaining 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 is consistent with the Valuer's knowledge obtained during the valuation process, and the Valuer also believes that the asset valuation is reasonable.

As for above-mentioned issue (4) which involves 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 GPHL, the Company's estimation and data disclosed are consistent with the Valuer's estimation results. The Company's reply in relation to the specific reasons for the adjustments to the license fee rate and the proportion 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 is consistent with the Valuer's reasons and background obtained during the valuation process, and the Valuer also believes that such adjustments are not special arrangements aimed for increasing the Valuation of the Subject Assets. As for re-signing the trademark license agreements with WLJ Great Health, relevant board meeting has been convened in accordance with relevant regulations, the supervisory committee has fulfilled the procedures for reviewing related transactions and independent directors have issued independent opinions and fulfilled the necessary review procedures and there are no circumstances which would impair the interests of the listed company.

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:

(I) 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.

(II) 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.

Reply: (I) ***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.***

1. **Reasons for the slow progress on the construction project of Phase 1 of the production base for "Grand Southern TCM" of the Company are as follows:**

The construction project of Phase 1 of the production base for "Grand Southern TCM"

of the Company includes the Ex-situ Renovation Project of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (“Ming Xing”) and the Ex-situ Renovation Project of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory（“He Ji Gong”）, the subject of which are Ming Xing and He Ji Gong, respectively.

(1) Problems occurred in the advancement of Ex-situ Renovation Project of Ming Xing:after the commencement of the project, due to the complex geological conditions, it is necessary to conduct deep inspection and adjust the construction design accordingly; and due to the changes in the state policy on Chinese medicine injection preparations, original construction plan of the project need to be partially adjusted.

Due to the impact of the above problems, the progress on the project is slow and fails to meet expectations.

(2) Problems occurred in the advancement of Ex-situ Renovation Project of He Ji Gong : the municipal “Shatangyong” in the project site has not been removed, and the land has not been officially handed over, which influences site formation and construction within the scope; the municipal supporting roads and related facilities are not perfect, and the municipal supporting road planning six roads and planning three roads have not been perfected and the government's policy of demolition and land supply changed.

Due to the impact of the above problems, the progress on the project is slow and fails to meet expectations.

3.In consideration of the above, the construction period of the construction project of Phase 1 of the production base for “Grand Southern TCM” is expected to be extended for two years until 31 January 2021.

The project is in line with the development strategy of the Company, and still needs to be promoted emphatically in the future. The Company has set up a major project office to coordinate the subordinate enterprises to actively communicate with relevant authorities in order to speed up the project implementation progress. The delay of construction project of Phase 1 of the production base for “Grand Southern TCM” has been considered and approved on the 18th meeting of the 7th session of the Board of Directors and the 12th meeting of the 7th session of the Board of Supervisors and the Independent Directors, the Board of Supervisors and sponsors of the Company have expressed their opinions. The decision-making of the delay of the project of the Company had gone through relevant review procedures and was prudent.

***(II)* Reasons for the extension project of modern medical logistics services of the Company having not been carried out are as follows:**

The project provides comprehensive management solutions of pharmaceutical intelligent logistics for hospitals, including intelligent (outpatient/ in-patient) pharmacy, in-hospital automatic pharmaceutical delivery system, PIVAS intelligent management, pharmacy storage intelligent management, medication decision supporting system, pharmacy hosting service management platform and pharmaceutical supply chain management platform and other implementation measures. The subject of the project is Guangzhou Pharmaceuticals Corporation (hereinafter referred to as "Pharmaceutical Corporation"). The reasons why the extension project of modern medical logistics services of the company has not been carried out are as follows:

Recently, the state has continuously intensified efforts to promote the reform and development of medical and health services and various provinces and cities across the country have introduced relevant medical reform action plans in order to readjust the allocation of resources structure of the pharmaceutical and health industry constantly to adapt to the changes in medical reform policy.

