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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)

FURTHER CLARIFICATION ANNOUNCEMENT ON RELEVANT MEDIA REPORT

Reference is made to the Clarification Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 21 July 2019 (“**Previous Announcement**”).

The Company has noticed some recent media reports concerning Guangzhou Pharmaceutical Holding Co., Ltd., the controlling shareholder of the Company, the Company and its subsidiaries. As mentioned in the Previous Announcement, the main contents of the relevant reports are inconsistent with the facts. The Company clarified the related matters and further explains as follows:

I. ON THE RESEARCH AND DEVELOPMENT OF JIN GE

Sildenafil citrate tablet (trade name of which is “**Jin Ge**”) produced by Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Pharmaceutical General Factory (“**Baiyunshan General Factory**”) is the first approved generic drug of Sildenafil citrate tablet in China, the R&D of which included the following stages:

(1) Clinical Research Approval

Based on the judgment of the market prospect of Sildenafil citrate, Guangzhou Baiyunshan Pharmaceutical Co., Ltd (“**Former Baiyunshan**”, which was absorbed and merged by the Company in 2013) and Liu Yuhui, a natural person, signed *Agreement on Establishment of Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* and established Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (“**Pharmaceutical Technology**”) in December 1999. The registered capital of Pharmaceutical Technology was RMB2 million, among which, the proportions of the capital contributed by Former Baiyunshan and Liu Yuhui are 51% and 49% respectively. The total investment of Pharmaceutical Technology amounted to RMB16.33 million, among which, Former Baiyunshan contributed the right to use of the Baiyunshan Trademark and the intangible assets of a legal pharmaceutical operating company valued

at RMB4 million and RMB4.33 million in cash, a total of RMB8.33 million. Liu Yuhui contributed the clinical research approval of the State Class 1 new drug Sildenafil citrate and the new drug certificate of the State Class 4 new drug Azithromycin powder for injection valued at RMB8 million in total. On 11 August 2009, Liu Yuhui transferred the 49% equity interest in Pharmaceutical Technology he held to Beijing Kangyeyuan Investment Consultant Co., Ltd (“**Beijing Kangyeyuan**”).

In January 2001, Sildenafil citrate tablet obtained the clinical research approval for new drug, which was applied by Baiyunshan General Factory, Harbin Medisan Pharmaceutical Co., Ltd. (“**Medisan Pharmaceutical**”) and Honghui Pharmaceutical Research Institute of Heilongjiang Province (“**Honghui Pharmaceutical Research Institute**”).

In December 2001, Baiyunshan General Factory, Medisan Pharmaceutical, Honghui Pharmaceutical Research Institute and Pharmaceutical Technology entered into the *Agreement* (“**Agreement**”), pursuant to which, Medisan Pharmaceutical and Honghui Pharmaceutical Research Institute withdrew from the new drug application, the reporting unit was changed to Baiyunshan General Factory and Pharmaceutical Technology, Baiyunshan General Factory was confirmed to be the producer and Pharmaceutical Technology had the total property rights and gains of the new drug application.

(2) **New Drug Application**

Given the patent protection term of original drug, Baiyunshan General Factory was not able to obtain approval for production and began production although Baiyunshan General Factory and Pharmaceutical Technology received the new drug certificate in 2003.

(3) **Production Approval**

According to *Measures for the Administration of Drug Registration*, an application of generic drug can be filed within 2 years before the expiration of the patent of a drug. In 2012, Baiyunshan General Factory restarted the registration of production approval of Jin Ge with strict compliance with the latest regulations of China. Baiyunshan General Factory made a huge input of manpower and resources in technological research, patent investigation, market access and other aspects in the research and development and the reporting for approval for more than two years. Baiyunshan General Factory and Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (“**Chemical Pharmaceutical Factory**”) received production approvals for tablet and raw material medicine of Sildenafil citrate in July 2014 and August 2014 respectively.

II. ON THE PRODUCTION, SALES AND PROFIT DISTRIBUTION DISCUSSION OF JIN GE

After obtaining the approval for manufacturing Sildenafil citrate tablet, Baiyunshan General Factory successively acquired several patents for the pink tablet of Jin Ge (BYS), after treatment of raw material medicine of Sildenafil citrate and etc. The registered trademark of “Jin Ge” of Baiyunshan General Factory was approved to be the trade name and owned exclusively by the Company. In the first Shareholders Meeting in 2015 and the fifth meeting of the Board, Beijing Kangyeyuan suggested that for the marketing promotion of the product, Baiyunshan General Factory was responsible for the sales temporally. The rights and interests of Jin Ge should be discussed and confirmed between the both sides of shareholders, Pharmaceutical Technology and Baiyunshan General Factory. Baiyunshan General Factory prepared a large amount of market research, marketing planning, channel input and brand building for the sales of Jin Ge. Therefore, Jin Ge has achieved satisfying sales performance since its launch.

