



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(Stock code: 0874)



ANNUAL
REPORT
2019

	Page
I. DEFINITIONS	3
II. COMPANY PROFILE AND FINANCIAL HIGHLIGHTS	8
III. COMPANY'S BUSINESS PROFILE	14
IV. DISCUSSION AND ANALYSIS OF OPERATION	24
V. MAJOR EVENTS	94
VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	149
VII. RELEVANT INFORMATION ON PREFERRED SHARES	158
VIII. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF	159
IX. CORPORATE GOVERNANCE	176
X. RELEVANT INFORMATION OF COMPANY'S BONDS	195
XI. FINANCIAL REPORTS	196
XII. DOCUMENTS AVAILABLE FOR INSPECTION	412

IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the Directors, Supervisors and senior management of the Company collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- II. All the Directors were present at the 31st meeting of the seventh session of the Board, among whom, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong, all being independent non-executive Directors, attended the meeting by telephone.
- III. The financial reports of the Group and the Company for the year ended 31 December 2019 are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by WUYIGE Certified Public Accountants LLP which had issued an unqualified auditors' report in respect thereof.
- IV. Mr. Li Chuyuan (chairperson of the Board), Mr. Li Hong (an executive Director and the general manager) and Ms. Yao Zhizhi (deputy director of Finance and head of the finance department) declared that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this annual report.
- V. Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board

As audited and confirmed by WUYIGE Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company amounted to RMB3,188,884,638.91 in 2019. Based on the net profit of the Company of RMB1,575,060,228.56 in 2019, a 10% statutory surplus reserve in the amount of RMB157,506,022.86 is provided, with the addition of the undistributed profit carried over from 2018 in the amount of RMB5,261,377,836.18, and after deducting the cash dividends of 2018 in the amount of RMB689,335,362.38, the actual distributable profits amounted to RMB5,989,596,679.50.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2019, a cash dividend of RMB5.89 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB957,590,868.96, be distributed. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2019.

The profit distribution plan will be submitted to the 2019 Annual General Meeting for approval.

Contents

- VI. Forward-looking statements such as plans for the future and development strategy contained in this annual report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of the funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company.
- IX. Warning on Significant Risks

During the Reporting Period, there are no significant risks that have substantive and significant effect on the production and operation of the Group. Various risks and corresponding measures that the Group might face in the production and operation have been detailed in this annual report. Please refer to “(3) Potential challenges and risks” under “3. Discussion and Analysis on Future Development”, set out in the section headed “IV Discussion and Analysis of Operation” in this annual report.
- X. This annual report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

In this annual report, unless the context otherwise requires, the following terms have the meanings as follows:

Company/ the Company/ GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司)
PRC or China	the People's Republic of China
Reporting Period/ Year/ the current year	from 1 January 2019 to 31 December 2019
After the Reporting Period	the period after the end of the Reporting Period and up to the date of this annual report, being from 1 January 2020 to 31 March 2020
Group	the Company and its subsidiaries
Board	the board of Directors
Directors	the directors of the Company
Supervisory Committee	the supervisory committee of the Company
Supervisors	the supervisors of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Depository Corporation	the Shanghai branch of China Securities Depository and Clearing Corporation Limited
Guangzhou SASAC	The State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government
Company law	Company law of the People's Republic of China
Securities law	Securities law of the People's Republic of China
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on HKEx
Listing Rules of SSE	the Listing Rules of the SSE
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules of HKEx

Definitions

GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
GPC	Guangzhou Pharmaceutical Company Limited (廣州藥業股份有限公司)
Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Company Limited (廣州白雲山陳李濟藥廠有限公司)
Qi Xing	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)
Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
Guangzhou Bai Di	Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (廣州白雲山拜迪生物醫藥有限公司)
Guangxi Ying Kang	Guangxi Baiyunshan Yingkang Pharmaceutical Company Limited (廣西白雲山盈康藥業有限公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
Baiyunshan	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司)

Definitions

Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Pharmaceutical General Factory(廣州白雲山醫藥集團股份有限公司白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory(廣州白雲山醫藥集團股份有限公司白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory(廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.(廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.,(廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.(廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited(廣州白雲山和記黃埔中藥有限公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Co., Ltd.(廣州花城藥業有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.(廣州百特僑光醫療用品有限公司)
Nuo Cheng	Guangzhou Nuo Cheng Biological Products Co., Ltd.(廣州諾誠生物製品股份有限公司)
WLJ Ya'an Company	Wang Lao Ji Great Health Industry(Ya'an) Co., Ltd.(王老吉大健康產業(雅安)有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.(廣州白雲山醫藥科技發展有限公司)
Weiling	Baiyuanshan Weiling Pharmaceutical Co., Ltd.(白雲山威靈藥業有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd.(廣州白雲山星珠藥業有限公司)
Chemical & Pharmaceutical Technology Company	Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd.(廣州白雲山化學藥科技有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute(廣州醫藥研究總院有限公司)

Definitions

Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Yi Gan	Guangzhou Guangyao Yigan Biological Products Co., Ltd. (廣州廣藥益甘生物製品股份有限公司)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)
Runkang Confinement Company	Guangzhou Baiyunshan Runkang Confinement Service Center Co., Ltd. (廣州白雲山潤康月子會所有限公司)
Yi Xin Tang	Yixintang Pharmaceutical Group Co., Ltd. (一心堂藥業集團股份有限公司)
Baiyunshan Yi Xin Tang	Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment & Development Co., Ltd. (廣州白雲山一心堂醫藥投資發展有限公司)
C.Q. Pharmaceutical Holding	Chongqing Pharmaceutical Holding Company Limited (重慶控股股份有限公司)
GMP	the English abbreviation of Good Manufacturing Practice and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements
GAP	the English abbreviation of Good Agricultural Practice for Chinese Crude Drugs (Trial). It refers to the management system for the development of this specification with a view to standardize the Chinese crude drugs production, and to ensure its quality as well as to promote the standardization and modernization of the Chinese crude drugs
GSP	the English abbreviation of Good Supply Practice, which means the quality control standards for pharmaceutical trade
GPO	group purchasing organizations
DTP Pharmacy	the English abbreviation of Direct to Patient, and it is committed to providing patients with more valuable and professional services directly

Definitions

Drug Registration	the drug supervision and administration department conducts the systematic evaluation of the safety, effectiveness, quality and controllability of the drugs proposed for sale in accordance with legal procedures, and determines if it agrees to perform the approval processes of drug clinical studies, production of drugs or importing of drugs, which include the approval of the content in the evidence documents of application for change of drug approval and the appendix
Essential Drug List	the National Essential Drug List (國家基本藥物目錄) (the 2018 edition), which is the basis for medical institutions to prepare and use drugs. The drugs in the Essential Drug List are those adapted to the basic medical and health needs, and are featured by appropriate dosage and form as well as reasonable price and supply and availability are guaranteed to the public
National Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (the 2019 version), being the national standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund
Provincial Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance at the provincial level of the PRC (基本醫療保險、工傷保險和生育保險藥品目錄) issued by every province of the PRC
DRGs Payment	payment according to the disease diagnosis related groups
OEM	Original Equipment Manufacture
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang Equity Investment Center (Limited Partnership) (上海雲鋒新創股權投資中心(有限合夥))
Placement Prosperous Age Exclusive Account No.66	Fund of Huitianfu-Citic bank-Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (匯添富基金—中信銀行—廣州白雲山醫藥集團)
Alliance BMP	Alliance BMP Limited (聯合美華有限公司)
The Material Assets Reorganization in 2013	the Group's major asset reorganization involving the merger and acquisition of Baiyunshan and issue of shares to purchase the assets of GPLH that was completed in 2013

Company Profile and Financial Highlights

1. COMPANY PROFILE

- (1) Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
English Name Abbreviation: GYBYS
Legal Representative: Li Chuyuan
- (2) Secretary to the Board: Huang Xuezheng
Securities representative: Huang Ruimei
Address: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Telephone: (8620) 6628 1217/6628 1219
Fax: (8620) 6628 1229
E-mail: huangxz@gybys.com.cn/huangrm@gybys.com.cn
- (3) Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Postal code: 510130
Website: <http://www.gybys.com.cn>
E-mail: sec@gybys.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two, Lippo Center, 89 Queensway, Hong Kong
- (4) Designated newspapers for information disclosure: China: Shanghai Securities News(上海證券報), Securities Times (證券時報), China Securities Journal(中國證券報), Securities Daily(證券日報)
Website designated by the CSRC for publishing the annual report: <http://www.sse.com.cn>
Website of the HKEx for publishing the annual report: <http://www.hkex.com.hk>
Place for inspection of the annual report: The Secretariat of the Company
- (5) Stock exchanges, names and codes of the Company's shares: A Shares: SSE
Stock Code: 600332 Stock Abbreviation: BAIYUNSHAN
H Shares: HKEx
Stock Code: 0874 Stock Abbreviation: BAIYUNSHAN PH
- (6) Other information:
First registration date: 1 September 1997
First place of registration: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Date of registration of change: 31 July 2017
Place of registration of change: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Unified social credit code: 914401063320680X7
Auditors and its address: WUYIGE Certified Public Accountants LLP
Room 1504, International building, No.1 College of Zhichun Road, Haiding District, Beijing
Names of the accountants of the auditors firm whose signatures are given: Xia Ling, Wang Jingkun

Company Profile and Financial Highlights

2. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD

(1) Principal financial data

Principal financial data	2019	2018	Year on year increase/ (decrease) (%)	2017	2016	2015
Income from operations (RMB'000)	64,951,778	42,233,838	53.79	20,954,225	20,035,681	19,124,658
Net profit attributable to the shareholders of the Company (RMB'000)	3,188,885	3,440,980	(7.33)	2,061,652	1,508,033	1,300,351
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	2,746,248	2,131,485	28.84	1,935,560	1,071,111	1,128,765
Net cash flow from operating activities (RMB'000)	5,022,367	5,216,888	(3.73)	1,833,691	2,544,672	1,941,956
Total profit (RMB'000)	4,128,533	4,018,730	2.73	2,492,976	1,945,053	1,628,122

Principal financial data	As at 31 December 2019	As at 31 December 2018	Year on year increase/ (decrease) (%)	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Net assets attribute to the shareholders of the Company (RMB'000)	24,184,797	21,684,909	11.53	18,871,521	17,345,080	8,450,814
Total assets (RMB'000)	56,893,659	51,482,184	10.51	28,314,713	25,897,170	15,870,577
Total liabilities (RMB'000)	30,904,172	28,338,451	9.05	9,051,560	8,243,380	7,186,644
Equity attributable to the shareholders of the Company per share (RMB)	14.88	13.34	11.53	11.61	10.67	6.55
Total equity (RMB'000)	1,625,791	1,625,791	-	1,625,791	1,625,791	1,291,079

Company Profile and Financial Highlights

2. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD *(Continued)*

(2) Principal financial indicators

Principal financial indicators	2019	2018	Year on year increase/ (decrease) (%)	2017	2016	2015
Basic earnings per share (RMB/Share)	1.961	2.116	(7.33)	1.268	1.075	1.007
Diluted earnings per share (RMB/Share)	1.961	2.116	(7.33)	1.268	1.075	1.007
Basic earnings per share after deducting non-recurring items (RMB/Share)	1.689	1.311	28.84	1.191	0.764	0.874
Weighted average return on net assets ratio (%)	13.87	16.93	A decrease of 3.06 percentage points	11.34	12.75	15.91
Ratio of weighted return on net assets after deducting non-operating items (%)	11.94	10.48	An increase of 1.46 percentage points	10.64	9.06	13.81
Return on total equity attributable to shareholders of the Company (%)	13.19	15.87	A decrease of 2.68 percentage points	10.92	8.69	15.39
Ratio on total equity attributable to shareholders of the Company to total assets(%)	42.51	42.12	An increase of 0.39 percentage point	66.65	66.98	53.25
Gearing ratio (%)	54.32	55.05	A decrease of 0.73 percentage point	31.97	31.83	45.28

Note: The above financial data and indicators are computed based on the consolidated financial statements.

Company Profile and Financial Highlights

3. PRINCIPAL FINANCIAL DATA OF 2019 ON QUARTERLY BASIS

	The first quarter (January – March) (RMB'000)	The second quarter (April – June) (RMB'000)	The third quarter (July – September) (RMB'000)	The fourth quarter (October – December) (RMB'000)
Income from operations	18,055,312	15,285,516	16,721,545	14,889,405
Net profit attributable to the shareholders of the Company	1,406,844	1,140,718	611,960	29,364
Net profit attributable to the shareholders of the Company after deducting non-recurring items	1,372,716	832,443	540,926	164
Net cash flow from operating activities	(2,798,689)	1,872,946	1,948,189	3,999,922

Note: Reasons for the great fluctuations among the quarters mainly include: (1) WLJ Great Health, a wholly-owned subsidiary of the Company, continued to focus on the festival market strategy in the Year and thoroughly developed the core idea of "Ji Culture", reinforced the promotion of gift market during the Spring Festival, Mid-Autumn Festival and Nation Day and etc., which resulted in the great fluctuations in the operating performance among four quarters of WLJ Great Health. In particular, the sales revenue increased significantly due to the Spring Festival during the first quarter and accounted for a relatively large proportion in the annual income; WLJ Great Health received government subsidies of RMB313 million in the second quarter; during the second half of the Year, with the off-season coming, WLJ Great Health enhanced the sales promotion and started devoting to advertising campaign for the new products and therefore the operating results of the second half of the Year substantially decreased as compared with the first half of the Year; (2) increasing purchase prices of raw materials and packaging materials of the Company's subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the operating costs and a decrease in the gross profit margin.

The explanation for the difference between the quarterly data and the disclosed regularly reported data

Applicable Not applicable

Company Profile and Financial Highlights

4. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	Amount in 2019 (RMB'000)	Notes	Amount in 2018 (RMB'000)	Amount in 2017 (RMB'000)
Gain/(Loss) on disposal of non-current assets	1,274		707	(1,669)
Government grants included in the profit or loss for the current year except for the government grants that are closely related to enterprise's normal business and is enjoyed by the Company continuously in quota or by the quantity of unified national standards in accordance with the national policy	479,355	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income and other income in the Reporting Period.	243,250	171,549
Gains generated from the amount of the enterprise's investment costs for acquisition of subsidiaries, joint ventures and associates lower than the earnings from the fair value of the net identifiable assets of the invested entity that the enterprise should enjoy upon acquisition	–		125,982	–
Gain/(Loss) on changes in fair value arising from trading financial assets, derivatives financial assets, trading financial liabilities and derivatives financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company) as well as the investment gains received from disposal of trading financial assets, derivatives financial assets, trading financial liabilities, derivatives financial liabilities and debt investment	38,910		115,575	(1,151)
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	9,113		7,200	4,040
Other non-operating income and expenses excluding the above items	21,312		9,656	(26,099)
Investment gains from long-term equity investment measured at fair value	–		870,677	–
Other profit and loss items that meet the definition of non-recurring gains and losses	(13,473)		–	–
Effect on minority interest (after tax)	(7,438)		(4,258)	631
Income tax effect	(86,416)		(59,294)	(21,209)
Total	442,637		1,309,495	126,092

Company Profile and Financial Highlights

5. CHANGES IN SHAREHOLDERS' EQUITY IN 2019 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Comprehensive income (RMB'000)	Surplus reserve (RMB'000)	Undistributed profits (RMB'000)	Total shareholders' equity attributable to the parent company (RMB'000)
Opening balance	1,625,791	9,865,084	(477)	1,368,735	8,825,776	21,684,909
Additions	-	-	2,820	157,506	3,188,885	3,349,211
Deductions	-	-	2,482	-	846,841	849,323
Closing balance	1,625,791	9,865,084	(139)	1,526,241	11,167,820	24,184,797

6. ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Other equity instrument investments	84,898	81,978	(2,920)	11,015
Other non-current financial assets	226,938	262,470	35,532	51,498
Total	311,836	344,448	32,612	62,513

7. OTHERS

Applicable Not applicable

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD

(1) Main business and Products

Since its establishment, the Company has been committed to the healthcare industry. After years of development, the Company has continuously grown in both of its scale and efficiency. Currently, the Group is principally engaged in: (1) the research and development, manufacturing and sales of Chinese patent medicine, Western medicine, chemical raw materials, natural medicine, biological medicine and chemical raw materials intermediates; (2) the wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; and (4) the health industry investment in medical care, health management, health maintenance and elderly care etc.

(i) Great Southern TCM (pharmaceutical manufacturing business)

There are 27 pharmaceutical manufacturing companies and institutions under the Company (including 3 branches, 21 subsidiaries and 3 joint ventures). The above enterprises or institutions engaged in the R&D and manufacturing of Chinese patent medicine and Western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc.

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time-honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc., among which, 10 of them are century-old time-honored enterprises. The Group and its joint ventures in aggregate have 321 products which are included in the National Medical Insurance Catalogue, 331 products which are included in the Provincial Medical Insurance Catalogue and 143 products which are included in the Essential Drug List. These main products include Xiao Ke Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, Zi Shen Yu Tai Pill, Xiao Chai Hu Granule, Hua Tuo Zai Zao Pill, Xia Sang Ju Granule, Xiao Er Qi Xing Cha Granule, Zhuang Yao Jian Shen Pill, An Gong Niu Huang Pill, Shu Jin Jian Yao Pill, Mi Lian Chuan Bei Pi Pa Gao, Ke Gan Li Yan Oral Solution, etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in Southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation, with products covering commonly used antibiotic varieties and male medicine. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to make a market image with the number one brand of oral antibacterial and anti-inflammatory drugs. The Group's chemical medicine includes Cefathiamidine, Cefixime, Sildenafil Citrate Tablets ("Jin Ge"), Cefprozil Series and Amoxicillin etc.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(1) Main business and Products *(Continued)*

(ii) Great Health Industry

The Great Health Industry segment of the Group mainly engaged in the production, R&D and sale of beverage, food, healthcare product and etc., including the subsidiaries, WLJ Great Health and Wang Lao Ji, and the main products include Wang Lao Ji Herbal Tea, ganoderma spore oil capsules, lozenges, tortoise herb jelly, etc.

(iii) Great Commerce (Pharmaceutical distribution business)

The pharmaceutical distribution business of the Group mainly includes the wholesale, retail, and import and export business of pharmaceutical products, medical equipment and healthcare products, etc. The wholesale business is carried out principally through the Company's subsidiaries, namely GP Corp., Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains, GPC Prescription Pharmacy chains and etc. GP Corp. is the leading medicine circulation enterprise in Southern China.

(iv) Great Medical Care

The Group leveraged on Baiyunshan Medical and Healthcare Industry Company and Medical Instrument Investment Company as the main investment vehicle and used various means, including new establishment, joint venture and co-operation to focus on the development of medical services, TCM health maintenance, modern elderly care and the medical device industry.