In order to speed up the realization of drug price reduction and fees control in medical insurance, the state promotes the procurement of drug groups in prefecture-level cities in various provinces, and further opens drugs with quantity and price linkage negotiation mechanism between cities in the country with the "4+7" drugs with quantity purchasing model. In the future, the state will further expands the scope of drug negotiation catalogue and negotiation city in order to significantly reduce the total purchase amount of drug, which will influence the gross profit of existing normal distribution business and distribution of extension project of modern medical logistics services of pharmaceutical distribution company .

In view of the National Health Commission issued the "Opinions on Accelerating the Quality Development of Pharmaceutical Services (《關於加快藥學服務高質量發展的意見》)", and previously more and more provinces and municipalities have issued regulations on public hospitals "not to escrow pharmacies to for-profit enterprises", it is expected that the local government departments at prefecture level will discourage individual high-quality medical institutions to independently carry out extension project of modern medical logistics services, and change to build a centralized distribution service system for pharmaceutical supply chains in the whole city under the coordination of the government.

Based on the above considerations, the GP Corp. should improve its professional service capabilities, invest its resources in the construction and perfection of a supply chain integration system which is more in line with the strategic development of pharmaceutical circulation enterprises, and transform itself to smart medical service providers with the overall industrial chain solution as its core competitive advantage.

GP Corp. was originally a 50:50 joint venture between the Company and its foreign shareholder, Alliance BMP Limited ("Alliance BMP"). During the past 10-year of joint venture operations, GP Corp. has achieved rapid growth, benefitting from the rich industry experience, market position, expertise and localization support of the Company as well as the international advanced experience introduced by GP Corp.. In recent years, China has vigorously promoted the reforms in the pharmaceutical industry. Policies such as “the division of medical consultation and drug dispensary”, “two-invoice system” and “zero mark-up of drugs” are set to significantly change the competitive landscape of the pharmaceutical distribution industry and accelerate the pace of mergers and acquisitions within the industry, as a result of which will further set higher requirements for the pharmaceutical distribution companies in terms of understanding of policies and response efficiency.

In order to enhance GP Corp.’s comprehensive competitive strength, further promote its development, leverage asset synergies and improve profitability, shareholders from the two parties of GP Corp. have conducted friendly negotiations on the development of GP Corp. The two parties reached a consensus to create more favorable development environment through equity adjustment., boosting the development momentum of GP Corp.. Therefore, the two parties entered into the Equity Interest Transfer Agreement on 21 December 2017, pursuant to which the Company acquired 30% of equity interest in GP Corp. held by Alliance BMP. The Company completed the assets delivery and the formalities with the relevant administration for industry and commerce in respect of the relevant matters on 31 May 2018. Since then, GP Corp. has become a subsidiary of the Company with 80% equity interest held by the Company.

In light of the impact of equity adjustment considerations, the specific plan and time for investing the project with proceeds cannot be determined, and the impact of the development trend of national policies on service extension is still largely uncertain, for the purpose of realizing the benefits of the investment projects as soon as possible and avoiding the proceeds being idle in the long term, after discussion, the Company intends to change the use of the proceeds of the project to the acquisition of the “Wang Lao Ji” series trademarks held by Guangzhou Pharmaceutical Holdings Limited, the controlling shareholder of the Company.

The implementation of the new investment project after the change is beneficial for ensuring the integrity of the assets and the business independence of the Company, reducing or avoiding related transactions, which helps to enhance the Company's market competitiveness and improve its ability of sustainable operation. The change in the use of proceeds for this project has been considered and approved at the eighteenth meeting of the Seventh Session of the Board of Directors and the twelfth meeting of the Seventh Session of the Supervisory Committee of the Company after the independent directors, the Supervisory Committee and the sponsor of the Company expressed the opinions in this regard. The Company's decision to change the use of the proceeds of the project is in compliance with the relevant approval procedures and prudent.

(III) Reason for the slow progress on the project for the establishment of information platform of the Company:

Due to the large data base of the Company and the diverse standard of it data as well as the specificity of the long circle and construction in phases along with project progress of the information project, the progress on implementing the information platform construction project of the Company is slow. The Company will expedite the implementation of the project according to the strategic development requirement on the information platform construction and make an appropriate adjustment to the investment amount based on the progress of its informatization construction so as to realize the benefits of the investment project as soon as possible and avoid the funds being idle in the long term.