Given the patent protection term of original drug and the influence of changes in the practical way of cooperation between both sides, according to the degrees of contribution credited to different parties in the process of research and development, production and sales to Jin Ge, in order to maintain the interest of all parties and avoid the impact of profit distribution conflict on the favourable development of Jin Ge, the representatives of both sides of shareholders conducted multiple discussions on the property and interests of Jin Ge and the last discussion took place on 11 July this year. However, consensus could not be reached.

Baiyunshan General Factory has already made reasonable estimations of the accounts receivable according to the contribution of Pharmaceutical Technology to Jin Ge and made appropriate provision.

III. EXPLAINS ON MEDIA REPORT

(1) As for the Production Process and Cost of the Raw Material

In fact, Jin Ge’s production utilizes more than ten kinds of raw materials, and the referring raw material is merely one of the numerous, which accounts for approximately 36.32% of the average unit production cost of the raw material medicine of Jin Ge in 2018 (excluding the three kinds of expenses). The average purchase cost on necessary supplies needed for Jin Ge’s raw material production by Chemical Pharmaceutical Factory is higher than the “RMB1,800 per kilogram” as mentioned in the open letter. Chemical Pharmaceutical Factory strictly follows the registered production procedure for drugs during the production of the raw material medicine of Jin Ge in its workshops, which requires a multi-step process including sulfonation, amination, cyclization reaction, refinement, salinization etc and the treatment of the three wastes released in the process. Therefore, the production cost is higher than the purchase price of the fundamental supplies. The raw material production and operation of Chemical Pharmaceutical Factory is in accordance

with the laws and regulations, there is no case of cost inflation, and the allegation of the referring material being “directly transported from Shandong Province to the warehouse of Baiyunshan General Factory” is also not accurate. Baiyunshan General Factory and Chemical Pharmaceutical Factory are both branch corporations of the Company, which operate in accordance with the standard commercial terms in terms of their purchase and sales. In 2018, the selling price of the raw material medicine of Jin Ge produced by Chemical Pharmaceutical Factory was set at RMB8,600 per kilogram excluding tax, or around RMB10,000 per kilogram including tax; the approximate revenue from selling Jin Ge’s raw material medicine was about RMB28.28 million.

The open letter reported by the media has mentioned that according to the sales data of the raw material supplied by a company in Jinan, the quantities of production, revenue, gross profit and etc. of Jin Ge could be calculated. As mentioned above, the referring raw material is merely one of more than ten kinds of raw materials utilized in the production of Jin Ge’s raw material medicine and requires a multi-step process including sulfonation, amination, cyclization reaction, refinement, salinization etc. Besides, Jin Ge produced by Baiyunshan General Factory has three different specifications of 25mg, 50mg and 100mg, and the quantities of raw materials consumed and yielding rates are different. Therefore, the purchasing volume of the raw material cannot be simply used as the basis to calculate the quantities of production, revenue and gross profit of Jin Ge.

Since the launch of Jin Ge (Sildenafil citrate tablet) in 2014, its quantities of production and sales, revenue and costs of sales and gross profit are shown in the following table:

| | Product | Quantities of production | Quantities of sales | Revenue (RMB0'000) | Costs of sales (RMB0'000) | Gross profit (RMB0'000) |
|------|--|---------------------------------|----------------------------|------------------------------|-------------------------------------|-----------------------------------|
| 2014 | Sildenafil citrate tablet (10 thousand tablets) | 352.01 | 291.98 | 5,635.46 | 474.82 | 5,160.63 |
| 2015 | Sildenafil citrate tablet (10 thousand tablets) | 1,589 | 1,495 | 23,378.00 | 1,818.00 | 21,560.00 |
| 2016 | Sildenafil citrate tablet (thousand boxes) | 10,418.63 | 9,865.82 | 40,049.23 | 3,222.27 | 36,826.96 |
| 2017 | Sildenafil citrate tablet (10 thousand tablets) | 4,309.40 | 3,963.50 | 56,266.02 | 4,149.65 | 52,116.37 |
| 2018 | Sildenafil citrate tablet (10 thousand tablets) | 4,903.08 | 4,773.99 | 66,205.78 | 8,374.54 | 57,831.24 |

Note: The quantities of production and sales, revenue, costs of sales and other relevant data of Jin Ge (Sildenafil citrate tablet) from 2015-2018 were disclosed in annual reports of the Company. Details referred to the annual reports published on websites of Shanghai Stock Exchange (<http://www.sse.com.cn>) and the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>).

The content alleged in the open letter reported on media derives from the accurate circumstances.

(2) As for Tax Evasion and Financial Data Fabrication

Baiyunshan General Factory and Chemical Pharmaceutical Factory are both branch corporations of the Company, which keep separate accounts, and pay value-added taxes according to the tax law independently; their income taxes are consolidated and paid by the Company. The purchase, production, sales, cost transfer and etc. of the aforesaid branch corporations have been calculated according to the relating provisions of the Accounting Standards for Enterprises. The offsetting of the internal transactions within the two branch corporations is also carried out strictly in accordance with the relating provisions of Accounting Standards for Enterprises, and there are no cases of false information disclosure, financial data fabrication, tax evasion as well as infringement on shareholder's interests.