Currently, the Great Medical Care segment is at the stage of development and investment expansion. In the medical service field, Guangzhou Baiyunshan Hospital has developed from a community hospital into a Class II healthcare service institution, with rapid growth in the number of hospital beds. In the health maintenance field, the construction of the Tibetan-style Health Preservation Castle in Nyingchi of Tibet has been fully completed; Runkang Confinement Company strives to commence trial operation as soon as possible. In the medical device field, Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. (廣州眾成醫療器械產業發展有限公司) builds an operating platform for innovative medical device incubation parks, and vigorously promotes the development of the medical device industry.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(2) Operating Model

(i) Great Southern TCM

1) Procurement Model

After completion of the Material Assets Reorganization in 2013, the Group integrated the procurement system of its subsidiaries, and established a centralized procurement platform with Pharmaceutical Import & Export and Cai Zhi Lin forming the core. The intensively centralized procurement of raw materials and auxiliary materials, Chinese herbal medicine, packaging materials, machinery equipment materials and such other materials, improved the ability of negotiation on prices and risk resistance and effectively reduced the procurement cost.

Details of the centralized procurement platform of the Group are set out below:

No.	Procurement	Centralized procurement platform	Description
a	Bulk Chinese herbal medicine	Cai Zhi Lin, relevant subsidiaries with GAP	Pursuant to the procurement requirements of the bulk Chinese herbal medicine, the Group established direct links with the production spots of the raw materials of medicine, ensured the valuable raw materials were stable and controllable through certificated GAP bases, so as to ensure the quantity, quality, time and cost of the bulk supply of Chinese herbal medicine.
b	Bulk raw materials and auxiliary materials, packaging materials	Pharmaceutical Import & Export	The Group ensured the advantage of quality and cost of the bulk raw and auxiliary materials, packaging materials through strengthening supplier development, improving and subdividing the supplier classification management and cultivating strategic cooperation suppliers.
c	Imported equipment	Guangyao Baiyunshan Hong Kong Company, Pharmaceutical Import & Export	Guangyao Baiyunshan Hong Kong Company takes charge of the imported equipment procurement, Pharmaceutical Import & Export takes charge of the import formalities.

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(2) Operating Model *(Continued)*

(i) Great Southern TCM *(Continued)*

2) Production Model

The subsidiaries of the Company formulated the annual, monthly and weekly production plan and arrange production according to the production plan based on the demands of the medical market. The enterprises under the Company organized the production strictly in accordance with the national GMP requirements and strictly implemented the relevant national regulations in the aspects of purchase of raw materials, allocation of manpower, equipment management, production procedures, quality control, packaging, transportation and so on; throughout the entire manufacturing processes of pharmaceuticals and products, the Quality Control Department conducts testing and monitor the whole processes of raw materials, auxiliary materials, packaging materials, intermediate products and finished products so as to ensure product quality and safety. Meanwhile, the Company carries out supervisions and guidance for the production management of enterprises under the Company in the aspects of technology, quality, environmental protection, employee safety, hygiene and health, and so on.

3) Sales Model

① Self-operation and agency mode

The Group mainly leverages on sales channels of distributors and agents at all levels to cover the majority of hospitals, community medical services and retail terminals in China. For products in hospitals' tenders, the Group carries out tendering process throughout the country according to the relevant national policies. After winning the bid, it carries out distribution and dispatching process for relevant pharmaceutical products. For products not tendered by hospitals, the Group conducts promotion mainly by agent sales and by way of distribution.

② Sales platform

In recent years, the Group has integrated its internal marketing resources to establish a pharmaceutical industry marketing platform with Baiyunshan Pharmaceutical Marketing as the core, which has integrated the marketing business and marketing staff of four enterprises, namely Baiyunshan General Factory, Guang Hua, Jing Xiu Tang and Ming Xing.

In addition, the Group has proactively adapted itself to new economy, innovated new models, actively built up e-commerce marketing system and developed the e-commerce business. Currently, the Company's Guangyao Baiyunshan flagship store has set up e-commerce terminal sales platforms at Tmall and JD.com; GYJM.com has become the designated online drugstore for medical insurance that can make payment online without medical insurance card.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(2) Operating Model *(Continued)*

(ii) Great Health Industry

1) Procurement Model

The centralized procurement is carried out mainly through the centralized procurement platform established by the Group.

2) Production Model

Strictly in accordance with the relevant national laws and regulations, the subsidiaries of the Company, through (among other means) production facilities established by the Group and OEM, ensured the safety and quality in the entire process from plantation, harvesting, manufacturing to use by consumers, and in the entire process of the bases of the raw materials, auxiliary materials, packing materials, personnel and equipment, final products and consumer safety.

3) Sales Model

The revenue of the Great Health segment of the Group mainly came from Wang Lao Ji herbal tea. For sales of Wang Lao Ji herbal tea, WLJ Great Health and Wang Lao Ji mainly depends on distributorship by setting three tiers of distributors. The first-tier distributors are directly responsible to WLJ Great Health and Wang Lao Ji, and took respective responsibilities for regional channel development as per the marketing tasks given by WLJ Great Health and Wang Lao Ji. The second-tier distributors shall purchase products from the first-tier distributors and be responsible for distribution and dispatching. WLJ Great Health and Wang Lao Ji shall directly be responsible for the products' advertisement investment, and participate in terminal expansion, promotion and customer maintenance, etc.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(2) Operating Model *(Continued)*

(iii) Great Commerce

The Group's pharmaceutical circulation businesses include two modes, being pharmaceutical distribution and retail, whose profits came from price difference of purchasing price of and marketing price medicines and medical equipments/or dispatching expense.

GP Corp., the subsidiary of the Company, is the leading medicine circulation enterprise in Southern China, with good business reputation, comprehensive sales network, a wide range of sales channels and stronger pharmaceutical distribution capacity. The Group has "Cai Zhi Lin", "Jian Min" and other well-known pharmaceutical retail chains and medical retail outlets, with relatively stronger terminal strength.

As at 31 December 2019, the Group had 108 retail chain pharmacy outlets, including 33 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 35 "Jian Min" pharmacy outlets which specialized in Western medicine, medical apparatus and instruments and 21 "GPC Prescription Pharmacy" which specialized in the retail of prescription drugs, 17 pharmacy outlets of Hainan Guangyao Chenfei Pharmaceutical Co., Ltd and 2 pharmacy outlets of Hainan Guangyao Chenfei Pharmaceutical Chain Co., Ltd.

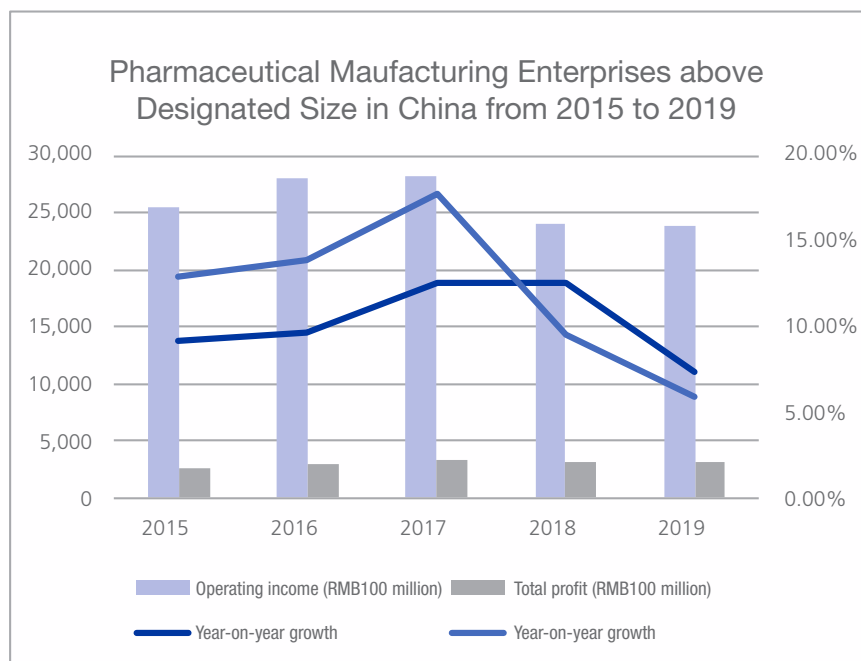
(3) Current circumstances of the development of the industry

In 2019, under the influence of various medical policies, including the full-scale promotion on the quality consistency evaluation for generic drug, the streamlining examination of clinical research data, the formal implementation and expansion of the "4+7" centralized volume-based drug procurement, the official implementation of new Drug Administration Law and Vaccine Administration Law, the monitoring of rational use of key drugs, the tightening of prescription rights of TCM, and the adjustment of the National Medical Insurance Catalogue, the effect of the transformation and upgrading of the pharmaceutical industry was evident as the growth in scale slowed down but the profitability continued to increase. In 2019, the added value of the pharmaceutical manufacturing industry increased by 5.7%, representing a decrease of 0.5 percentage point compared with 2018. In 2019, the revenue of pharmaceutical manufacturing enterprises of above designated size in China was RMB2,390.86 billion, representing a year-on-year increase of 7.4%, which represents a decrease of 5.0 percentage points compared with the year-on-year growth rate in 2018; the industry achieved a total profit of RMB311.95 billion, representing a year-on-year increase of 5.9%, which represents a decrease of 3.6 percentage points compared with the year-on-year growth rate in 2018.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(3) Current circumstances of the development of the industry *(Continued)*



Note: Source: National Bureau of Statistics.

(4) Periodic Characteristics

Among the businesses of the Group, the Great Commerce business segment has no obvious seasonality. Seasonal diseases such as flu have a higher incidence of morbidity in a specific period of time, and are rapidly prevalent after the outbreak and therefore there is a seasonal surge in demand for drugs that prevent and treat such diseases. As a result, the sale of some drugs in the Great Southern TCM segment shows certain seasonality. The demand for the current main product of the Great Health segment, namely Wang Lao Ji herbal tea, relates to weather and major holidays to a certain extent. The sales will significantly increase when the weather is hot. In addition, as the Group rigorously explored the sales channels of the gift market for major festivals, the sale of the Wang Lao Ji herbal tea has increased during major festivals.

(5) Position of the Company in the industry

The Group is one of the largest pharmaceutical manufacturing companies in the PRC. After years of meticulous development and rapid expansion, the Group basically achieved the whole industrial chain layout of biomedicine and health industry and formed the four business segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care and three new types of operation of e-commerce, capital finance and medical equipment.

Company's Business Profile

1. DESCRIPTION OF THE GROUP'S PRINCIPAL BUSINESS, OPERATION MODEL AND INDUSTRY SITUATION DURING THE REPORTING PERIOD *(Continued)*

(6) The main driving factor of performance

During the Reporting Period, the Group's revenue amounted to RMB64,951,778,000, representing a year-on-year increase of 53.79%. For the growth factors, please refer to the "1. Management discussion and analysis" in the section headed "IV. Discussion and Analysis of Operation" in this annual report for details.

2. SIGNIFICANT CHANGES IN THE MATERIAL ASSETS OF THE GROUP DURING THE REPORTING PERIOD

✓Applicable Not applicable

During the Reporting Period, the significant changes in material assets of the Group are shown in the following table:

Categories of Assets	Balance as at 31 December 2019 (RMB'000)	Percentages of changes (%)
Total assets	56,893,659	10.51
Include:		
Construction in progress	667,402	38.95
Intangible assets	2,485,289	145.25

Please refer to the "(v) Assets and liabilities" under (3) Analysis on financial conditions" under "2. Circumstances of the operation during the Reporting Period" in the section headed "IV. Discussion and Analysis of Operation" in this annual report for details.

Including: Overseas assets amounting to RMB131,196,000, representing 0.23% of the total assets.

3. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Group's core competitiveness capacity is principally demonstrated in the following aspects:

(i) The Group possesses rich product and brand resources:

- 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-inflammatory, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 40 forms and nearly 2,000 specifications and over 90 exclusive products.

Company's Business Profile

3. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD *(Continued)*

(i) The Group possesses rich product and brand resources: *(Continued)*

2) Brands: Currently, the Group has trademarks of 10 nationally renowned brands, 22 renowned brands in Guangdong Province and 27 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "Wang Lao Ji" and "BYS" have a greater impact and appeal among consumers in the country, and is one of the most valuable pharmaceutical brands in the country. After completion of The Material Assets Reorganization in 2013 and non-public offering of A Shares in 2015, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy, with four business segments with unique characteristics, namely, Great Southern TCM, Great Health, Great Commerce and Great Medical Care, gradually constituted and three new modes of businesses, namely capital finance, e-commerce and medical equipment gradually constituted as well. The Group has expanded its coverage of brand value from traditional medical products to new Great Health products.

(ii) The Group possesses long history in Chinese traditional medicine and cultural soft power. The Group has 12 time-honoured brand enterprises in Chinese pharmaceutical industry, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 products admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing (大神口焮清)" of BYS, Wang Lao Ji herbal tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan (保滋堂保嬰丹製作技藝)" of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute (陳李濟健康養生研究院)", "Lingnan Experience Centre of Chinese Medicine Culture (嶺南中醫藥文化體驗館)", Shen Nong Cottage (神農草堂), Cai Zhi Lin Chinese Medicine Culture Museum (采芝林中藥文化博物館) and Wang Lao Ji Herbal Tea Museum (「王老吉」之家茶博物館). The Group had also established a number of platforms for the promotion and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

(iii) The Group has a relatively complete production chain system. Through the internal and external forward integration and backward integration, the existing major pharmaceutical assets of the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group and its joint ventures have more than 50 GAP herbs bases nationwide and established a controlled procurement platform for raw and auxiliary materials, which effectively ensure the quality and supply of Chinese herbs and control the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions, both domestic and abroad, formulated a professional think tank which employs noble prize winners and renowned scholars to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.

3. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD *(Continued)*

(iv) The Group has a large-scale pharmaceutical wholesale distribution and delivery network and a broad and stable customer base in China, and the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group has also established the largest pharmaceutical terminal retail network and medicine logistics center in Southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with tens of thousands of customers in 31 provinces, cities and autonomous regions across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers. The Group also has the industry leading digital integration and operation informatisation management system. GP Corp., a subsidiary of the Company, was in the first batch of enterprises in the country which passed the assessment of the digital integration and operation informatisation management system.

(v) The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of platforms for many years, improving the scientific research innovation system. As at the date of this report, the Group and its joint ventures have 7 state level research and development institutions, 1 national level corporate technical center, 2 postdoctoral workstations, 17 provincial level corporate technical centers, 18 provincial level engineering technical centers, 4 provincial level key laboratories, 1 provincial level engineering laboratory, 14 municipal level corporate technical centers, 14 municipal level engineering technical research and development centers, and 6 municipal level key laboratories. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation by macroporous adsorption resin, quality control of Chinese medicine by chromatographic fingerprinting, synthesis and technology of cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation medicine technology.

During the Reporting Period, the Group and its joint ventures newly added: 1 state level research and development institution: National Canine Experimental Animal Resource Database; 2 provincial level engineering technical centers: Guangdong province precision medicine biotechnology products engineering technology research center, Guangdong province lyophilized human rabies vaccine (Vero cell) engineering technology research center; 3 provincial level corporate technical centers: Xing Qun technology center, Guangzhou Bai Di technology center and Chen Li Ji technology center.

(vi) The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 3 Nobel Laureates, one innovation team from Guangdong province, 13 domestic double invite academicians and Chinese medicine master people, 7 foreign consultants, 2 State Council Special Allowance experts in-service, and nearly a hundred of doctors and postdoctorales.

There is no significant change in the Group's core competitiveness during the Reporting Period.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group actively adapted to the development theme of “year of risk control and efficiency enhancement”, actively responded to the opportunities and challenges brought by the policies on the pharmaceutical industry, constantly met the requirements for high-quality development, insisted on progress while maintaining stability, strictly adhered to risk control, improved quality and increased efficacy, so the Group’s operational performance maintained a steady growth. In 2019, the Group’s revenue amounted to RMB64,951,778,000, increased by 53.79% year on year; the total profit was RMB4,128,533,000, increased by 2.73% year on year; the net profit attribute to shareholders of the Company was RMB3,188,885,000, decreased by 7.33% year on year and the net profit attributable to the shareholders of the Company after deducting non-recurring items was RMB2,746,248,000, increased by 28.84% year on year.

Without taking into account the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji and the gain on change in fair value, the operating results of the Group during the Reporting Period increased as compared with 2018, mainly due to: (1) during the Reporting Period, all business segments of the Group further developed, and its principal business recorded steady growth. In particular, WLJ Great Health, a wholly-owned subsidiary of the Company, achieved significant growth of profit arising from the implementation of cost control and price maintenance measures and the receipt of government grants; (2) during the Reporting Period, as a result of including the income of GP Corp. and Wang Lao Ji in the scope of consolidated financial statements for the Company, the revenue and profit from principal business of the Group has increased as compared with the corresponding period of 2018.

During the Reporting Period, the Group made solid progress in the following aspects.

Firstly, the Group continued to focus on the “Big Products” to enhance the driving force for development.

- 1) Focusing on “Big Products”, we continued to enhance efforts in building channels and promoting “Big Products”, and cultivated “fashionable Chinese medicine” and “Diva brands” to further increase the sales of products and enhance the momentum to drive the development of business segments. During the Year, sales of “Big Products” including Zi Shen Yu Tai Pill, Cefixime series, Cephalopropylene series, Cefpiramide, Ke Te Ling series, Jin Ge, and Ke Gan Li Yan Oral Solution, achieved significant growth.
- 2) During the Reporting Period, the Group continued to advance the business connection with the top 100 chain stores such as Laobaixing Pharmacy (老百姓大藥房), Yifeng Pharmacy (益豐大藥房), Yi Xin Tang (一心堂), Jinkang Pharmacy (金康藥房), etc. in an orderly manner to increase the sales of products.
- 3) The Group further promoted the internal resources integration of the Great Southern TCM, leveraged the distribution network and logistics advantages of the Great Commerce to strengthen industrial and commercial cooperation within the Group, and brought into play the synergy generated between the Great Southern TCM and the Great Commerce, which brought about mutual promotion and advancement and in-depth fusion between the two business segments of the Company.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Secondly, we continued to implement “one core product with diversification” as the core product strategy, deepened the channels, thoroughly developed the core idea of “Ji Culture”, and created diversified new products to enhance the comprehensive competitiveness of the Great Health segment, and consolidate the Company’s market position in the industry.

- 1) We explored the connotation of “Ji Culture” and continuously strived to build Wang Lao Ji into a new symbol for auspicious culture. During the festivals including the Spring Festival and Mid-Autumn Festival, WLJ Great Health successively launched the use of slogans such as “drinking red-can Wang Lao Ji to enjoy an auspicious year (過吉祥年·喝紅罐王老吉)”, “drinking red-can Wang Lao Ji to enjoy family reunion in Mid-Autumn Festival (中秋團圓·喝紅罐王老吉)” and carried out public welfare activity “Let love go home in time (讓愛吉時回家)” on social media platforms such as Douyin, WeChat, Moment of Wechat, and applets, etc., which increased the brand value and promoted brand recognition among consumers.
- 2) We consolidated and optimized our brand rejuvenation strategy, actively developed new products, and diversified our new products to create incremental markets. In order to expand our market share in the young consumer market, WLJ Great Health launched multidimensional and multi-media brand rejuvenation marketing activities, including increasing the product’s applications in response to the summer marketing slogan “the hotter, the better (越熱越愛走出去)” and using a new celebrity spokesperson to launch online and offline promotion in the core market. At the same time, we actively developed new products and accelerated the diversification of new products. During the Reporting Period, the new product Wang Lao Ji “Ci Ning Ji” series and Wang Lao Ji Jasmine Flavor Herbal Tea were officially released for sale.
- 3) We further developed channels and promoted cost control and price maintenance. During the Reporting Period, WLJ Great Health further refined channel management, improved the efforts to build good image, and standardized the implementation standards in terminals to increase ultimate market share. In addition, WLJ Great Health continued to control cost and maintain price, reduced channel costs, and stabilized the prices of products in an orderly manner, which effectively improved profitability.