In light of the above, out of the original proceeds for the project of RMB200 million, the use of RMB80 million is changed to the acquisition of the "Wang Lao Ji" series trademarks held by GPHL, the controlling shareholder of the Company, and the planned proceeds for the project is therefore reduced to RMB120 million after the change in the use of proceeds. It is proposed that the construction period of the information platform construction project of the Company will be extended for 2 years to 31 December 2020. The change in use of part of the proceeds for the project and the project postponement have been considered and approved at the eighteenth meeting of the Seventh Session of the Board of Directors and the twelfth meeting of the Seventh Session of the Supervisory Committee of the Company after the independent directors, the Supervisory Committee and the sponsor of the Company expressed the opinions in this regard. The Company's decision to change the use of part of the proceeds for the project and the project postponement is in compliance with the relevant approval procedures and prudent.

(IV) Intermediary opinions

After verification, the sponsor is of the view that the main reasons for the slow progress on the investment projects with part of proceeds of the Company are as followings: progress on the construction project of Phase 1 of the production base for "Grand Southern TCM" is slow due to the impact of the objective factors; the extension project of modern medical logistics services have not been carried out due to the impact of relevant national policy changes and the adjustment of the equity interest of the Company; the project for the establishment of information platform has undertook some adjustments according to the informatization promotion situation of the Company and the progress on the informatization project is slow due to the long circle of the project and the specificity of conducting in instalment by project progress. As the above reasons are reasonable and the decision-making of the Company is prudent, the changes in use of proceeds and the extension of the investment projects with part of proceeds will be beneficial for the Company to use proceeds more reasonably and improve the use efficiency of proceeds.

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.

Reply:I. “Grand Southern TCM” production base phase I construction project

(1)Necessity and feasibility of project implementation

① Promising prospects of the pharmaceutical market. Continual growth of the market size of the pharmaceutical market lays a solid foundation for the successful implementation of this project.
② Implementation of the “Change of the use of land from the secondary sector to the third sector (退二進三)” policy in Guangzhou. Guangzhou has implemented the “Change of the use of land from the secondary sector to the third sector (退二進三)” strategy to make adjustment to the industry planning and layout in response to the “Change of the use of land from the secondary sector to the third sector (退二進三)” policy in Guangzhou, which has promoted the industrial upgrading and transformation of the Company operates.
③ The construction of production base being an important measure for the industrial upgrading and transformation of the Company. With increasing business scale of the Company, the existing production lines of the Company are not able to meet the market demands and the Company is urgent for expanding its production scale through offsite construction.

(2) Analysis of economic benefits of the project

In light of the postponement on the construction period of this project only, as there are no significant changes in the construction and investment amount of the project, with reference to the fund input to the project, it is expected that the postponement on the project will not have significant effect on the expected income from the project.

(3) Risk warning of project implementation

①The supply of some subsequent construction land of the project is still uncertain and the complex geological conditions may cause the risks of project implementation;

②The Ex-situ Renovation Project of Ming Xing and He Ji Gong in the project may affect the increase in production capacity during the implementation process;

③If there are adjustments in national policy and updates on drug administration regulations, it may lead to policy risks on implementation of the project.

II. Information platform construction project

(1) Analysis of necessity of project implementation

With rapid development of its business and scale and greater efforts on centralized control, the Company becomes increasingly demanding for scientific and standardized management and imposes higher requirements on business model innovation, supply chain responsiveness and risk control capacity. In order to effectively support the future development of the

Company, enhance the scientificity and standardization of the Company, improve work efficiency and communication and coordination capacity, increase overall competitiveness and mitigate operational risk and take full advantage of the strengths of the Group, it is necessary for the Company to establish a centralized information system platform.