(3) As for the Product Dealership of Bai Ding and Research and Development Input of Products

As we have verified, the production approval of "Bai Ding" is owned by Shandong ReYoung Pharmaceutical, and Pharmaceutical Technology was responsible for the distribution thereof exclusively. Being influenced by the "Two Invoice System" introduced by the country, Pharmaceutical Technology is not equipped with the coverage ability of Bai Ding's hospital terminals national wide. Thus, being approved by more than half of the Board of directors at the first meeting of the fifth session of the Board of Pharmaceutical Technology, Pharmaceutical Technology transferred the exclusive dealership of Bai Ding to ReYoung Pharmaceutical.

Pharmaceutical Technology specializes in research, development and sales, of which developing new products is the normal business. In 2017, Pharmaceutical Technology established three projects for the development of products for cardiovascular and diabetic treatment, which were passed by more than half of the Board of directors. So far the above three products are still in the development stage. The matter of Bai Ding and cost of research and development of new products were business decisions, which could be passed by more than half of the Board of directors and there was no need to be approved in the shareholders' meeting according to the Articles of Association of Pharmaceutical Technology. Therefore, the relevant resolutions were legal and effective.

(4) As for the Profit Distribution of Pharmaceutical Technology

Up to the end of 2018, Pharmaceutical Technology has an undistributed profit of RMB92,223,375.73. Since the establishment of Pharmaceutical Technology, it has paid out shareholder's dividends for eight times, which reached a total count of RMB87,271,338.24. Among which, Liu Yuhui and Beijing Kangyeyuan had received a

dividend of RMB42,763,645.74. Although Baiyunshan General Factory has already made reasonable estimations of the accounts receivable according to the contribution of Pharmaceutical Technology to Jin Ge and made appropriate provision, due to the incompatibility of both sides on the matter regarding Jin Ge's profit distribution, the above provision has not been paid out to Pharmaceutical Technology, and the above dividend does not include the profit gained from Jin Ge. From 2015 to 2018, Pharmaceutical Technology had not paid out the dividends to the shareholders of both sides, mainly due to the reason that concerning the long-term development of Pharmaceutical Technology, an enormous amount of research and development capital was in need to take the advantage of the growing opportunities accompanied by the system of Marketing Authorization Holding, and to actively promote the research and development of projects and declaring products.

According to the Articles of Association of Pharmaceutical Technology, Pharmaceutical Technology established Board of directors, Board of supervisors and employed senior management, of whom were appointed by Liu Yuhui and Beijing Kangyeyuan and directly involved in the daily management. Pharmaceutical Technology held the shareholders' meetings in the last three years, and had informed both shareholders in advance. Due to the disagreement regarding the matters of profit distribution, the other shareholder (i.e. Beijing Kangyeyuan) had only attended the 2017 shareholders' meeting. Shareholders' meeting was not equipped with the subjective and objective conditions for the deliberation on the matter of profit distribution; however, both shareholders share the rights and the responsibilities collectively, and there are no cases of infringement on shareholder's interests.

IV. THE IMPACT ON THE COMPANY

In 2018, the income of Jin Ge produced by Baiyunshan General Factory was RMB662.0578 million, representing 1.58% of the income of the consolidated financial statements of the Company; gross profit was RMB578.3124 million, representing 5.86% of the gross profit of the consolidated financial statements of the Company.

In the respect of the profit distribution, Baiyunshan General Factory had already made reasonable estimations of the accounts receivable of Pharmaceutical Technology according to the contribution of Pharmaceutical Technology to Jin Ge and made appropriate provision. However, consensus for profit distribution between both sides of shareholders could not be reached and therefore the Company is unable to calculate the specific amount of impact on the Company's current or post-period profits temporally. The Company will continue to carry the relating matters forward, and resolve the problem on Jin Ge's profit distribution in accordance with the laws and regulations.

As mentioned above, the Company has been operating in accordance with the laws and regulations during the production and sales of Jin Ge. Since the main contents of the open letter in the media reports are inconsistent with the facts and arouses doubt on the Company, leading to certain negative effect on the Company and damages to the interest of investors and the Company, the Company reserves the right to take legal action.

The Company wishes to remind the Company's shareholders and potential investors to refer to announcements posted on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company's website when seeking information about the Group. The Company's shareholders and potential investors should exercise caution when trading in the Company's securities.

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Guangzhou, the PRC, 26 July 2019

As at the date of this announcement, the Board comprises Mr. Li Chuyuan, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Ni Yidong, Mr. Li Hong, Mr. Wu Changhai and Mr. Zhang Chunbo as executive directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive directors.