Thirdly, further implementing the core strategy of “further development + expansion”, we accelerated the transformation and upgrading of the Great Commerce.

- 1) Adhering to the terminal-oriented strategy, we accelerated the expansion of health institution business segment, and increased the proportion of hospital terminal sales. During the Reporting Period, GP Corp., a holding subsidiary of the Company, firmly grasped the development opportunities arising from the GPO and volume-based purchase in Guangzhou, Shenzhen and other places, and put great efforts to develop the health institution business segment, and we achieved a significant increase in the proportion of GPO orders in hospitals, and a sharp increase in the proportion of hospital terminal sales. Cai Zhi Lin focused on the TCM decoction-piece segment and the development of TCM decoction-piece products, and strengthened the distinctive TCM decoction-pieces services such as decoction and identification of TCM which increased the market share of TCM decoction-pieces in hospitals, and helped achieve remarkable growth of sales of TCM decoction-pieces in health institutions.
- 2) We further increased retail outlets and regional coverage, and opened DTP Pharmacies to promote further growth in retail business. As at the end of the Reporting Period, GP Corp. has 75 retail outlets in total and the retail stores achieved rapid growth in sales throughout the Year. Cai Zhi Lin continued to build the characteristic “TCM medical center”, and actively explored and developed the “medicine + doctor” TCM chain model.
- 3) We optimized the capital structure, improved the quality of operation, and reduced operation risks. During the Reporting Period, in order to further expand the financing channels, GP Corp. carried out the asset-backed securitization of accounts receivables and in December 2019, the phase 1 asset-backed special scheme was successfully established. As at the end of the Reporting Period, the accumulated assets sold under the asset-backed securitization of GP Corp. amounted to RMB1.889 billion. The Company also officially launched the overseas spin-off listing of GP Corp. in September 2019, so as to further expand the financing channels of GP Corp.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fourthly, guided by “characterization and differentiation”, we strived to enhance the market expansion capabilities of the Great Medical Care segment. During the Reporting Period, Guangzhou Baiyunshan Hospital partnered up with Guangdong 999 Brain Hospital to establish a healthcare alliance and a children treatment and rehabilitation center. It also worked with the team of Guangdong Second Traditional Chinese Medicine Hospital to build a TCM rehabilitation department, and actively developed partnership projects in postpartum and eldercare services, etc. At the same time, the Group continued to cultivate new forms of medical device businesses and continued to lay a solid foundation for medical device business development.

Fifthly, we vigorously promoted the project of “driving the development of enterprises by science and technology”, making breakthroughs in scientific and technological innovation. During the Reporting Period, the “Canine Experimental Animal Resource Database” of the Guangyao General Institute was selected as the only canine experimental animal resource platform in China and became a technology resource sharing service platform of the Group. As at the end of the Reporting Period, the Group has 10 national scientific research platforms and 39 provincial scientific research platforms. Furthermore, Xing Qun, Jing Xiu Tang, Guang Hua, Guangzhou Han Fang, and Tian Xin were rated as the National Intellectual Property Superior Enterprises (國家知識產權優勢企業) in 2019. Wang Lao Ji’s “Pneumatic Pill Packaging Machine (氣動式丸劑包裝機)”, Ming Xing’s “Removal Method of Toxic Components of Brucea Javanica Oil (鴉膽子油毒性成分的去除方法)” and HWBYS “Ethyl Acetate Extract of Persimmon Leaf for Preventing and/or Treating Glycolipid Metabolism-Related Disease (柿葉乙酸乙酯提取物用於預防和/或治療糖脂代謝相關疾病)” obtained the 21st China Patent Excellence Award. Chemical Pharmaceutical Factory and Wang Lao Ji passed the national intellectual property rights management system certification (國家知識產權管理體系貫標認證). Jing Xiu Tang was awarded the title of “Innovative Enterprise in Guangdong Province (廣東省創新型企業)” and “Guangzhou Innovation Benchmarking Enterprise (廣州市創新標杆企業)”. Chen Li Ji was awarded the title of “Innovative Enterprise in Guangdong Province”. Guangxi Ying Kang was awarded the titles of “Gazelle Enterprise in Guangxi Province (廣西瞪羚企業)”, “Technology Innovation Demonstration Enterprise in Guangxi Province (廣西技術創新示範企業)” and “Top 100 High-tech Enterprise in Guangxi Province (廣西高新技術企業百強)”.

During the Reporting Period, the Group applied for a total of 8 production approvals and supplementary application approvals, obtained 1 approval for clinical research, and 13 production approvals (including supplementary application approvals). The Group obtained 17 Chinese patents for inventions, 8 utility model patents and 1 foreign invention patent authorization. The Group won 1 first prize, 1 second prize, and 2 third prizes of provincial and ministerial science and technology award (省部級科學技術獎), and 3 China Patent Excellence Awards, 5 companies of the Group were rated as National Intellectual Property Superior Enterprises and 4 companies were rated as Guangdong Intellectual Property Demonstration Enterprises.

Sixthly, we steadily carried out related work in capital operations and external mergers and acquisitions. During the Reporting Period, the Company successfully completed the purchase of the “Wang Lao Ji” series trademark assets by cash, and thus resolved the separation of trademark use rights and ownership of “Wang Lao Ji” series products. We commenced related work in the overseas spin-off listing of GP Corp., focusing on expanding financing channels for the Great Commerce segment. A number of investment mergers and acquisitions have been carried out to accelerate business expansion and promote scientific research and innovation.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Seventhly, we improved the safety production management system and comprehensively implemented quality control. During the Reporting Period, the Group carried out special internal control evaluation on quality inspections, and comprehensive quality inspections on subsidiaries, off-site workshops, and commission points, strictly assessed accountability, and thereby establishing a “big safety (大安全)” management mechanism to ensure the stable operation of the Group.

Eighthly, we continued to strengthen the implementation of party building, strategy, appraisal, regulation, cost, risk, safety and environmental protection, etc., continued to strengthen internal management, further improved the internal audit system, and implemented “risk control and efficiency enhancement” to improve management effectiveness

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD

(1) Analysis of principal operations

- (i) Analysis of change in certain items in income statement and cash flow statement

Items	The Reporting Period (RMB'000)	The corresponding period of 2018 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2018 (%)
Revenue	64,951,778	42,233,838	53.79
Include: income from principal operations	64,682,984	41,980,378	54.08
Cost of sales	52,081,136	32,164,392	61.92
Include: cost from principal operations	52,020,471	32,106,055	62.03
Selling and distribution expenses	6,384,900	5,056,821	26.26
General and administrative expenses	1,978,870	1,699,062	16.47
Research and development expenses	576,511	585,498	(1.53)
Financial expenses	117,117	(6,655)	1,859.96
Profit before tax	4,128,533	4,018,730	2.73
Net profit attributable to shareholders of the Company	3,188,885	3,440,980	(7.33)
Net cash flow from operating activities	5,022,367	5,216,888	(3.73)
Net cash flow from investing activities	(1,028,395)	1,109,718	(192.67)
Net cash flow from financing activities	(2,231,813)	(2,751,337)	18.88
Other income	430,020	196,111	119.27
Investment income	198,459	1,271,314	(84.39)
Gains from changes in fair value	31,623	115,575	(72.64)
Impairment losses in respect of credit	(110,034)	(39,327)	(179.79)
Impairment losses in respect of asset	(11,485)	(180,187)	93.63
Gains on disposal of assets	1,274	707	80.12
Non-operating income	109,180	197,573	(44.74)
Non-operating expenses	35,659	14,796	141.00
Income tax expenses	687,246	485,014	41.70
Minority interest	252,403	92,736	172.17

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(i) Analysis of change in certain items in income statement and cash flow statement *(Continued)*

Notes:

1. Revenue for the Reporting Period increased as compared with the same period of last year, due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. in May 2018, which was a joint venture of the Company from January to May 2018; and the inclusion of Wang Lao Ji in the scope of consolidation for the Company following the completion of acquisition of 48.05% equity interest in Wang Lao Ji in September 2018, which was a joint venture of the Company from January to September 2018 (“**Note 1**”). As a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company, such item for the Year increased by RMB20,209 million.
2. Cost of sales for the Reporting Period increased as compared with the same period of last year, due to: (1) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB18,216 million; (2) increasing purchase prices of raw materials and packaging materials of the Company’s subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the cost of sales.
3. Financial expenses for the Reporting Period increased as compared with the same period of last year, due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB117 million.
4. Net profit attributable to the shareholders of the Company for the Reporting Period decreased as compared with the same period of last year, due to: (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) the increase in minority interest resulting from inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company during the Year and newly-established subsidiaries of the Company.
5. Net cash flow from investing activities for the Reporting Period decreased as compared with the same period of last year, due to: (1) the Company paid the consideration for the acquisition of the “Wang Lao Ji” series trademarks, being RMB1,472 million (inclusive of value-added tax) during the Year; (2) the Company and its subsidiaries increased expenses for construction projects.
6. Other income for the Reporting Period increased as compared with the same period of last year, due to: the increase in government grants received by subsidiaries of the Company during the Year.
7. Investment income for the Reporting Period decreased as compared with the same period of last year, due to: as stated in Note 1, the Company purchased part of the equity interest in GP Corp. and Wang Lao Ji and recognized the increase in the value of long-term equity investment based on its shareholding prior to the date of acquisition at the fair value at the date of acquisition in 2018. However, there was no such amount incurred during the Year, resulting in the year-on-year decrease in investment income during the Year.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(i) Analysis of change in certain items in income statement and cash flow statement *(Continued)*

Notes: *(Continued)*

8. Gains on changes in fair value for the Reporting Period decreased as compared with the same period of last year, due to: the gains on change in fair value of Yi Xin Tang was recognized last year, while there was no such amount incurred during the Year.
9. Impairment losses in respect of credit for the Reporting Period decreased as compared with the same period of last year, due to: as stated in Note 1, GP Corp. was included in the scope of consolidation for the Company during the Year, which resulted in the increase in provision for bad debt by RMB67 million.
10. Impairment losses in respect of assets for the Reporting Period increased as compared with the same period of last year, due to: (1) the Company made provision for impairment on goodwill of RMB118 million last year, and no such provision was required during the Year; (2) the loss on decline in value of inventories of subsidiaries of the Company decreased year-on-year.
11. Gains on disposal of assets for the Reporting Period increased as compared with the same period of last year, due to: a year-on-year increase in the revenue from the transfer of equipment by subsidiaries of the Company.
12. Non-operating income for the Reporting Period decreased as compared with the same period of last year, due to: as a result of the inclusion of Wang Lao Ji in the scope of consolidation for the Company last year, the Company recognized the difference between the acquisition cost of Wang Lao Ji's equity interest held and the fair value of the identifiable net assets which was included in such item. However, there was no such amount incurred during the Year.
13. Non-operating expenses for the Reporting Period increased as compared with the same period of last year, due to: the inventory scrap of the subsidiaries of the Company increased year-on-year during the Year.
14. Income tax expenses for the Reporting Period increased as compared with the same period of last year, due to: (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) as stated in Note 1, the amount incurred for such item increased by RMB72million for the Year as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company; (3) the amount incurred for such item increased as a result of the increase in profits of the subsidiaries of the Company for the Year.
15. Minority interest for the Reporting Period increased as compared with the same period of last year, due to: (1) minority interest of newly-established subsidiaries of the Company increased; (2) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such line item for the Year increased by RMB51 million.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(ii) Analysis of revenue and cost

1) Industry, product and regional analysis of the operation result

Operations	Results of principal operations by industry					
	Income from principal operations	Income from principal operations	Cost of principal operations	Cost of principal operations	Profit margin of principal operations	Profit margin of principal operations
	(RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	(RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	(%)	Increase/ (Decrease) over the same period of 2018 (percentage point)
Great Southern TCM	11,649,901	20.91	7,194,745	31.31	38.24	A decrease of 4.89 percentage points
Great Health	10,478,864	10.45	5,154,767	(3.96)	50.81	An increase of 7.38 percentage points
Great Commerce	42,388,829	86.37	39,552,069	86.82	6.69	A decrease of 0.22 percentage point
Other	165,390	45.50	118,890	34.49	28.12	An increase of 5.89 percentage points
Total	64,682,984	54.08	52,020,471	62.03	19.58	A decrease of 3.94 percentage points

Types of products	Results of principal operations by products					
	Income from principal operations	Income from principal operations	Cost of principal operations	Cost of principal operations	Profit margin of principal operations	Profit margin of principal operations
	(RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	(RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	(%)	Increase/ (Decrease) over the same period of 2018 (percentage point)
Chinese patent medicine	4,667,051	21.31	2,716,655	24.31	41.79	A decrease of 1.41 percentage points
Chemical medicine	6,982,850	20.64	4,478,090	35.95	35.87	A decrease of 7.22 percentage points
Total of Great Southern TCM	11,649,901	20.91	7,194,745	31.31	38.24	A decrease of 4.89 percentage points

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(ii) Analysis of revenue and cost *(Continued)*

1) Industry, product and regional analysis of the operation result *(Continued)*

Regions	Results of principal operations by regions					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2018 (percentage point)
Southern China	49,204,612	70.55	41,731,391	74.50	15.19	A decrease of 1.91 percentage points
Eastern China	5,951,593	30.64	3,626,635	48.02	39.06	A decrease of 7.16 percentage points
Northern China	2,596,096	9.59	1,643,584	22.06	36.69	A decrease of 6.47 percentage points
North-Eastern China	560,691	(46.25)	407,220	(54.60)	27.37	An increase of 13.35 percentage points
South-Western China	4,301,813	19.40	3,004,039	28.85	30.17	A decrease of 5.12 percentage points
North-Western China	2,034,419	34.21	1,575,064	40.23	22.58	A decrease of 3.32 percentage points
Exports	33,760	(23.29)	32,538	(24.11)	3.62	An increase of 1.05 percentage points

Gross profit margin of principal operations = (Income from principal operations – Cost of principal operations)/Income from principal operations*100%

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(ii) Analysis of revenue and cost (Continued)

1) Industry, product and regional analysis of the operation result (Continued)

Notes:

- ① Income from principal operations and cost of principal operations of the Great Commerce segment increased significantly as compared with the same period of last year, due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. in May 2018, which was a joint venture of the Company from January to May 2018.
- ② Cost of principal operations of the Great Southern TCM segment increased significantly as compared with the same period of last year, mainly due to: increasing purchase prices of raw materials and packaging materials of the Company's subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the operating costs and a decrease in the gross profit margin.
- ③ Income from principal operations and cost of principal operations of the Other segment increased significantly, mainly due to: the expansion of business scope of Guangzhou Baiyunshan Hospital under the Company during the Year.

2) Analysis on quantities of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over the same period of 2018 (%)	Sales increase/ (decrease) over the same period of 2018 (%)	Inventory increase/ (decrease) over the same period of 2018 (%)
Cefixime series (thousand tablets/ thousand packs/thousand grains)	373,555.12	359,421.94	28,340.30	16.71	11.64	15.98
Cephathiamidine for Injection (thousand ampoules)	35,238.65	32,197.25	4,495.42	(1.53)	(4.51)	291.53
Sildenafil Citrate Tablet (thousand tablets)	62,752.85	61,759.35	9,321.96	27.99	29.35	9.28
Xiao Ke Pill (thousand bottles)	28,935.12	34,589.56	3,758.13	(33.86)	(3.04)	(66.78)
Zi Shen Yu Tai Pill (thousand boxes/thousand bottles)	4,699.48	5,216.85	676.35	25.66	63.82	(46.95)
Cephalopropylene series (thousand tablets/thousand packs)	94,799.86	89,596.77	7,642.12	26.31	14.31	40.93
Qing Kai Ling series (thousand packs/thousand bottles/ thousand grains)	632,862.50	632,600.56	59,707.08	(4.32)	0.04	25.85
Xiao Chai Hu Granule (thousand packs)	33,960.44	35,607.86	5,130.91	0.26	10.52	(24.72)
Amoxicillin series (thousand grains/ thousand packs)	1,213,586.13	1,213,836.11	176,366.10	(0.91)	5.58	(0.94)
Hua Tuo Zai Zao Pill (thousand boxes)	9,188.50	7,495.39	924.94	(5.47)	24.01	(60.59)

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(ii) Analysis of revenue and cost *(Continued)*

2) Analysis on quantities of production and sales *(Continued)*

Description on significant year-on-year changes in production, sales and inventory as at the end of the Reporting Period of products:

- ① The inventory of Cephathiamidine for Injection as at the end of the Reporting Period increased year on year, mainly due to: China continued to impose strict limitation on the application of antibiotics. Besides, according to the new adjustment to the National Medical Insurance Catalogue, the application of Cephathiamidine became more strictly controlled, which resulted in the decrease in the sales volume and increase in inventory.
- ② The sales volume of Sildenafil Citrate Tablet increased more significantly year on year, mainly due to the fact that: with the help of well-established channels of distribution, the Company unceasingly developed new customers which drove the growth in sales.
- ③ The production volume and inventory of Xiao Ke Pill decreased by 33.86% and 66.78% year on year, respectively as at the end of Reporting Period mainly due to the fact that: we adopted strategies to control the production volume and digest the inventory in 2019 because of the relatively large inventory at the end of 2018, which resulted in the year-on-year decrease in the production volume and inventory.
- ④ The sales volume of Zi Shen Yu Tai Pill increased by 63.82% and its inventory decreased by 46.95% year on year, respectively as at the end of Reporting Period mainly due to: the larger devotion to the design research and development and marketing of the product by the Company at the early stage, and the application of the national two-children policy, the product entered into the rapid development period, which resulted in the fast growth in sales volume and the decrease in inventory correspondingly.
- ⑤ The inventory of Cephalopropylene series increased by 40.93% year on year as at the end of Reporting Period mainly due to: the expected increase in sales demand of the product in the subsidiaries engaging in drug manufacturing and the stock-up of inventory in advance, which resulted in the increase in inventory.
- ⑥ The inventory of Hua Tuo Zai Zao Pill decreased by 60.59% year on year as at the end of Reporting Period mainly due to: the adjustment to marketing strategy of the product, accelerating transformation and upgrading of the promotion model of the product, which resulted in the increase in sales volume and the decrease in inventory correspondingly.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(ii) Analysis of revenue and cost *(Continued)*

3) Analysis of cost

Industrial	Components	Results by industry 2019		2018		Increase/ (decrease) over the same period of 2018 (%)
		Amount (RMB'000)	% of the proportion of operation cost (%)	Amount (RMB'000)	% of the proportion of operation cost (%)	
Manufacturing business	Raw materials	9,503,081	76.95	8,162,354	75.25	16.43
	Fuel	130,451	1.06	122,022	1.12	6.91
	Labor costs	370,575	3.00	317,398	2.93	16.75
	Others	2,345,405	18.99	2,244,624	20.69	4.49
Pharmaceutical distribution business	The cost of purchase	39,552,069	100.00	21,171,258	100.00	86.82
Others	Other cost	118,890	100.00	88,399	100.00	34.49

4) Major suppliers and sale

During the Year, sales by the Group to the five largest customers amounted to RMB4,724,395,000 (2018: RMB2,578,963,000), representing approximately 7.30% of the total sales (2018: 6.14%) of the Group. The sales to the largest customer amounted to RMB1,475,979,000 (2018: RMB756,278,000), representing 2.28% (2018: 1.80%) of the total sales of the Group. The sales to the 5 largest customers included RMB0 being sales to related parties, representing 0% of the total sales of the Group for the Year.