(2) Analysis of project benefits

According to the current implementation progress of the project and the project adjustment plan, the Company intends to extend the construction period of the project for two years until 31 January 2020. The implementation of the project will be conducted in steps according to the actual needs of the Company and the planning of the information system project after extension. The purpose of the project construction is to enhance the enterprise information application to a new height by creating a highly unified hardware, network and software platform of the Company and through the specialized system operation, maintenance and service, to provide technical support for the full range of daily production and operation. After completion of the enterprise information platform, it will play an important supporting role in the management of enterprise and decision-making of the management personnel at all levels. Under the corresponding management system, the project will improve the efficiency of the enterprise, reduce the cost or expense of procurement, finance, management, marketing and production, provide effective technical means for effectively controlling the operational risk and improving the customer satisfaction and loyalty, and promote the enterprise competitiveness.

(3) Risk warning of project implementation

① There are many subsidiaries under the Company and their application systems are yet to be unified and have large and highly complicated data base, which will affect the progress of implementing the future centralized information platform construction project;

② The information project has the characteristics of long construction circle and construction in phases based on business requirements, which will affect the implementation of the project.

III. Others

The directors and supervisors of the Company are required to expressly give their views on the reasonableness of matters such as this transaction and changes in use of proceeds, fairness of consideration and risk controllability and advise whether they have performed diligent and responsible obligations such as necessary due diligence.

Reply:

(I) Reasonableness of this transaction and changes in use of proceeds

All the directors and supervisors of the Company are of the opinion that injection of “Wang Lao Ji” series trademarks into the Company through this transaction is beneficial to ensure the asset integrity of the Company and is also an important measure to avoid potential peer competition and decrease related transactions. This transaction, which is beneficial to enhance the market competitiveness and going concern ability of a listed company, is in line with the strategic development direction of the Company and in the interest of the shareholders as a whole in the long run, and is therefore reasonable.

Changes in use of proceeds are aimed to capitalizing on the benefits of proceeds as soon as possible to avoid proceeds from being idle and it is in the interest of the shareholders as a whole to change the original use of proceeds from the modern medical logistics service extension project to the acquisition of the “Wang Lao Ji” series trademarks held by GPHL, the controlling shareholder of the Company; and it is expected that there are remaining balance of proceeds used for information platform construction project, in order to improve the use efficiency of proceeds of the Company, change in the use of part of proceeds from the information platform construction project to the acquisition of the “Wang Lao Ji” series trademarks owned by GPHL ensures the use efficiency and investment income of proceeds, and is therefore sufficient, necessary and reasonable.

(II) Fairness of consideration for this transaction

All the directors and supervisors of the Company are of the opinion that as “Wang Lao Ji” series trademarks are well-known trademarks and the appraisal results using the income-based approach can effectively reflect the contribution of high recognition of trademarks to the value of trademark products and can better reflect the market value of trademark assets, the consideration for the transaction is determined based on the asset appraisal report issued by Allied Appraisal Co., Ltd. (中聯國際評估諮詢有限公司) with securities practicing qualification. In the process of such appraisal, Allied Appraisal Co., Ltd. implemented necessary appraisal procedures, followed the principles of independence, subjectivity, scientificity and impartiality and applied appraisal approaches which are compliant and in line with the actual conditions of appraised assets, comparable data and information selected is reliable, the appraisal approach is highly relevant to the purpose of appraisal and the appraised value is fair and accurate.

The final consideration for this transaction is subject to the appraised value, the consideration is fair and there are no circumstances in which interests of the listed company and minority shareholders are impaired.

(III) Controllability of risks in relation to this transaction

All the directors and supervisors of the Company are of the opinion that the Company has implemented internal approval procedures in respect of this transaction in strict compliance with relevant requirements to prevent transaction risks. In light of high premium of the appraised value of “Wang Lao Ji” series trademarks over their carrying value, the results compensation provision has been agreed in this transaction, for example, upon expiry of the results undertaking period, if the aggregated net income from trademark licensing for the three consecutive years upon completion of this transaction is less than the aggregated net income from trademark licensing as undertaken, GPHL shall compensate the Company in cash as agreed in order to ensure the risks in relation to this transaction are controllable as much as possible.

The Board of
Guangzhou Baiyuanshan Pharmaceutical Holdings Company Limited