During the Year, purchases by the Group from the five largest suppliers amounted to RMB5,826,588,000 (2018: RMB3,025,139,000), representing approximately 9.38% of the total purchases (2018: 7.27%) of the Group for the year. The purchases from the largest suppliers amounted to RMB2,226,892,000 (2018: RMB898,962,000), representing 3.58% (2018: 2.16%) of the total purchases of the Group for the Year. The purchases from the 5 largest suppliers included RMB0 being purchases from related parties, representing 0% of the total purchases of the Group for the Year.

For the relationship between the Group and the customers and suppliers, please refer to the 2019 Social Responsibility Report of the Company (the full text of which had been disclosed on the websites of the SSE and the HKEx). To the knowledge of the Directors, none of the Directors, their associates or shareholders who held more than 5% of the Company's total issued share capital had any interest in any of the 5 largest customers and suppliers as were mentioned above

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(iii) Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB6,384,900,000 (2018: RMB5,056,821,000), representing an increase of 26.26% as compared with last year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,978,870,000 (2018: RMB1,699,062,000), representing a growth of 16.47% as compared with last year.

During the Reporting Period, the Group's research and development expenses was approximately RMB576,511,000 (2018: RMB585,498,000), representing a decrease of 1.53% as compared with last year.

During the Reporting Period, the Group's financial expenses was approximately RMB117,117,000 (2018: RMB-6,655,000), representing a growth of 1,859.96% as compared with last year, which was mainly due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB117 million.

During the Reporting Period, the Group's income tax expenses was approximately RMB687,246,000 (2018: RMB485,014,000), representing a growth of 41.70% as compared with last year, which was mainly due to (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) as stated in Note 1, the amount incurred for such line item increased by RMB72 million for the Year as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company; (3) the amount incurred for such line item increased as a result of the increase in profits of the subsidiaries of the Company for the Year.

(iv) Research and development expenses

1) Research and development expenses

Applicable Not Applicable

Cost of research and development expenses in the current year (RMB'000)	576,511
Capitalization of research and development expenses in the current year (RMB'000)	15,275
Total research and development expenses (RMB'000)	591,786
Ratio of research and development expenses to income from operations (%)	0.91
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	5.08
Total research and development expenses accounted for the proportion of net assets (%)	2.28
Number of the research and development personnel of the Company	586
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	2.27
Percentage of the research and development of capitalization (%)	2.58

2) Detailed description

Applicable Not Applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(1) Analysis of principal operations *(Continued)*

(v) Cash flow

Applicable Not applicable

Items	The Reporting Period (RMB'000)	The corresponding period of 2018 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2018 (%)	Reasons
Net cash flow from operating activities	5,022,367	5,216,888	(3.73)	/
Net cash flow from investing activities	(1,028,395)	1,109,718	(192.67)	(1) the Company paid the consideration for the acquisition of the "Wang Lao Ji" series trademarks, being RMB1.472 billion (inclusive of value-added tax), during the Year; (2) the Company and its subsidiaries increased expenses for construction projects.
Net cash flow from financing activities	(2,231,813)	(2,751,337)	18.88	/

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(2) Description of the significant changes in profit resulting from non-principal operation

Applicable Not applicable

(3) Analysis on financial conditions

(i) Liquidity

As at 31 December 2019, the current ratio of the Group was 1.57 (31 December 2018: 1.60), and its quick ratio was 1.24 (31 December 2018: 1.25). Accounts receivable turnover rate was 6.24 times (31 December 2018: 7.95 times), representing a decrease of 21.52% as compared with the corresponding period of 2018. Inventory turnover rate was 5.50 times (31 December 2018: 4.91 times), representing an increase of 12.00% as compared with the corresponding period of 2018.

(ii) Financial resources

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB16,833,623,000 (31 December 2018: RMB15,071,612,000), of which approximately 99.55% and 0.45% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2019, the Group had bank borrowings of RMB5,889,009,000 (31 December 2018: RMB6,523,281,000), including short-term borrowings of RMB5,869,009,000 (31 December 2018: RMB5,905,703,000), current portion of non-current liabilities of RMB15,500,000 (31 December 2018: RMB204,024,000) and long-term borrowings of RMB4,500,000 (31 December 2018: RMB413,554,000).

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(3) Analysis on financial conditions *(Continued)*

(iii) Capital structure

As at 31 December 2019, the Group's current liabilities amounted to RMB29,376,966,000 (31 December 2018: RMB26,948,764,000), representing an increase of 9.01% as compared with the corresponding period of 2018, and its long-term liabilities was RMB1,527,206,000 (31 December 2018: RMB1,389,687,000), with an increase of 9.90% as compared with the corresponding period of 2018. The shareholders' equity attributable to the shareholders of the Company amounted to RMB24,184,797,000 (31 December 2018: RMB21,684,909,000), with an increase of 11.53% as compared with the corresponding period of 2018.

(iv) Capital expenditure

The Group expects that the capital expenditure for 2020 to be approximately RMB2.476 billion (2019: RMB2.226 billion), which would be mainly applied in the construction of production bases, upgrade of equipment and set-up of information system, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

(v) Assets and liabilities

Items	As at 31 December 2019 (RMB'000)	% of the total assets (%)	As at 31 December 2018 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2018 (%)	Reasons for changes
Other current assets	578,842	1.02	2,137,248	4.10	(72.92)	Structural deposits of the Company decreased by RMB1.5 billion year on year.
Construction in progress	667,402	1.17	480,306	0.92	38.95	Investment in projects under construction by the Company and its subsidiaries increased.
Bearer biological assets	3,503	0.01	0	0.00	/	The subsidiaries of the Company newly purchased bearer biological assets.
Intangible assets	2,485,289	4.37	1,013,353	1.94	145.25	The Company acquired "Wang Lao Ji" series trademarks at the consideration of RMB1.389 billion.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(3) Analysis on financial conditions (Continued)

(v) Assets and liabilities (Continued)

Items	As at 31 December 2019 (RMB'000)	% of the total assets (%)	As at 31 December 2018 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2018 (%)	Reasons for changes
Development expenditure	2,011	0.00	0	0.00	/	The subsidiaries of the Company incurred expenditure attributable to the intangible asset during its development phase.
Other non-current assets	289,536	0.51	2,580	0.00	11,122.32	The subsidiaries of the Company increased the prepayment of projects under the contracts.
Notes payables	3,982,426	7.00	2,656,177	5.10	49.93	The notes issued by the subsidiaries of the Company increased.
Taxes payable	248,015	0.44	963,543	1.85	(74.26)	(1) With the implementation of the new revenue standard of the Company, the taxes to be written off in the advances from customers of the subsidiaries of the Company were reclassified to other current liabilities and other non-current liabilities; (2) the tax payable by the Company and its subsidiaries decreased.
Current portion of non-current liabilities	229,361	0.40	343,316	0.66	(33.19)	The subsidiaries of the Company returned part of their long-term loans due within one year.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(3) Analysis on financial conditions *(Continued)*

(v) Assets and liabilities *(Continued)*

Items	As at 31 December 2019 (RMB'000)	% of the total assets (%)	As at 31 December 2018 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2018 (%)	Reasons for changes
Other current liabilities	606,815	1.07	0	0.00	/	With the implementation of new revenue standards of the Company, the taxes to be written off in the advances from customers within one year of the subsidiaries of the Company were reclassified to such item.
Long-term borrowings	4,500	0.01	413,554	0.79	(98.91)	The subsidiaries of the Company reclassified long-term loans due within one year to non-current liabilities items due within one year.
Other comprehensive income	(139)	(0.00)	(477)	(0.00)	70.88	(1) Difference of conversion on currency exchange by the subsidiaries of the Company increased; (2) fair value of the financial assets of the Company decreased as at the end of the Reporting Period.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(3) Analysis on financial conditions *(Continued)*

(vi) Exposure to fluctuations in exchange rates

As the majority of the revenue, expenses, assets and liabilities of the Group are denominated or settled in Renminbi, the Group did not have significant risks in exposure to fluctuations in exchange rates.

(vii) Main cash resources and applications

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB16,833,623,000 with an increase of RMB1,762,011,000 as compared with the beginning of 2019. The net cash inflow derived from operating activities amounted to RMB5,022,367,000 with a decrease of RMB194,521,000 as compared with 2018.

(viii) Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

(ix) Charge on the Group's assets

As at 31 December 2019, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has obtained the overdraft amounted to HKD300,000, letter of credit and 90-day credit in the total amount of HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by buildings of fixed assets with the original value amounted to HKD8,893,000, and net value of HKD6,231,000 and investment properties with the original value amounted to HKD6,843,000 and net value of HKD3,532,000 of investment properties. Unexpired letter of credit of EUR447,000, USD196,000, CNY305,000 and JPY5,530,000 in value has also be obtained.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(3) Analysis on financial conditions *(Continued)*

(x) Bank loans, overdraft and other borrowings

As at 31 December 2019, the bank loans of the Group amounted to RMB5,889,009,000 (31 December 2018: RMB6,523,281,000), with a decrease of RMB634,272,000 as compared with the beginning of 2019. The above bank loans included short-term loans of RMB5,869,009,000, current portion of non-current liabilities of RMB15,500,000 and longterm loans of RMB4,500,000.

(xi) Gearing ratio

As at 31 December 2019, the Group's gearing ratio (total liabilities/total assets × 100%) was 54.32% (31 December 2018: 55.05%).

(xii) Material investment

As at 31 December 2019, except for those disclosed in (2) in the section headed "III Company's Business Profile" of the 2019 annual report, the Group did not have any other material additional investment.

(xiii) Major assets subject to restrictions at the end of the Reporting Period

Applicable Not applicable

(xiv) Others

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information

Applicable Not applicable

According to the guidelines on industry classification of listed companies issued by the CSRC, the industry of the Company is pharmaceutical manufacturing.

Analysis on the operational information in the pharmaceutical manufacturing industry

(i) Basic information of the industry and main medicine (products)

1) Basic information of the industry

Applicable Not applicable

The Group's pharmaceutical manufacturing products mainly covers the Chinese patent medicine and chemical medicine and other subdivided industries. General information of subdivided industries is as follows:

① Chinese patent medicine

In recent years, China has attached great importance to the development of the traditional Chinese medicine industry. The promulgation of a series of strategic policies, such as the Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030)(《中醫藥發展戰略規劃綱要(2016-2030年)》), the 13th Five-year Plan for the Development of Traditional Chinese Medicine (《中醫藥發展「十三五」規劃》), the “Belt and Road” Development Plan for Traditional Chinese Medicine (2016-2020)(《中醫藥“一帶一路”發展規劃(2016—2020年)》), the Healthy China Outline Plan (2016-2030) (《健康中國規劃綱要(2016-2030年)》) and the Traditional Chinese Medicine Law of the People's Republic of China (《中華人民共和國中醫藥法》) has laid a good foundation for the sustainable development of the pharmaceutical industry. Moreover, the Opinions on Promoting the Inheritance and Innovative Development of Traditional Chinese Medicine (《關於促進中醫藥傳承創新發展的意見》) have put forward 20 opinions to promote the development of traditional Chinese medicine and indicate the development direction of the industry. However, the excessive exaggeration of adverse reaction to Chinese medicine and policies such as the fees control by medical insurance policies have led to obstacles for the development of the traditional Chinese medicine industry. In July 2019, the National Health Commission issued the Notice on the Catalogue of the First Batch of Major Drugs under State Supervision and Control on Reasonable Usage (Chemical and Biological Products)(《第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)的通知》), in which it was expressly stated that only physicians under the Chinese medicine category or physicians from other categories with relevant qualifications may issue prescriptions on traditional Chinese (patent) medicine. If the relevant requirements are strictly enforced, serious effects on the industry may be resulted. In general, the traditional Chinese medicine industry will embrace rare development opportunities as well as greater challenges in its development.

The Group is the epitome of south traditional Chinese medicine (TCM) with obvious advantages in resources, including Chinese patent medicine brands and varieties in South China and throughout the country. Meanwhile, with the current strong development of the traditional Chinese medicine industry in the Guangdong-Hong Kong-Macao Greater Bay Area and Guangdong Province in the background, the Group will have unique geographical and policy advantages.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

1) Basic information of the industry *(Continued)*

② Chemical medicine

In recent years, encouraged by the relevant national policies, transformation of chemical drugs driven by innovation has been accelerating. In 2019, encouraged by policies such as evaluation and approval with priorities, the launching speed of innovative drugs in the market has been further accelerated, and innovative drugs remain the key direction of development in the industry. For generic drugs, with the formal implementation of 4+7 centralized bulk purchases, the proactiveness of enterprises to commence quality consistency evaluation and the confidence in the development of generic drugs have been affected to a considerable extent. Moreover, as the new Drug Administration Law (《藥品管理法》) formally comes into effect, regulation on drugs has become stricter and information system for tracing has been improving gradually. Changes such as adjustments to the list of basic drugs and the National Medical Insurance Catalogue, and reforms of the medical insurance reimbursement system, have enhanced the rapid centralization in the industry. The above policies and regulations will affect the revenue and profit of the chemical drugs industry, many homologous production enterprises will be reshuffled in the industry, and innovative drugs and generic drugs which have passed quality consistency evaluations will gain support from national policies.

The Group has a complete antibiotic production chain from raw material medicine to preparation, with products covering commonly used antibiotic varieties. The Group strived to integrate and create a market image as the number one brand of oral antibacterial and anti-inflammatory drugs in the country with the famous brand "Kang Zhi Ba".

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

2) Policies related to the industry

A) Changes of policies and regulations in medical and other aspects, and resulting effect

- ① Formal implementation of the new Drug Administration Law (《藥品管理法》) encouraging innovation while reinforcing stricter regulation

On 1 December 2019, the newly amended Drug Administration Law (新《藥品管理法》) became effective, which encourages research, development and innovation of pharmaceutical products, optimizes the evaluation and approval workflow process, ensures the supply of pharmaceutical products and protects the legal rights and interests of citizens, legal entities and other organizations in the research and development of new drugs. Orienting on clinical value, the law supports innovation of drugs with distinctive or special therapeutic effects for human diseases, encourages the research and manufacture of new drugs with new therapeutic mechanism, for curing serious and critical diseases or rare diseases, and with adjustment and intervention functions of multi-target systems in human body, to further promote the advancement of the pharmaceutical technology. Research, development and innovation of pediatric drugs are encouraged, research, development and production of pharmaceutical products in short supply are encouraged, and priorities are given to evaluation and approval of clinical drugs in short supply, new drugs for containment of major infectious diseases and rare diseases, and pediatric drugs. By combining with the relevant policies that encourage drug innovations such as the Notice on the Publication of the Healthy China Action – Cancer Prevention and Therapy Implementation Plan (2019-2022)(《關於印發健康中國行動—癌症防治實施方案(2019-2022)的通知》) and the Notice on Consultation Draft of “Working Procedure for Breakthrough Therapeutic Drugs” and “Working Procedure for Priority in Evaluation and Approval”(《關於<突破性治療藥物工作程序>和<優先審評審批工作程序>徵求意見的通知》), encouraging the creation and manufacture of new drugs will remain the key direction of development in the industry. In addition, the new Drug Administration Law (新《藥品管理法》) assures the safety of pharmaceutical application to the public by applying the “Four Strictest Principles” of using the most prudent standards, the strictest regulatory supervision, the strictest punishment and the most serious accountability, reflecting the determination of the State government to regulate drug supervision decisively through eliminating ill practices in violation of rules and corruptive practices.

Counter-measures: the Group will continue to play the role of an innovator, strengthen the research and development of new products and promote the enhancement of innovation capability in accordance with the relevant national policies which encourage the creation and production of new drugs. We will manufacture and sell drugs in strict accordance with the requirements of the new Drug Administration Law, and ensure that the products, production and operation management comply with the requirements of laws and regulations.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

A) Changes of policies and regulations in medical and other aspects, and resulting effect *(Continued)*

② Quality consistency evaluation of generic chemical drugs for injection is set to move

On 30 September 2019, the National Medical Products Administration issued the Notice on Soliciting Opinions on Technical Requirements for Consistency Evaluation of the Quality and Efficacy of Generic Chemical Drugs for Injection (Special Injections) (Consultation Draft) (《關於公開徵求<化學藥品注射劑仿製藥(特殊注射劑)質量 and 療效一致性評價技術要求(徵求意見稿)>意見的通知》). Compared with the previous consultation drafts, the current consultation draft includes Requirements of Application Materials (Consultation Draft) (《申報資料要求(徵求意見稿)》), and repeatedly proposes to refer to the relevant technical standards of the United States and Europe. As such, the deployment work for quality consistency evaluation of injections will be further accelerated.

Counter-measures: The Group will continue to pay attention to the release of technical requirements for quality consistency evaluation of injections and other relevant implementation plans, sort out the existing types of generic chemical drugs for injection in a timely manner and carry out preliminary research on quality consistency evaluation.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

A) Changes of policies and regulations in medical and other aspects, and resulting effect *(Continued)*

③ Improved drug regulatory system

In July 2019, the General Office of the State Council issued the Opinions on the Establishment of a Professional Drug Inspection Team (《關於建立職業化專業化藥品檢查員隊伍的意見》), which further improved the drug regulatory system from six aspects, namely, improving the drug inspection system and mechanism, implementing the allocation of inspectors, strengthening the management of the team of inspectors, continuously improving the quality of inspectors, establishing incentive and restraint mechanisms, and improving organizational leadership and protection measures. In August 2019, the National Medical Products Administration issued the Administrative Measures for Drug Quality Sampling Inspection (《藥品質量抽查檢驗管理辦法》) to further standardize drug inspection. On 1 December 2019, the PRC Vaccine Administration Law (《中華人民共和國疫苗管理法》) officially became effective. In order to implement the new Vaccine Administration Law, the National Medical Products Administration and the National Health Commission jointly issued the Notice on the Construction of Vaccine Information Tracing System (《關於做好疫苗信息化追溯體系建設工作的通知》) on 6 December, such that the whole process of all vaccines can be traced, the sources can be checked, the whereabouts can be found and parties can be held accountable, thereby improving the level and efficiency of vaccine supervision, and ensuring the quality and safety of vaccines.

Counter-measures: The Group will thoroughly implement the "Four Strictest" requirements, improve the quality supervision and management system of the whole-process, and strengthen prevention, in-process control and post-supervision. Through supervision and guidance, oversight and inspection, punishment and other measures, we will comprehensively deepen the fulfillment of corporate responsibility, properly carry out management of the entire business chain of products from research and development as well as production to sales, in an effort to ensure quality and safety.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

B) Changes and impact of policies and regulations on medical insurance and our response measures

- ① The centralized drug bulk procurement program in “4+7” cities was officially implemented and expanded nationwide

In March 2019, the centralized drug bulk procurement program in the first batch of “4+7” cities was officially implemented. In September, based on the implementation of the program in the first batch of 11 cities, 25 provinces, cities and autonomous regions, including Shanxi and Inner Mongolia, were organized to form an alliance to carry out centralized drug bulk procurement across regions. In November, the Leading Group for Deepening the Reform of the Medical and Health System of the State Council (國務院深化醫藥衛生體制改革領導小組) issued the Certain Policy Measures to Further Deepen the Reform of the Medical and Health System by Using Centralized Procurement and Use of Drugs as a Breakthrough (《關於以藥品集中採購和使用為突破口進一步深化醫藥衛生體制改革的若干政策措施》); on 29 December, the joint procurement office issued the National Centralized Drug Procurement Document (GY-YD2019-2) (《全國藥品集中採購文件(GY-YD2019-2)》), which commenced the second batch of national centralized drug bulk procurement work for 35 drugs, covering all provinces, cities and autonomous regions in the country, and the drugs included products outside the National Medical Insurance Catalogue. In light of the extensive centralized bulk procurement organised by the State, the generic drug industry will accelerate the transformation to the mode of “small profits and good sales”, and the concentration level of the industry will increase at a faster pace.

Counter-measures: In respect of pharmaceutical manufacturing, the Group will actively carry out the quality consistency evaluation of generic drugs, further improve the production and management efficiency of generic drugs, with a view to effectively reducing production costs and enhancing product competitiveness; actively participate in the bidding of drug bulk procurement organized by the State, and constantly improve the market share of related products. In respect of pharmaceutical distribution, the Group will fully leverage on the advantages of pharmaceutical distribution, and actively participate in the distribution services for the centralized drug bulk procurement organized by the State.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

B) Changes and impact of policies and regulations on medical insurance and our response measures *(Continued)*

- ② DRGs payment will be carried out in 30 pilot cities in China, and the payment model of medical insurance may change dramatically

On 5 June 2019, the National Healthcare Security Administration, the Ministry of Finance, the National Health Commission and the National Administration of Traditional Chinese Medicine jointly issued the Notice on Issuing the List of National Pilot Cities for Making DRGs Payment (《關於印發按疾病診斷相關分組付費國家試點城市名單的通知》) (the “Notice”) to further deepen the reform of medical insurance payment in China. According to the reports of various provinces (districts and cities) in the early stage, 30 cities were identified as national pilot cities for making DRGs payment, and such pilot cities covered a wide area. The Notice required all pilot cities and their corresponding provinces to follow the three-step approach of “top-level design, simulation test and actual payment” under the unified leadership of the DRGs payment pilot working group of the State, in order to ensure the simulation run will be carried out in 2020 and the actual DRGs payment will be run in 2021. The nationwide promotion of DRGs payment will further separate the management of in-patient drugs and out-patient drugs and accelerate the separation of treatment and medicine. Meanwhile, drugs from the hospital channel will gradually turn to products with lower prices and move exact efficacy.

Counter-measures: The Group will actively pay attention to the implementation of DRGs payment’s pilot run, timely grasp the results of DRGs payment’s pilot run in all pilot cities across the country, and properly adjust the product strategies.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

B) Changes and impact of policies and regulations on medical insurance and our response measures *(Continued)*

③ A new round of adjustment of the National Medical Insurance Catalogue and the further expansion of the drugs list

On 15 April 2019, the National Healthcare Security Administration released the Work Plan for the Adjustment of the National Medical Insurance Drug Catalogue in 2019 (《2019年國家醫保藥品目錄調整工作方案》). Such adjustment of the National Medical Insurance Catalogue emphasized more on “achieving greater optimization of the drug structure” and “higher efficiency of the use of medical insurance funds”, and changed from the original “expansion” to “strategic purchase based on value”. In addition, this round of catalogue adjustment paid more attention to the clinical effect of drugs. In terms of the number of drugs newly included in the Catalogue, the number of newly added traditional Chinese medicine is far higher than that of chemical medicine, as such, the number of Chinese patent medicine and chemical medicine in the Catalogue are similar, thereby further promoting the establishment of a health system of “equal emphasis on both Chinese and Western medicine”. For the patent and exclusive drugs with higher prices or greater influence on the medical insurance fund, 97 of the 128 drugs to be negotiated have been successfully negotiated, and the number of newly included drugs through negotiations exceeded the sum of all previous times, which reflected the State’s encouragement of the creation of new drugs.

Counter-measures: The Group will continue to fully leverage on the advantages of the Chinese patent medicine brands and other resources, and strive to achieve coordinated development of chemical medicine, Chinese patent medicine and Chinese medicine decoction pieces by adhering to the principle of “equal emphasis on both Chinese and Western medicine”. Meanwhile, the Group will continue to increase investment in research and development of innovative drugs, and further enrich the product offering of innovative drugs.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

C) Changes and impact of healthcare policies and our response measures *(Continued)*

- ① The monitoring of drug use was further standardized, and the list of the first batch of key monitoring drugs for rational use was released

On 9 April 2019, the National Health Commission issued the Notice on the Implementation of Drug Use Monitoring and Clinical Comprehensive Evaluation (《關於開展藥品使用監測和臨床綜合評價工作的通知》), which requires the establishment of national and provincial drug use monitoring platforms and drug use monitoring networks at four levels, namely, national, provincial, prefectural and county levels, to achieve drug use information collection, statistical analysis, information sharing and other functions. On 1 July, the National Health Commission issued the Catalogue of the First Batch of National Key Monitoring Drugs for Rational Use (Chemical Drugs and Biological Products) (《第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)》)(the “**Catalogue**”), and a total of 20 drugs were included in the key monitoring catalogue. Under the Catalogue, all health administrative departments at provincial level, together with the competent Chinese medicine departments, were required to form and publish the catalogue of key monitoring drugs for rational use on the basis of the national Catalogue at provincial level. For traditional Chinese medicine, Chinese medicine practitioners are required to prescribe traditional Chinese medicine according to the Guiding Principles of Clinical Application of Chinese Patent Medicine (《中成藥臨床應用指導原則》), the Management Standards of Chinese Medicine Decoction Pieces in Hospitals (《醫院中藥飲片管理規範》), etc., and in compliance with the basic clinical principles of traditional Chinese medicine of treatment based on syndrome differentiation. Doctors of other categories shall receive relevant training and obtain corresponding qualification certificates before issuing prescriptions for traditional Chinese medicine. With the support of the data of the national drug use monitoring platform, rational drug use in China will be further standardized in the future.

Counter-measures: The Group will continue to properly conduct research and development and production of drugs in accordance with the requirements of the four major elements of rational drug use, namely, safety, effectiveness, economy and appropriateness, so as to ensure that the products meet the guidance requirements of the national pharmaceutical reform.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

C) Changes and impact of healthcare policies and our response measures *(Continued)*

- ② Graded diagnosis and treatment is further accelerated, and the overall service level of primary medical institutions is improved

In 2019, the National Health Commission further promoted the construction of primary medical institutions. On 15 March, the Notice on Carrying Out the Pilot Work of Construction of Community Hospitals (《關於開展社區醫院建設試點工作的通知》) was issued, which required the pilot community health service centers and township health centers to carry out establishment from three aspects, in a bid to further promote the construction of the graded diagnosis and treatment system. On 13 May, the Opinions on the Pilot Project of Promoting the Development of Clinics (《關於開展促進診所發展試點的意見》) was issued to attract high-quality medical resources, form a diversified healthcare services model and promote the establishment of a high-quality and efficient medical and health service system. On 28 May, the Notice on Promoting the Construction of Close County Medical and Health Community (《關於推進緊密型縣域醫療衛生共同體建設的通知》) was issued to further improve the county medical and health service system, accelerate the enhancement of primary medical and health service capability, and promote the development of a new order in respect of graded diagnosis and treatment, reasonable diagnosis and treatment and orderly medical treatment. On 2 September, the List of Pilot Provinces and Counties for the Construction of Close County Medical and Health Community (《緊密型縣域醫療衛生共同體建設試點省和試點縣名單》) was issued. With the further implementation of graded diagnosis and treatment, the model of drug use in public medical institutions will change greatly.

Counter-measures: The Group will pay close attention to the implementation of graded diagnosis and treatment, and properly adjust the marketing strategies. In view of the improvement of service level and service capability of primary hospitals, the Group will actively develop channels and enhance the market penetration rate of products.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

D) Changes and impact of environmental policies and our response measures

The Environmental Impact Assessment Law (《環境影響評價法》) revised and adopted by the Seventh Session of the Standing Committee of the 13th National People's Congress was promulgated and implemented on 29 December 2018. The new Environmental Impact Assessment Law cancelled the matters concerning administrative licence for the qualification of environmental impact assessment of construction projects. In order to urge the construction units to consciously fulfill their environmental protection responsibility, according to the principle of "who benefits who bears the responsibility", the revised law expressly stipulates that the construction units are responsible for the contents and conclusions of their construction project's environmental impact reports (tables), and the technical units shall bear the corresponding responsibilities.

Counter-measures: the Group will fulfill its environmental responsibility and strengthen the management of environmental assessment on construction projects in strict accordance with relevant laws and regulations.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products)

✓Applicable Not applicable

Basic information of principle medicine (products) by subdivided industry and by therapeutic area

✓Applicable Not applicable

Product Name	Subdivided sub-industry	therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Cefixime series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	From 16 July 2009 to 15 July 2029	chemical medicine	No	Yes	No	Thousand tablets/ thousand packs/ thousand grains	373,555.12	359,421.94
Cephalthiamidine for Injection	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infections of respiratory system, hepatobiliary system, the five sense organs and urinary tract, endocarditis and septicemia caused by sensitive bacteria.	From 19 May 2003 to 18 May 2023	chemical medicine	No	Yes	No	Thousand ampoules	35,238.65	32,197.25
Sildenafil Citrate Tablet	Chemical medicinal preparations	Drugs for men	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2022	chemical medicine	No	Yes	No	Thousand tablets	62,752.85	61,759.35
Xiao Ke Pill	Chinese patent medicine	Drugs used in internal	Diabetes caused by deficiency of both qi and yin; type-II diabetes	From 31 March 2006 to 31 March 2026	Traditional Chinese medicine	No	Yes	No	Thousand bottles	28,935.12	34,589.56
Zi Shen Yu Tai Pill	Chinese patent medicine	Drugs used in internal	Kidney-nourishing, spleen-invigorating, primordial Qi-reinforcing, blood-nourishing, mis scarrage-preventing and body-strengthening. It is fit for those who suffer spleen and kidney deficiency and miscarriage due to dysfunction of thoroughfare and conception vessels (to prevent habitual miscarriage and threatened miscarriage)	From 27 August 2004 to 27 August 2024(quality testing method)	Traditional Chinese medicine	No	Yes	No	Thousand boxes/ thousand bottles	4,699.48	5,216.85
Cefprozil series	Chemical medicinal preparations	Antimicrobial drugs	Upper respiratory tract infection, lower respiratory tract infection, infection of skin and its soft tissues	From 20 December 2010 to 19 December 2030	chemical medicine	No	Yes	No	Thousand tablets/ thousand packs	94,799.86	89,596.77

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products) (Continued)

Product Name	Subdivided sub-industry	therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Qing Kai Ling series	Chinese patent medicine	Drugs used in internal	Clearing heat, removing toxicity, tranquilizing and allaying excitement. The product is indicated for hyperpyrexia, dysphoria, swollen sore throat, crimson tongue, yellow tongue fur and raid pulses caused by exogenous windheat and seasonal toxin and endogenous fire toxin; upper respiratory tract infection, viral influenza, acute suppurative tonsillitis, acute pharyngitis, acute bronchitis and hyperpyrexia belong to those symptoms above.	From 8 December 1992 to 14 October 2034 (Oral liquid), From 13 August 2013 to 13 August 2033 (Granules and Capsules), Form 29 May 2003 to 20 May 2034 (Injection)	Traditional Chinese medicine	No	Granules and capsules have both prescription and non-prescription varieties; Oral liquid and injection are prescription drugs	No	Thousand packs/ Thousand bottles/ Thousand grains	632,862.50	632,600.56
Xiao Chai Hu Granule	Chinese patent medicine	Drugs used in internal	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach	From 18 October 2011 to 17 October 2031	Traditional Chinese medicine	No	No	No	Thousand packs	33,960.44	35,607.86
Amoxicill series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infection caused by sensitive bacteria Non-β-lactamase-producing strains.	No	Chemical medicine	No	Yes	No	Thousand capules/ thousand packs	1,213,586.13	1,213,836.11
Hua Tuo Zai Zao Pill	Chinese patent medicine	Drugs used in internal	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain.	No	Traditional Chinese medicine	No	Yes	No	Thousand boxes	9,188.50	7,495.39

Note: The above table set out the top 10 products by revenue during the Reporting Period.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Research and development situation of the Company's medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue

Applicable Not applicable

On 20 August 2019, the State officially implemented the new edition of the National Medical Insurance Catalogue. As at the end of the Reporting Period, a total of 321 varieties and 455 product specifications of the Group and joint ventures were included in the National Medical Insurance Catalogue. Among these, there are 7 varieties which have been newly included in the national Medical Insurance Catalogue, 8 varieties which have exited the National Medical Insurance Catalogue, and 27 products for which the classification in the national medical insurance or indication limits were adjusted.

As at the end of the Reporting Period, 331 varieties were included in the Provincial Medical Insurance Catalogue, which has no change from the previous year.

Pursuant to the Basic Medicine Catalogue (《基藥目錄》) implemented on 1 November 2018, as at the end of the Reporting Period, a total of 143 varieties of the Group and joint ventures were included in the Basic Medicine Catalogue (《基藥目錄》), which has no change from the previous year.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Products that have been included in, excluded from and adjusted classification in the national medical insurance or adjusted the indication restriction in the Medical Insurance Catalogue have the following functions:

Serial number	Product name	Type of product	Indications/Functions	New entrance/Exclusion
1	Xiao Er Bao An Pill	Chinese patent medicine	Removing wind, relieving convulsion and eliminating phlegm. Applicable to vomiting and diarrhea, indigestion, early onset of cold, infantile convulsion, coughing and excessive phlegm.	New entrance
2	Fen Qing Wu Lin Pill	Chinese patent medicine	Clearing heat and fire, diuretic and drenching. Applicable to gonorrhea caused by damp-heat, with symptoms including yellow urine, frequent urination, urinary burning and astringent pain.	New entrance
3	Qing Re Ding Jing San	Chinese patent medicine	Calming nerves, clearing away heat, dispelling wind and removing phlegm. Applicable to children with convulsion, excessive phlegm and salivation, cough and asthma, food stagnation and vomiting, abdominal pain and diarrhea.	New entrance
4	Xiao Er Fu Xie Ning	Traditional Chinese medicine	Applicable to diarrhea caused by deficiency of spleen and stomach qi. The symptoms are diarrhea, abdominal distention, abdominal pain, reducing appetite, vomiting, dry mouth, fatigue and weakness, and pale tongue.	New entrance
5	Xiao Er Antipyretic oral liquid	Traditional Chinese medicine	Applicable to children with wind-heat and cold, fever, intolerant of wind, headache, red eyes, swelling and sore throat.	New entrance
6	Xiao Er cold granule	Chinese patent medicine	Clearing away wind and relieving exterior symptoms, clearing away heat and detoxifying. Applicable to children with wind-heat and cold. The symptoms include fever, headache, cough, phlegm, swelling and sore throat. Applicable to influenza with the above symptoms.	New entrance
7	Bi Yan Qing Du preparation	Traditional Chinese medicine	Clearing away heat, detoxifying, diminishing inflammation and dissipating stagnation. Applicable to syndrome of chronic inflammation of nasopharynx, swelling and sore throat and increase of secretion after radiotherapy of nasopharyngeal carcinoma.	New entrance
8	Spirulina tablets	Chinese patent medicine	Invigorating qi, nourishing blood, resolving phlegm and reducing turbidity. Applicable to deficiency of qi and blood, turbid phlegm, sallow complexion, dizziness, tiredness of limbs and inappetence. Weakness, anemia and malnutrition after illness with the above symptoms.	Excluded

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Serial number	Product name	Type of product	Indications/Functions	New entrance/Exclusion
9	Acetylspiramycin	Chemical medicine	Applicable to mild and moderate infections caused by sensitive staphylococcus, streptococcus and streptococcus pneumoniae, such as pharyngitis, tonsillitis, sinusitis, otitis media, periodontitis, acute bronchitis, acute attack of chronic bronchitis, pneumonia, non-gonococcal urethritis, acute soft tissue infections, cryptosporidiosis, or as an alternative medicine for the treatment of toxoplasmosis in pregnant women.	Excluded
10	Injection for Ribavirin	Chemical medicine	Antiviral drug. Applicable to viral pneumonia and bronchitis caused by respiratory syncytial virus.	Excluded
11	Injection for Procaine hydrochloride	Chemical medicine	Local anesthetics. Applicable to infiltration anesthesia, block anesthesia, lumbar anesthesia, epidural anesthesia and block therapy.	Excluded
12	Injection for Dipyridamole	Chemical medicine	A drug experiment for the diagnosis of myocardial ischemia.	Excluded
13	Ofloxacin tablets	Chemical medicine	Applicable to the infections caused by sensitive bacteria: 1. Urogenital system infections, including simple and complex urinary tract infections, bacterial prostatitis, Neisseria gonorrhoeae urethritis or cervicitis (including those caused by enzyme producing strains). 2. Respiratory tract infections, including acute attack of bronchial infections caused by sensitive gram-negative bacilli and pulmonary infections. 3. Gastrointestinal infections caused by Shigella, Salmonella, enterotoxin producing Escherichia coli, Aeromonas hydrophila, Vibrio parahaemolyticus, etc. 4. Typhoid fever. 5. Bone and joint infections. 6. Skin and soft tissue infections.	Excluded
14	Composite Pseudoephedrine capsule	Chemical medicine	Used for relieving fever, headache, limb ache, sneezing, runny nose, stuffy nose, cough, sore throat and other symptoms caused by common cold and influenza.	Excluded
15	An Ka Huang Min capsules	Chemical medicine	Used for relieving fever, headache, limb ache, sneezing, runny nose, stuffy nose, cough, sore throat and other symptoms caused by common cold and influenza.	Excluded

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Serial number	Product name	Type of product	Indications/Functions	New entrance/ Exclusion
16	Sheng Hua Pill	Chinese patent medicine	Nourishing blood and removing blood stasis. Applicable to unsuccessful or unsmooth discharge of postpartum lochia due to coldness, coupled with blood clots and coldness and pain of the abdomen.	Class B adjusted to Class A
17	Huo Xiang Zheng Qi Granules	Traditional Chinese medicine	Relieving exterior symptoms, resolving dampness, regulating stomach and spleen qi. Applicable to summer heat-dampness, headache, heaviness of body, chest distress, cold, fever, abdominal distention and pain, vomiting, diarrhea.	Class B adjusted to Class A
18	Bao Ji Oral Liquid	Traditional Chinese medicine	Relieving exterior symptoms, resolving dampness. Applicable to abdominal pain, vomiting, diarrhea, dysphagia and acid reflux, nausea and vomiting, gastrointestinal discomfort, dyspepsia, seasickness, cold, fever and headache.	Class B adjusted to Class A
19	Injection for Citicoline sodium	Chemical medicine	Coenzyme, applicable to acute craniocerebral trauma and postoperative cognitive dysfunction after brain surgery.	Class A adjusted to Class B, adjustment of indication limit
20	Nicodil tablet	Chemical medicine	Applicable to the treatment of coronary heart disease and angina pectoris. It is effective for exertional, spontaneous, post-infarction or mixed angina pectoris. This product can be used in patients with angina pectoris accompanied with atrial fibrillation and cardiac enlargement who need to be careful with other anti-angina drugs.	Class B adjusted to Class A
21	Huo Xin Pill	Chinese patent medicine	Mainly used to treat chest arthralgia and heartache, and applicable to coronary heart disease and angina pectoris.	Class B adjusted to Class A
22	Vitamin B6 tablets	Chemical medicine	Used to prevent and treat vitamin B6 deficiency, such as seborrheic dermatitis and chapped lips. Can also be used to reduce vomiting during pregnancy.	Class B adjusted to Class A
23	Colloidal bismuth pectin capsules	Chemical medicine	Applicable to the treatment of peptic ulcer, especially these related to Helicobacter pylori infection. Also applicable to chronic superficial gastritis and atrophic gastritis.	Class B adjusted to Class A
24	Gliclazide tablets	Chemical medicine	Applicable to type 2 diabetes.	Class B adjusted to Class A
25	Xiao Huo Luo Pill	Chinese patent medicine	To dispel wind and cold, reduce phlegm and humidification, invigorate blood circulation and alleviate pain. Applicable to the numbness caused by wind and cold, and paralysis caused by obstruction of collaterals by phlegm and blood stasis, whose symptoms include limb joint pain, or cold pain, or tingling, or pain at night, adverse joint flexion and extension, numbness and clonus.	Class B adjusted to Class A

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Serial number	Product name	Type of product	Indications/Functions	New entrance/Exclusion
26	Injection for Qing Kai Ling	Chinese patent medicine	This product can clear away heat and detoxify, dissipate phlegm, dredge collaterals and awaken the mind. Applicable to fever, dizziness, apoplexy, hemiplegia and delirium; acute hepatitis, upper respiratory tract infection, pneumonia, cerebral thrombosis and cerebral hemorrhage with the above symptoms.	Adjustment of indication limit
27	Injection for Ya Dan Zi You Ru	Chinese patent medicine	Anticancer drug applicable to lung cancer, lung cancer with brain metastasis and digestive tract tumor.	Adjustment of indication limit
28	Injection for Fasudil hydrochloride	Chemical medicine	To improve and prevent cerebral vasospasm and cerebral ischemia after surgery for subarachnoid hemorrhage.	Adjustment of indication limit
29	Injection for Cefthiamidine	Chemical medicine	Applicable to infection of respiratory system, hepatobiliary system, sensory organs, and urinary tract as well as endocarditis and sepsis caused by sensitive bacteria.	Adjustment of indication limit
30	Amoxicillin dry suspension	Chemical medicine	Applicable to the following infections caused by sensitive bacteria non- β -lactamase-producing Strains: 1. Upper respiratory tract infections such as otitis media, sinusitis, pharyngitis and tonsillitis caused by hemolytic streptococcus, Streptococcus pneumoniae, Staphylococcus or Haemophilus influenzae; 2. Urogenital tract infection caused by Escherichia coli, Proteus mirabilis or Enterococcus faecalis; 3. Skin and soft tissue infections caused by streptococcus haemolyticus, staphylococcus or escherichia coli; 4. Lower respiratory tract infections such as acute bronchitis and pneumonia caused by Streptococcus Haemolyticus, Streptococcus Pneumoniae, Staphylococcus aureus or Haemophilus influenzae; 5. Acute gonorrhoea without complications; Suitable for the treatment of typhoid fever, typhoid carriers and leptospirosis; Amoxicillin can also be combined with clarithromycin and lansoprazole to eradicate Helicobacter pylori in stomach and duodenum and reduce the recurrence rate of digestive tract ulcer. Sugar (sucrose, glucose) free formulation, especially suitable for children.	Adjustment of indication limit

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Serial number	Product name	Type of product	Indications/Functions	New entrance/Exclusion
31	Injection for Coenzyme Q10	Chemical medicine	It can be used as an auxiliary treatment for congestive heart failure, coronary heart disease, hypertension, arrhythmia, primary and secondary aldosterosis, sequelae of neck trauma, cerebrovascular disorder, hemorrhagic shock and hepatitis.	Adjustment of indication limit
32	Injection for puerarin	Chemical medicine	Used for auxiliary treatment of coronary heart disease, angina pectoris, myocardial infarction, retinal arteriovenous obstruction, sudden deafness	Adjustment of indication limit
33	Qiangli Pipa Lu	Chinese patent medicine	To nourish Yin, restrain the lung, relieve restrain and resolve phlegm applicable to bronchitis cough.	Adjustment of indication limit
34	Injection for Tropisetron hydrochloride	Chemical medicine	Used for prevention and treatment of nausea and vomiting caused by cancer chemotherapy.	Adjustment of indication limit
35	Injection for Cefpirome sulfate	Chemical medicine	Suitable for the treatment of the following infections caused by unknown pathogens or known sensitive bacteria: lower respiratory tract infection (bronchopneumonia and lobar pneumonia); Upper (pyelonephritis) and lower urinary tract infection; Skin and soft tissue infections (cellulitis, skin abscess and wound infections); Infection in patients with neutropenia; Bacteremia/sepsis; Severe infections as listed above.	Adjustment of indication limit
36	Injection for Piperacillin sodium tazobactam sodium	Chemical medicine	Applicable to medium to severe infections caused by beta lactamase bacteria that are resistant to piperacillin but sensitive to piperacillin tazobactam.	Adjustment of indication limit
37	Injection for Cefmetazole sodium	Chemical medicine	Suitable for the treatment of infection caused by staphylococcus aureus, Escherichia coli, Klebsiella pneumoniae, Proteus, Morganella morganii, Providencia, Bacteroides, Prevotella (except Prevotella bivia) which are sensitive to cefmetazole sodium.	Adjustment of indication limit
38	Injection for Cefminox sodium	Chemical medicine	It can be used for the treatment of the sensitive bacteria caused by the following infections: 1. Respiratory system infection: tonsillitis, peritonsillar abscess, bronchitis, bronchiolitis, bronchiectasis (infection), secondary infection of chronic respiratory tract diseases, pneumonia, pulmonary suppuration; 2. Urinary tract infection: pyelonephritis, cystitis; 3. Abdominal infection: cholecystitis, cholangitis, peritonitis; 4. Pelvic infection: pelvic peritonitis, uterine appendicitis, intrauterine infection, Inflammation in pelvic dead space, parametritis; 5. Sepsis.	Adjustment of indication limit

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and expulsion of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Serial number	Product name	Type of product	Indications/Functions	New entrance/Exclusion
39	Injection for Cefoperazone sodium sulbactam sodium	Chemical medicine	Suitable for the treatment of the following infections caused by sensitive bacteria: respiratory (upper respiratory and lower respiratory) infection; Urinary tract (upper and lower urinary tract) infection; Peritonitis, cholecystitis, cholangitis and other intraperitoneal infections; Sepsis; Skin and soft tissue infections; Infection of bones and joints; Pelvic inflammatory disease, endometritis, gonorrhea and other genital tract infections.	Adjustment of indication limit
40	Injection for Cefoxitin sodium	Chemical medicine	Suitable for the following infections caused by bacteria sensitive to this product: upper and lower respiratory tract infection, urinary tract infection including uncomplicated gonorrhea, peritonitis and other intra-abdominal and pelvic infections, sepsis (including typhoid fever), gynecological infection, bone and joint soft tissue infection, and endocarditis. Because this product is effective to anaerobic bacteria and stable to β -lactamase, it is especially suitable for mixed infection of aerobic and anaerobic bacteria, as well as infection caused by β -lactamase-producing bacteria sensitive to the product.	Adjustment of indication limit
41	Injection for Cefepime hydrochloride	Chemical medicine	It can be used in the treatment of moderate to severe infections in adults and children aged from 2 months to 16 years caused by sensitive bacteria, including lower respiratory tract infection (pneumonia and bronchitis), simple lower urinary tract infection and complex urinary tract infections (including pyelonephritis), non-complex skin and skin soft tissue infections and complicated intra-abdominal infections (including peritonitis and biliary tract infection), gynecology and obstetrics infections, sepsis, as well as the empiric therapy for patients with neutropenia associated with fever. It can also be used in the treatment of children with bacterial meningitis.	Adjustment of indication limit
42	Injection for Levocarnitine injection	Chemical medicine	Applicable to a series of concurrent symptoms caused by secondary carnitine deficiency in chronic renal failure patients with long-term hemodialysis, with the clinical manifestations including cardiomyopathy, skeletal myopathy, arrhythmia, hyperlipidemia, hypotension and myospasm in dialysis.	Adjustment of indication limit

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademarks

✓Applicable □Not applicable

The Group and its joint venture currently has 10 famous trademarks of China, 22 famous brands of Guangdong Province, and 27 famous brands of Guangzhou City. Among them, the brand awareness and reputation of "BYS" and "Wang Lao Ji" have greater influence and appeal among the consumers throughout the country, which makes them two of the most valuable medicine brands in China.

① The main trademark usage of the Group is as follows:

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Kang Zhi Ba – Well-known		Category V Medicine for human purposes	Cefixime series	Western medicine	Antibacterial and anti- inflammatory	No	Yes
Baiyunshan diamond – Well-known		Category V Medicine for human purposes	Cephathiamidine for Injection	Western medicine	Antibacterial and anti- inflammatory	No	Yes
BYS – Well-known Baiyunshan diamond – Well-known		Category V Medicine for human purposes	Sildenafil Citrate Tablet	Chemical medicine	The product is indicated for treatment of erectile dysfunction (ED) °	No	Yes
BYS – Well-known							
Zhong Yi – Well-known		Category V Medicine for human purposes	Xiao Ke Pill	Traditional Chinese Medicine	Diabetes caused by deficiency of both qi and yin; type-II diabetes.	No	Yes
Zhong Yi – Well-known		Category V Medicine for human purposes	Zi Shen Yu Tai Pill	Traditional Chinese Medicine	Kidney-nourishing, spleen- invigorating, primordial Qi-reinforcing, blood- nourishing, miscarriage- preventing and body- strengthening. It is fit for those who suffer spleen and kidney deficiency and miscarriage due to dysfunction of thoroughfare and conception vessels (to prevent habitual miscarriage and threatened miscarriage)	No	Yes
Baiyunshan diamond		Category V Medicine for human purposes	Amoxicillin capsules	Western medicine	Antibacterial and anti- inflammatory	No	Yes
BYS Kang Zhi Ba							





Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademarks (Continued)

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Qi Xing – Well-known		Category V Medicine for human purposes	Hua Tuo Zai Zao Pill	Traditional Chinese Medicine	Promoting blood circulation and removing blood stasis, resolving phlegm and dredging collaterals, and promoting qi to relieve pain. It is used in the recovery period and sequelae of stroke with phlegm and blood stasis blocking collaterals. The symptoms include hemiplegia, contracture and numbness, facial distortion and unclear speech.	No	Yes
Tian Xin-Well-known		Category V Medicine for human purposes	Cefuroxime sodium for injection	Chemical medicine	For respiratory tract infections, otolaryngology infections, urinary tract infections, skin and soft tissue infections, bone and joint infections, obstetrical and gynecological infections, gonorrhea, sepsis and meningitis caused by sensitive bacteria, prevention of surgery infections.	No	Yes
Shape of Green Leaves – Famous		Category V Medicine for human purposes	Xia Sang Ju Granule	Category-I Chinese patent medicine (Drugs used in internal medicine department)	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin.	No	No
He Ji Gong –Well-known		Category V Medicine for human purposes	Paracetamol Caffeine and Aspirin Powder	Chemical medicine	Analgesia, antipyretic, antiinflammatory, antirheumatic, anti gout.	No	No


Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademarks (Continued)

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Pan Gao Shuo -Well-known		Category V Medicine for human purposes	Mi Lian Chuan Bei Pi Pa Gao	Traditional Chinese Medicine	Breathing/clearing heat and moistening lung, relieving cough and asthma, regulating qi-flowing for eliminating phlegm. It is suitable for lung dryness with symptoms such as cough, phlegm, chest distress, sore throat, hoarseness, etc.	No	No
Wang Lao Ji		Category V Medicine for human purposes	Baoji Series	Chinese patent medicine	To relieve exterior syndrome, displace moisture, and regulate energy. Applicable to abdominal pain and diarrhea, choking, acid reflux, nausea and vomiting, gastrointestinal discomfort, indigestion, dizziness, common cold, fever and headache.	No	No
			Xiao Er Qi Xing Cha granule	Chinese patent medicine	To stimulate appetite and remove food retention, clear heat and relieve convulsion. Applicable to such symptoms of children, food retention, accumulation of heat, indigestion, no appetite, agitated and easily frightened, inhibited defecation, and scanty dark urine in children.	No	No
			Ke Gan Li Yan Oral liquid	Chinese patent medicine	To dispel wind, clear heat, detox and relieve sore throat. Applicable to the cold caused by invasion of wind-heat and internal heat; Symptoms: fever, mild fever, headache, sore throat, stuffy nose, cough, phlegm, and thirst.	No	No

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademarks (Continued)

② The below are the top five products in terms of sales volume which used the relevant trademarks.

Well-known/ Famous Trademark	Product General name	Sales of 2019	Income of 2019 (RMB'000)	Gross profit margin in 2019 (%)
Kang Zhi Ba – Well-known	Cefixime series (thousand pills/ thousand pads/thousand capsules)	359,421.94	1,213,091.75	50.97
Baiyunshan diamond – Well-known+BYS – Well-known	Cephathiamidine for Injection thousand ampoules)	32,197.25	841,312.39	20.36
Baiyunshan diamond – +BYS – Well-known	Sildenafil Citrate Tablet (thousand pills)	61,759.35	752,738.94	90.65
Zhong Yi-Well-known	Xiao Ke Pill (thousand bottles)	34,589.56	394,938.39	59.99
Zhong Yi-Well-known	Zi Shen Yu Tai Pill (thousand boxes/thousand bottles)	5,216.85	311,217.73	84.25

6) Important medicinal materials involved in major TCM products

Major TCM products of the Group include Xiao Ke Pill, Qing Kai Ling Series, Xiao Chai Hu Granule, Xia Sang Ju Granule, Zi Shen Yu Tai Pill, Hua Tuo Zai Zao Pill, Bao Ji Series, Mi Lian Chuan Bei Pi Pa Gao, Xiao Er Qi Xing Cha, Zhuang Yao Jian Shen Pill, Shu Jin Jian Yao Pill, An Gong Niu Huang Pill and Ke Gan Li Yan Oral Solution etc. The important medicinal materials involved and supply are as follows:

Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Xiao Ke Pill	Radix trichosanthis	Dominated by order plantation, directional purchase, supported by tendering	Supply and demand basically in balance. The market price rises and falls, and the overall cost remains unchanged.
Zi Shen Yu Tai Pill	Cuscuta chinensis, amomum, rehmannia, etc	Purchasing by Invitation to Bid	Supply and demand basically in balance. When the market price decreases slightly, the cost decreases.
Qing Kai Ling	Honeysuckle, isatis root	The procurement is mainly from planting bases, complemented by bidding-based procurement	Supply and demand basically in balance · When the market price increases slightly, the cost increases

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

6) Important medicinal materials involved in major TCM products (Continued)

Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Xiao Chai Hu Granule	Chinese thorrowax root, Scutellaria baicalensis	Purchasing by Invitation to Bid	Supply and demand basically in balance · When the market price increases slightly, the cost increases
Hua Tuo Zai Zao Pill	Ligusticum Chuanxiong, Tetradium ruticarpum, borneol, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance · When the market price decreases slightly, the cost decreases.
Bao Ji Series	Atractylodes, magnolia officinalis, Patchouli, Angelicae dahuricae, Tribulus terrestris, Radix aucklandias, Radix trsehosanthis, Puerania lobata, Citri Gandis, Poria Cocos, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance · the price was balance.
Xia Sang Ju Granule	Prunella vulgaris, wild chrysanthemum flower, Folium mori	Purchasing by Invitation to Bid	Supply and demand basically in balance · When the market price increases slightly, the cost increases
Mi Lian Chuan Bei Pi Pa Gao	Fritillaria cirrhosa, loquat leaf, Radix platycodonis, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, cost remained unchanged.
Xiao Er Qi Xing Tea	Coix seed, Rice-grain sprout, Unaqria, cicada slough, licorice, Lophatherum gracile, hawthorn	Purchasing by Invitation to Bid	Rice-grain sprouts, uncaria, liquorice are mainly stable, while lophatherum gracile, cicada sloughs are stable with a slight decline
Zhuang Yao Jian Shen Pill	Cibotii Rhizoma, Kadsura coccinea, Philippine Flemingia Root, etc.	Purchasing by Invitation to Bid	The supply of Rhizoma cibotii and Kadsura coccinea are in short supply, and both the market prices and costs are rising. The supply and demand of Philippine Flemingia Root and other varieties are basically balanced,. The market price is stable, cost remained unchanged.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

6) Important medicinal materials involved in major TCM products *(Continued)*

Major medicinal species involved in the above main TCM products are commonly used bulk medicinal materials. The Group purchased medicinal materials intensively from the qualified suppliers through Chinese medicinal materials centralized purchasing platform of its subsidiaries based on production needs, by means of bid or directional procurement, to improve the bargaining capability, and reduce the purchasing cost. In addition, the Group constructed multiple planting bases of medicinal materials to ensure the quality and quantity and control costs.

(ii) Research and development situation of the Company's medicine (products)

1) The overall situation of research and development

Applicable Not applicable

For a long time, the Group paid attention to the research and development of science and technology, vigorously promoting scientific and research innovation of products, focusing on quality consistency evaluation of new chemical drugs, biological drugs and generic drugs, secondary development of products and development of food and healthcare food, etc., carried out the science and research work through imported projects and independent research and achieved certain results. During the Reporting Period, the Group vigorously promoted scientific and research innovation, enhanced efforts in its intellectual property right related works and made remarkable achievements, mainly including:

① Products in research

As at the end of the Reporting Period, the Group had 251 products in research, 14 products for which applications had been made. The main areas included new drug development, generic drug quality consistency evaluation, secondary product development and food and health food development, etc.

② Approvals

During the Reporting Period, the Group and its jointly controlled entities obtained 1 approval for manufacturing and 1 product passed the quality consistency evaluation.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

1) The overall situation of research and development (Continued)

③ Science and Technology Awards

During the Reporting Period, the Group received a total of 4 provincial-level science awards and honors, details of which are set out below:

Classification Level	Winning enterprises	Winning projects	Awards
Provincial level	Jing Xiu Tang	Efficacy evaluation and application of traditional Chinese medicine based on disease susceptibility	First Prize of Provincial Science and Technology Progress
	Jing Xiu Tang	Establishment and application of efficacy evaluation system of traditional Chinese medicine under the guidance of the theory of emotions inducing illness	Second Prize of the Science and Technology Advancement Award by the Ministry of Education
	Baiyunshan General Factory	Study on pharmacokinetics and bioequivalence of the first generic sildenafil citrate tablet in the PRC	Third Prize of Provincial Science and Technology Progress
	Guangxi Ying Kang	Research and application on the Jiu Wei Bu Xue Oral Liquid	Third Prize of Provincial Technological Inventions Progress

④ Property Rights

During the Reporting Period, the Group and its jointly controlled entities had applied for a total of 61 patents, among which, there were 44 patents for invention, 17 utility models; 25 authorized patents; which included 17 patent licences for invention and 8 utility model patent authorizations.

During the Reporting Period, Xing Qun, Jing Xiu Tang, Guang Hua, Guangzhou Han Fang and Tian Xin were rated as the National Intellectual Property Superior Enterprises (國家知識產權優勢企業) in 2019. Wang Lao Ji's "Pneumatic Pill Packaging Machine (氣動式丸劑包裝機)", Ming Xing's "Removal Method of Toxic Components of Brucea Javanica Oil (鴉膽子油毒性成分的去除方法)" and HWBYS's "Ethyl Acetate Extract of Persimmon Leaf for Preventing and/or Treating Glycolipid Metabolism-Related Disease (柿葉乙酸乙酯提取物用於預防和/或治療糖脂代謝相關疾病)" obtained the 21st China Patent Excellence Award. Chemical Pharmaceutical Factory and Wang Lao Ji passed the national intellectual property rights management system certification (國家知識產權管理體系貫標認證).

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

1) The overall situation of research and development *(Continued)*

⑤ Accounting policies for research and development:

The Company's internal research and development project expenditure is divided into research phase expenditure and development phase expenditure.

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows: Expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by the relevant authorities.

Expenditures on the development phase are all the expenditures incurred after the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by the relevant authorities.

Expenditure on the research phase is recognized in the profit or loss in the period in which it is incurred.

Development phase expenditures are capitalized if the following conditions are met, otherwise it will be recognised in the profits and losses in the current period in which it is incurred:

- ① the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② its intention to complete the intangible asset and use or sell it;
- ③ how the intangible asset will generate economic benefits. Among other things, the enterprise can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ⑤ its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

If the expenditures cannot be distinguished between research phase and development phase, the Company recognizes all such expenditures into current profit or loss.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

2) The investment situation of research and development

The investment situation of research and development of major medicine (products).

Applicable Not applicable

The top 5 varieties of products of research and development of the Group during the Reporting period are as follow:

Company name	Products	Amount of the research and development investment (RMB'000)	Amount of the expenditure on research and development investment (RMB'000)	Amount of the capitalization on research and development investment (RMB'000)	Research and development investment accounted for the proportion of revenue ^{note} (%)	Research and development investment accounted for the proportion of cost ^{note} (%)	Changes of the amount as compared with the corresponding period of last year (%)
Chen Li Ji	Kun Xian Capsule	20,701.00	20,701.00	0	4.43	9.09	(15.00)
Baiyunshan General Factory	Cefixime series preparations	18,396.68	18,396.68	0	0.45	0.80	20.46
Zhong Yi	Zi Shen Yu Tai Pill	8,866.65	8,866.65	0	2.85	18.09	7.89
Yi Gan	Therapeutic dual plasmid HBV DNA vaccine	8,396.00	8,396.00	0	-	-	-
Zhong Yi	Xiao Ke Pill	6,623.06	6,623.06	0	1.68	4.19	8.99

Note:

- In the above table, the proportion of R&D expenses in the revenue is the proportion of product R&D expenses in the revenue of the enterprise manufacturing the product. The proportion of R&D expenses in the operation cost is the proportion of product R&D expenses in the operation cost of the enterprise manufacturing the product.
- Since Yi Gan is a pure research and development company, it did not have any operating income or operating cost in 2019. The therapeutic dual plasmid HBV DNA vaccine project is in the research and development stage, and the research and development investment will vary greatly according to the project progress.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

2) The investment situation of research and development (Continued)

Detailed description:

In the circumstances that national, provincial and municipal favorable policies for science and technology were constantly released, the Group made great achievements in the quality consistency evaluation of innovative chemical drugs, biological drugs and chemical generic drugs, and in major scientific research and innovation platforms in 2019, attributable to its continuous efforts in the early stage.

Comparison within the same industry

Applicable Not applicable

Comparable company in the same industry	Amount of the research and development investment (RMB'000)	Research and development investment accounted for the proportion of revenue (%)	Research and development investment accounted for the proportion of net assets (%)
Harbin Pharmaceutical Group Co., Ltd.	185,300.19	1.71	3.16
China National Medicines Co., Ltd.	64,660.75	0.14	0.61
Shanghai Pharmaceuticals Holding Co., Ltd.	1,508,766.30	0.81	3.62
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	2,506,835.50	10.1	8.96
Tongrentang Chinese Medicine	233,972.40	2.53	1.65
Average amount of the research and development investment (RMB'000)			899,907.03
Amount of the research and development investment of the Company during the Reporting Period (RMB'000)			591,786.13
Research and development investment accounted for the proportion of revenue of the Company during the Reporting Period (%)			0.91
Research and development investment accounted for the proportion of net assets of the Company during the Reporting Period (%)			2.28

Notes:

- The above data of Harbin Pharmaceutical Group Co., Ltd., Tongrentang Chinese Medicine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in the same industry are obtained from the annual report in 2018, and the data of other companies in the same industry are obtained from the annual report in 2019;
- The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

2) *The investment situation of research and development (Continued)*

Description on the significant changes in the research and development investment and the reasonability of the proportion of the research and development investment

Applicable Not applicable

During the Reporting Period, the Group's research and development expenses accounted for 0.91% the revenue. In the face of changing market demand and changing policies in relation to the registration of new drug research and development and quality consistency evaluation for generic drugs, the Company adjusted research and development strategy actively, strengthened research and analysis and selection of research and development projects initiation, followed up the research progress of each project, improved research and development resources investment management, and reappraised varieties at the stage of research to reduce research and development risks.

The current research and development investment of the Group can meet the demand for future development.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

3) Basic information of the main research and development projects

Applicable Not applicable

R&D Program	Basic information of product	R&D (Registration) stage:	Progress status	Accumulated research input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
	1. Cefixime granules (50mg)	reported	Declaration has been completed, the quality consistency evaluation and dynamic examination of development site and production site has been completed, and supplementary research data has been submitted	44,549.88	3	9
Study on the quality consistency evaluation of cefixime series preparations	2. Cefixime capsules (100mg, 50mg)	50mg: reported; 100mg: not reported	The process validation has been completed, the bioequivalence test has been completed and is consistent with the reference preparation in vivo, stability test with sample observation for 18 months has been completed and declaration has been completed		4	100mg : 21 ; 50mg : 13
	3. Cefixime tablets (100mg, 50mg)	not reported	Raw materials are being screened and the formulation process is being optimized		1	100mg : 16 ; 50mg : 11

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

3) Basic information of the main research and development projects (Continued)

R&D Program	Basic information of product	R&D (Registration) stage:	Progress status	Accumulated research input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
	4. Cefixime dispersible tablets (0.2g, 0.1g)	not reported.	The pilot study has been preliminarily completed, and the pilot scale-up study is in progress.		3	0.2g : 4 ; 0.1g : 9
Standardised construction of Xiao Ke Pill	Studying the Chinese patent drug of lowering sugar – Xiao Ke Pill and carrying out standardization project of Chinese medicines. Upon completion of such projects, formulating 16 certification standards and specifications relating to the industry of cultivation and production of medicinal materials, including Radix Trichosanthis, Rhizoma Dioscoreae, Radix Astragali and Kadsura Longipedunculata, and formulating another 11 corporate internal standards.	Study on the standardization of Chinese patent drug	Technical and financial acceptance has been completed in June and July 2019, and industry standard acceptance is in progress.	37,980.00	None	None
Therapeutic two-plasmid HBV DNA vaccine projects for IIC clinical study	DNA preparation for treating chronic hepatitis B.	IIC clinical study has been started.	All subjects have left for Plan A; all subjects have enrolled for Plan B.	33,469.00	None	None

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

3) Basic information of the main research and development projects *(Continued)*

R&D Program	Basic information of product	R&D (Registration) stage:	Progress status	Accumulated research input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization and embryo transfer	This project adopts evidence-based medicine method in combination with the mainstream assisted reproductive technology in modern Western medical system, to carry out clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization-embryo transfer (IVF-ET) treatment.	Assessment and research after marketing	Multi-centered randomized double-blinded IVF-ET clinical, metabolomics and genomics studies have been completed. Papers on metabolomics and genomics are being written.	18,490.00	None	None
Research and development of memantine hydrochloride raw materials and tablets	Memantine hydrochloride tablets (10mg)	Production approval has been obtained	The production approval of memantine hydrochloride tablets was obtained in September 2019.	13,250.04	1	2

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

3) Basic information of the main research and development projects *(Continued)*

The impact of the research projects on the Company and the risks of the research projects

Applicable Not applicable

In 2019, China successively introduced a series of policies and regulations on innovative drugs and biological drugs, and further standardized the clinical research on new drugs. Under this macro environment, the Group proactively adjusted the new product research and development as well as the declaration strategy so as to comply with the changes in policies and regulations. It focused on the new product research and development in the professional fields and the in-depth development of the market-oriented products in the subsidiary enterprises, and strengthened research and development of new products including biological medicine, chemical medicine, and Chinese patent medicine, and secondary development of famous products, and conducted study on the consistency evaluation of the quality and efficacy of generic drugs, providing the scientific and technological support for the development of the Group.

The Group will continue to pay attention to changes in the medicines evaluation and approval policies, strengthen the controlling strength on R&D projects, reduce the influence of uncertain factors, improve R&D quality and reduce R&D risks.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

4) *Situation of the products which had been submitted to supervision department for approval, completed registration or obtained production approval during the Reporting Period*

Applicable Not applicable

During the Reporting Period, the Group had 1 product which passed the quality consistency evaluation of generic drugs and obtained production approval for 1 drug product, which will further enrich the Company's product varieties, and increase the Company's products reserves.

Product name	Registry classification	Indication/Major functions
Cefuroxime Axetil Tablets	Supplementary application for quality consistency evaluation of generic drugs	Mainly indicated for upper respiratory tract infection, lower respiratory tract infection, urinary tract infection, skin and soft tissue infection etc. caused by sensitive bacteria.
Memantine Hydrochloride Tablets(10mg)	Category 4 chemical medicines	Used for treatment of moderate to severe Alzheimer's disease.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

5) Situation of the cancellation of the important research and development projects and the products which were not approved during the Reporting Period

Applicable Not applicable

6) Situation of the important research and development projects to be carried out in the next year

Applicable Not applicable

In 2020, the Group will, on the basis of promoting the quality consistency evaluation of chemical generic drugs and the secondary development of large varieties of Chinese patent drugs according to the development direction of both domestic and foreign pharmaceutical industry, focus on the research and development of biological drugs, innovative drugs, high-end preparations, traditional Chinese medicine new drugs, therapeutic medical devices and such other professional fields.

7) Substantial R&D subsidy, support, allowance, tax preference obtained by the projects from the government and relevant application by the Company

Applicable Not applicable

In 2019, the Group's projects received a total of RMB77,055,800 government subsidies, support and allowances. The following table lists the subsidies given to major projects:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
Baiymshan General Factory	New expiring patented varieties - sildenafil citrate raw materials and tablets ("Viagra") R&D and industrialization	Special project for the development of biological industry	4,000.00	In the use
	Pre-clinical study of a new anti-infective compound - cefazamidine sodium	Supporting funds for science and technology projects	1,000.00	In the use
Chemical Pharmaceutical Factory	Pre-clinical study of cefazamidine sodium, an innovative anti-infective drug with independent intellectual property rights protection	Supporting funds for science and technology projects	3,000.00	In the use
Guang Hua	Establishment of innovative platform for drug research on chronic diseases of the elderly	Special funds for promoting high-quality economic development at the provincial level in 2019	2,000.00	In the use
Guangzhou Han Fang	Post-award and compensation for technical reform in 2020 for research and development, application and industrialization of high-end pharmaceutical lipid raw and auxiliary materials	Strategic emerging development projects	1,237.60	In the use

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products

1) Situation of the main business of the Company by the therapeutic areas

Applicable Not applicable

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit margin (%)	Changes of operating income compared with last year (%)	Changes of operating costs compared with last year (%)	Changes of gross profit margin compared with last year (%)
Drugs used in internal medicine department	Xiao Ke Pill	394,938.39	158,024.37	59.99	(2.13)	4.46	(2.52)
	Zi Shen Yu Tai Pill	311,217.73	49,002.45	84.25	90.33	84.94	0.45
	Xiao Chai Hu Granule	289,084.12	181,908.04	37.07	9.21	14.57	(7.36)
	Hua Tuo Zai Zao Pill	212,973.02	145,057.96	31.89	29.44	29.90	(0.75)
	Xia Sang Ju Granule	167,877.26	91,021.77	45.55	15.75	12.46	3.79
	Mi Lian Chuan Bei Pi Pa Gao	157,738.39	93,747.33	40.57	22.88	45.79	(18.71)
Antimicrobial drugs	Xiao Er Qi Xing Cha Granules	153,798.36	124,962.77	18.75	8.61	27.85	(12.23)
	Kectrin series	126,696.01	121,028.68	4.47	41.49	44.70	(2.12)
	Cefixime series	1,213,091.75	594,815.16	50.97	36.66	162.52	(23.51)
	Cefathiamidine for Injection	841,312.39	669,992.76	20.36	16.12	15.78	0.24
	Cefprozil series	297,457.21	208,500.35	29.91	37.47	173.14	(34.82)
	Amoxicillin series	227,441.18	195,745.68	13.94	6.94	37.55	(19.15)
	Cefdinir capsules	170,345.47	71,340.59	58.12	13.84	26.22	(6.60)
	Cefuroxime sodium for injection	149,355.35	137,377.59	8.02	13.51	(9.19)	23.00
	Cefixime	132,582.33	135,070.93	(1.88)	(10.92)	(1.11)	(10.11)
Andrology medication	Sildenafil Citrate Tablet	752,738.94	70,418.64	90.65	13.66	(15.92)	3.29

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

1) Situation of the main business of the Company by the therapeutic areas *(Continued)*

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit margin (%)	Changes of operating income	Changes of operating costs	Changes of gross profit margin
					compared with last year (%)	compared with last year (%)	compared with last year (%)
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol Caffeine Aspirin Powder	170,489.35	79,940.61	53.11	2.61	4.95	(1.94)
Dermatological medication	Feng Yong Jing series	60,945.95	30,976.79	49.17	(31.00)	(26.45)	(6.01)

Explanation:

Applicable Not applicable

During the Reporting Period, the gross profit margin of the principal operation of the Company was 19.58%, among which, the gross profit margin of the Great Southern TCM segment was 38.24%. The relatively large difference in gross profit margin between Great Southern TCM segment and the companies in the same industry mentioned below was mainly due to the difference in the products structure and large difference in the gross profit margins of principal products.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

1) Situation of the main business of the Company by the therapeutic areas *(Continued)*

The gross profit margin of the companies in the same industry:

Stock code	Abbreviation	Operation revenue (RMB'000)	Overall gross profit margin (%)
600664	Harbin Pharmaceutical Group Co., Ltd.	10,813,613.59	27.24
600511	China National Medicines Co., Ltd.	44,644,476.40	8.75
601607	Shanghai Pharmaceuticals Holding Co., Ltd.	186,565,796.46	14.37
600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	24,918,273.56	58.40
600085	Tongrentang Chinese Medicine	14,208,636.45	46.75

Notes: A. The above data of Harbin Pharmaceutical Group Co., Ltd., Tongrentang Chinese Medicine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in the same industry are obtained from the annual report in 2018, and the data of other companies in the same industry are obtained from the annual report in 2019;

B. Gross profit margin = (operating income – operating costs)/operating income.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products (Continued)

2) Analysis of the main sales model of the Company

Applicable Not applicable

For the details of the main sales model of each segment of the Group, please refer to "(2) Operating Model", under "1. Description of the Group's principal business, operation model and industry situation during the Reporting Period" in the section headed "II. Company's Business Profile" in this annual report.

3) Situation of the centralized purchase of drugs through bidding

Applicable Not applicable

Name of the main medicine (products)	Specifications	Interval of bidding price (RMB)	The total actual purchase quantity of medical institutions
Cephaliamidine for Injection	0.5g/bottle	25.76-28.52	20,059.43 thousand bottles
	1g/bottle	43.79-48.52	10,506.90 thousand bottles
Cefixime granule	50mg*6 packs/box	22.38-29.38	16,201.52 thousand boxes
Cefixime capsules	100mg*6 grains/box	31.73-36.91	11,699.34 thousand boxes
Cefixime dispersible tablets	100mg*6 tablets/box	42.12-48.17	8,194.31 thousand boxes
Cefprozil dispersible tablets	0.25g*6 tablets/box	27.86-32.00	8,790.61 thousand boxes
Ceftizoxime sodium for injection	0.25g/bottle	11.34-15.60	4,227.24 thousand bottles
Xiao Ke Pill	52.5g/bottle	31.84-45.60	9,460.00 thousand bottles
Zi Sheng Yu Tai Pill	5g*6 packs/box	83.50-93.00	3,723.70 thousand bottles
Qing Kai Ling granule	10g*20 packs/box	21.99-28.82	3115.92 thousand boxes
	3g*24 packs/box	28.08-34.56	1416.20 thousand boxes
	3g*12 packs/box	14.74-17.28	1616.40 thousand boxes
	3g*9 packs/box	12.38-12.96	1292.20 thousand boxes
Qing Kai Ling Oral Solution	10ml	14.3-22.80	199.86 thousand boxes

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

3) *Situation of the centralized purchase of drugs through bidding (Continued)*

Name of the main medicine (products)	Specifications	Interval of bidding price (RMB)	The total actual purchase quantity of medical institutions
Alfacalcidol soft capsule	0.25 μ g*20 grains/box	15.00-25.00	379.32 thousand boxes
Hua Tuo Zai Zao Pill	8g*12 packs/box	35.70-37.56	2,885.18 thousand boxes
Cefdinir capsules	0.1g*6 grains/box	49.00-57.4	3,270 thousand boxes
	0.1g*10 grains/box	80.29-93.30	2,146.00 thousand boxes
Carbocisteine Oral Solution (sugar free)	5g*10 ampoules/box	21.48-28.54	1,771.10 thousand boxes
Ke Gan Li Yan Oral Solution	10ml*12 ampoules/box	30.02-56.00	3,650.00 thousand boxes

4) *Analysis of sales expenses*

Constitution of the sales expenses

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products (Continued)

4) Analysis of sales expenses (Continued)

Items	Amount incurred for the Report Period (RMB'000)	Percentage of amount incurred for the Report Period in the total sales cost (%)
Employee remuneration	2,677,008	41.93
Sales service fee	832,549	13.04
Transportation expenses	162,389	2.54
Office expenses	52,241	0.82
Freight and miscellaneous charges	822,529	12.88
Rental expenses	32,080	0.50
Conference expenses	92,093	1.44
Advertising and promotion fees	1,327,091	20.78
Consulting fees	15,910	0.25
Depreciation charges	182,951	2.87
Others	188,059	2.95
Total	6,384,900	100.00

Situation of the comparison in the same industry

Applicable Not applicable

Comparable companies in the same industry	Selling and distribution expenses (RMB'000)	Selling and distribution expenses accounted for the proportion of revenue (%)
Harbin Pharmaceutical Group Co.,Ltd.	619,504.90	5.73
China National Medicines Co.,Ltd.	1,048,411.62	2.35
Shanghai Pharmaceuticals Holding Co., Ltd.	12,855,723.14	6.89
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	8,487,532.68	34.06
Tongrentang Chinese Medicine	2,952,747.18	20.78
The average amount of the sales expenses (RMB'000)		5,192,783.90
Total amount of the sales expenses of the Company during the Reporting Period (RMB'000)		6,384,900.45
Sales expenses accounted for the proportion of revenue of the Company during the Reporting Period (%)		9.83

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

4) Analysis of sales expenses *(Continued)*

Notes:

- a. The above data of Harbin Pharmaceutical Group Co., Ltd., Tongrentang Chinese Medicine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in the same industry are obtained from the annual report in 2018, and the data of other companies in the same industry are obtained from the annual report in 2019;
- b. The average amount of the sales expenses is the arithmetic average of the five companies in the same industry.

Description on the significant changes in sales expenses and the reasonability of the proportion of the sales expenses

Applicable Not applicable

(iv) others

Applicable Not applicable

(5) Investment situation

(i) Overall analysis on external equity investment

Applicable Not applicable

As at the end of the Reporting Period, the external equity investment of the Company amounted to RMB1,599,025,000, with a decline of RMB160,933,000 as compared with last year, mainly due to: the Company confirmed the investment profits of the joint ventures and associates in accordance with the Equity Laws and received the cash dividends declared by the joint ventures, which led to the decrease in long-term equity investment.

1) Significant equity investment

Applicable Not applicable

2) Significant non-equity investment

Applicable Not applicable

3) Financial assets evaluated at fair value

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(5) Investment situation (Continued)

(i) Overall analysis on external equity investment (Continued)

3) Financial assets evaluated at fair value (Continued)

Investments in stock

Number	Type of stock	Stock code	Stock abbreviation	The initial	Number	Book value	% of stock	Gain/(Loss)
				amount of	of shares	as at the	investment	during the
				investment	held	as at the	as at the	Reporting
				(RMB'000)	at the	end of the	end of the	Period
					end of the	Reporting	Reporting	(RMB'000)
					Reporting	Period	Period	
					Period	(RMB'000)	(%)	
					(share)			
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,758	1.58	613
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	1,425	0.82	(60)
3	A Share of Shenzhen Stock Exchange	000950	C.Q.Pharmaceutical Holding	150,145	25,992,330	141,294	81.07	26,850
4	A Share of SSE	601328	Bank of Communications	534	378,754	2,132	1.22	47
5	A Share of SSE	601818	Everbright Bank	10,725	6,050,000	26,681	15.31	5,270
Other stock investments held as at the end of the Reporting Period								-
Gain/(Loss) of stock investments sold during the Reporting Period								-
Total				166,915	32,854,977	174,290	100.00	32,720

(6) Significant asset and equity sales

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(7) Details of the main subsidiaries and joint ventures of the Company

Applicable Not applicable

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Income from principal operations (RMB'000)	Profit from principal operations (RMB'000)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
WLJ Great Health	Manufacturing	Production and sales of pre-packaging food, dairy products, etc.	900,000	100.00	10,296,774	4,842,115	10,603,673	4,936,699	1,380,128
GP Corp.	Pharmaceutical business	Retail of medical treatment apparatus	2,227,000	80.00	41,028,275	2,462,055	22,694,762	4,390,071	372,653

Except for WLJ Great Health and GP Corp. as mentioned in the above table, the Company did not derive any net profit from any single subsidiary or any investment income from any single investee company amounting to 10% or more of the net profit of the Group during the Reporting Period.

During the Reporting Period, the Group did not have other business operation activity having significant influence on the net profit.

(8) A structured entity controlled by the Company

Applicable Not applicable

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

(1) Competition within and the development trend of the industry

Applicable Not applicable

2019 is the first year after the completion of the reform of the national medical and health system. With the active cooperation of the National Healthcare Security Administration, National Health Commission of the PRC, and National Medical Products Administration, the three-medicine (medical treatment, medical insurance and medicine) linkage was smoother and the medical reform was accelerating. Driven by policies, the pharmaceutical industry also underwent profound changes. On one hand, the pressure on operations from policies such as fee control by medical insurance, price reduction in tender bidding, price negotiation by second bargaining, volume-based purchase, key drug monitoring, the promulgation of the new Drug Administration Law and the Vaccine Administration Law, and the improved comprehensiveness of the drug regulatory system still existed, growth of the industry slowed down and it was mainly driven by innovative products and upgrading in consumption. On the other hand, the benefits of important reform policies, such as a new edition of the National Medical Insurance Catalogue, quality consistency evaluation, acceleration in assessment and approval of innovative new drugs and the state's encouragement of the inheritance and innovative development of TCM, provided new room for the growth of the pharmaceutical market. At the same time, the acceleration of the aging of China's population, the improvement of the level of urbanization, and the improvement of the medical insurance system are generally conducive to the development of China's pharmaceutical industry.

(2) Development strategy and annual work plan for year 2020

Applicable Not applicable

The year 2020 is a transitional year from the "13th Five-Year Plan" to the "14th Five-Year Plan" and is also a year for the "leapfrog reform" of the Group. In 2020, based on its own actual conditions, the Group will carry out the following works:

- (i) We will continue to focus on "Big Products" to promote the robust development of the Great Southern TCM segment in an all-round way. We will focus on strengthening the brand promotion and channel construction of the "Diva brands" to enhance the sales of products; we will vigorously promote the inclusion of the Group's products into the National Medical Insurance Catalogue and Essential Drug List, promote resource integration, and increase market share in hospitals; we will strengthen cooperation with the top 100 chain stores and regional chain stores, strengthen the linkage between the Great Southern TCM segment and the Great Commerce segment, make use of the advantages of distribution resources and network, and promote the sales of drugs.
- (ii) We will adhere to the development strategy of "one core with multi-elements", increase efforts to develop series of products, and promote the breakthrough development of the Great Health segment: we will focus on strengthening the development of channels for Wang Lao Ji Herbal Tea, explore the Wang Lao Ji Herbal Tea gift market, vigorously expand the market share of bottled products, and consolidate the market position of knock-out products; we will, based on our corporate culture, consolidate the market position of core products; we will leverage the brand advantage of Wang Lao Ji to create new products, and increase market share of potential products from various aspects such as market operation, channel promotion, and quality control.

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT *(Continued)*

(2) Development strategy and annual work plan for year 2020 *(Continued)*

- (iii) We will take “characterization” as the guide to optimize the allocation of resources in the segments and accelerate the transformation and development of the Great Commerce segment. We will take the opportunity of the overseas spin-off listing of GP Corp. to promote the optimized allocation of resources and characteristic development of the Great Commerce segment; we will continue to leverage the advantages of terminal network, and accelerate business expansion while consolidating the regional advantages in Guangdong and Hainan provinces; we will, relying on the characteristic advantages of the TCM products, expand the standardized planting base of TCM materials, and steadily promote the distribution of the “medicine + doctors” chains of Cai Zhi Lin.
- (iv) Taking “differentiation” as the main goal, we will seek new momentum for the development of the Great Health segment including specialties, postpartum services and elderly care services to build a differentiated medical service industry and actively explore new cooperation models for medical device business.
- (v) We will further increase investment into scientific research and build a high-level scientific research and innovation system. We will continue to increase research and development investment, and accelerate the research and development in innovative drugs, biopharmaceuticals, high-end generic drugs, etc. We will recruit more leading talents and innovation teams, and improve the system for talent cultivation, evaluation and incentive. We will deepen the integration of science and research and the integration of scientific research resources, and optimize the construction of scientific and technological innovation platforms.
- (vi) We will continue to promote the integration of production resources, accelerate the construction of industrial bases, and build a modern and intelligent production system; we will further improve the Group’s quality control system, strengthen the dual assessment of persons in charge of quality and quality authorized persons, and further enhance efforts in safety production and quality control.
- (vii) We will continue to promote capital operations and investment mergers and acquisitions to promote extensional development. We will push forward the overseas spin-off listing of GP Corp., optimize the capital structure, and broaden financing channels; we will actively promote investment and mergers and acquisitions in various segments to effectively leverage social capital to achieve the Group’s extensional development.
- (viii) We will continue to strengthen basic management and risk control, and build an efficient risk management system. We will further improve the internal control system, carry out a special inspection on risk management, and strengthen the normalized management of internal risk control.

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT *(Continued)*

(3) Potential challenges and risks

Applicable Not applicable

In 2020, the three-medicine (medical treatment, medical insurance and medicine) linkage will be smoother and the medical reform will be accelerated. The state's centralized drug procurement program will be promoted nationwide, and the price of drugs will drop significantly. The monitoring system for rational drug use will be improved, and the inspection of drugs will be intensified. The implementation and promotion of a series of new policies such as the tightening of fee control by medical insurance, the National Medical Insurance Catalogue, the tilting of DRGs Payment model to cost-effective innovative drugs have brought challenges to the development of the Group's traditional business.

The Group will pay close attention to the implementation and promotion of new policies and make strategic deployments in advance. For the corresponding measures, please refer to the information regarding the changes in industry policies and impact in "(4) Analysis on the pharmaceutical manufacturing industry operation information" under "2. Circumstances of the Operation during the Reporting Period" in the section headed "IV Discussion and Analysis of Operation" of the 2019 annual report.

At the beginning of 2020, the outbreak of COVID-19 coronavirus epidemic ("the epidemic") brought more uncertainties about the production and operation of the Group, and the extent of the impact depends on the progress, duration and implementation of policies of control and prevention in different places towards the epidemic. The Group will be continuously focus on the development of the epidemic, evaluate and actively respond to the influence in the financial statements and operation results of the Group.

(4) Others

Applicable Not applicable

Discussion and Analysis of Operation

4. OTHER MATTERS

(1) Accounts

The results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement.

The financial condition of the Group as at 31 December 2019 is set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2019 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2019 are set out in the cash flow statement.

(2) Financial summary

A summary of the results and of the assets and liabilities of the Group are set out in the section headed "IV. Discussion and Analysis of Operation" in this annual report.

(3) Reserves

Details of the movements and amount of the reserves of the Group during the Year are set out in the section headed "XI. Financial Reports" in this annual report.

(4) Distributable Reserves

The distributable reserves of the Group as at 31 December 2019 calculated in accordance with the China Accounting Standards for Business Enterprises was RMB5,989,597,000.

(5) Fixed assets

Details of the movements of fixed assets of the Group for the year ended 31 December 2019 are set out in the section headed "XI. Financial Reports" in this annual report.

(6) Ordinary connected transactions

Details of connected transactions of the Group were set out in the section headed "V. Major Events" in this annual report.

(7) Management contracts

No contracts concerning the overall business or the management and administration of the whole or any substantial part of the core business of the Company were entered into or existed during the Year.

(8) Corporate governance

The Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of HKEx during the Reporting Period except for code provision A.6.7 as disclosed in the section headed "IX. Corporate Governance" in this annual report below.

Discussion and Analysis of Operation

4. OTHER MATTERS (Continued)

(9) Tax Exemption

The Company shall withhold and pay the individual income tax and enterprise income tax at a rate of 10% or other applicable tax rate for H shareholders pursuant to the requirements of the Notice of State Administration of Taxation Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) 《關於中國居民企業向QFII支付股息、紅利、利息代扣繳企業所得稅有關問題的通知》(國稅函[2009]47號)) and “Notification of Issues in relation to the Withholding and Payment of Enterprise Income Tax for Payment of Dividend to H Shareholders who are Overseas Non-resident Enterprises by Chinese Resident Enterprises” (Guo Shui Han [2008] No. 897) 《關於中國居民企業向境外H股非居民企業股東派發股息代扣繳企業所得稅有關問題的通知》(國稅函[2008]897號))。

(10) Retirement scheme

Details of the retirement scheme and amounts of contributions of the Group are set out in the section headed “XI. Financial Reports” in this annual report, respectively.

(11) There had been no changes in the newspapers designated by the Company for information disclosure

(12) Environmental policy

The environmental policy and its performance of the Group were set out in the Social Responsibility Report in 2019 of the Company (full text of the report has been uploaded to the websites of SSE and HKEx).

5. EXPLANATION ON THE FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS SUCH AS STATE SECRETS AND BUSINESS SECRETS AND THE REASONS THEREFOR

Applicable Not applicable

Major Events

1. PROPOSED SCHEME OF PROFIT DISTRIBUTION OR INCREASE IN SHARE CAPITAL BY TRANSFER FROM CAPITAL RESERVE

(1) Formulation of cash distribution policy and its implementation

Applicable Not applicable

The Company attaches great importance to the reasonable investment returns for investors, explicitly stipulated the distribution policy in the relevant provisions of Article 219 of the Articles of Association, including the principle of distribution, method of distribution, conditions of distribution and the lowest proportion of distribution, decision-making process of distribution and the conditions and process of the adjustment of distribution.

During the Reporting Period, having considered factors such as profit, cash flow, investment, funding needs and shareholders' returns planning, etc., in conjunction with the relevant provisions of the Articles of Association relating to profit distribution, the management of the Company submitted the proposal in relation to the profit distribution and dividend payment for 2018 to the Board. After the proposal on profit distribution and dividend payment for 2018 was approved by the Board unanimously, it was submitted to the Annual General Meeting of the Company of 2018 for consideration, and was approved by shareholders present at the 2018 Annual General Meeting holding more than two-third of voting rights. The dividends had been distributed by the end of August 2019.

(2) Proposal on profit distribution and dividend payment for 2019

In accordance with the relevant provisions of the Companies Laws and the Articles of Association, and in conjunction with the consideration of shareholders' returns and the capital requirements of the Company's business development, as approved at the 31st meeting of the seventh session of the Board of the Company, the Board of the Company proposed the following profit distribution plan for 2019:

According to the audited financial report of the Company in 2019, the consolidated net profit of the Company attributable to the shareholders of the Company amounted to RMB3,188,884,638.91 in 2019. Based on the net profit of the Company of RMB1,575,060,228.56 in 2019, a 10% statutory surplus reserve in the amount of RMB157,506,022.86 is provided, with the addition of the undistributed profit carried over from 2018 in the amount of RMB5,261,377,836.18, and after deducting the cash dividends of 2018 in the amount of RMB689,335,362.38, the actual distributable profits amounted to RMB5,989,596,679.50.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2019, a cash dividend of RMB5.89 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB957,590,868.96, be distributed. Such amount of cash dividends represents 30.03% of the consolidated net profit attributable of shareholders of the Company and 34.87% of the net profit attributable to the shareholders of the Company after deducting non-recurring profit and loss items. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2019.

The independent non-executive Directors of the Company have expressed their opinion on the profit distribution plan, and the above plan is still subject to the approval of the 2019 Annual General Meeting of the Company. Minority shareholders will be offered sufficient opportunities to express their views and requests at the 2019 Annual General Meeting of the Company through the combination of on-site open voting and online voting to ensure that their legal rights are fully safeguarded.

1. PROPOSED SCHEME OF PROFIT DISTRIBUTION OR INCREASE IN SHARE CAPITAL BY TRANSFER FROM CAPITAL RESERVE *(Continued)*

(3) Profit distribution scheme or plan, reserved funds to equity shares scheme or plan of the Company for the last three years (including the Reporting Period):

Distribution year	Distribution for every 10 shares (inclusive of tax) (RMB)	Amount of profit distribution in cash (inclusive of tax) (RMB)	Net profit attributable to the shareholders of the Company for the distribution year as shown in the consolidated financial statements (RMB)	Proportion of payout distribution in the net profit attributable to the shareholders of the Company as showed in the consolidated financial statements (%)
2019	5.89	957,590,868.96	3,188,884,638.91	30.03
2018	4.24	689,335,362.38	3,440,980,103.08	20.03
2017	3.81	619,426,351.57	2,061,651,929.01	30.05

Notes:

- Considering the relatively large proportion of the Company's non-recurring profit and loss items in 2018 and factors such as the influence of industry policies and the increasingly intense market competition, in conjunction with the Company's major capital expenditure arrangement in 2019 and other factors, in the profit distribution plan of 2018, the total amount of the proposed cash dividends to be distributed accounted for 20.03% of the net profit attributable to the Company's shareholders in 2018, and 32.34% of the net profit attributable to the Company's shareholders after deducting non-recurring profit and loss items.
- There was no reserved funds to equity shares scheme of the Company for the last three years.

(4) Cash offer to repurchase shares into cash dividends

Applicable Not applicable

(5) The parent company made profit and the undistributed profit is positive but the Company did not propose a scheme of profit distribution during the Reporting Period, the Company should disclose the reason and the plan on the application of the undistributed profit

Applicable Not applicable

Major Events

2. PERFORMANCE OF UNDERTAKINGS

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period

Applicable Not applicable

(i) Independence of listed company

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none">After completion of the Material Assets Reorganization in 2013, GPLH, the controlling shareholder of the Company, will comply with the requirements of relevant laws and regulations, regulatory documents and the articles of association of GPC, and exercise shareholder's right according to laws and will not affect the independence of the Company by exerting its influence as a controlling shareholder and will maintain the integrity and independence of the Company in respect of assets, employees, finance, organisation and business.The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(ii) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Material Assets Reorganization in 2013, GPHL and its controlled subsidiaries (excluding GPC and its subsidiaries) should avoid engaging in business and operations which substantially compete with those of the Company subsisting after completion of the Material Assets Reorganization in 2013 ("new GPC"), and avoid increasing investment in companies and enterprises, other than new GPC and its subsidiaries, which engages in business and operations which substantially compete with those of new GPC. GPHL will not and will procure its subsidiaries not to engage in the same or similar business of new GPC to avoid direct or indirect competition with the operation and business of new GPC. In addition, GPHL will voluntarily and vigorously procure its subsidiaries to give up competition with new GPC if GPHL and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources. GPHL shall bear the economic losses and/or additional costs directly and/or indirectly suffered or incurred by new GPC due to any breach of the above undertakings. The undertaking letter shall remain effective so long as new GPC legally and validly exists and GPHL owns controlling interest in new GPC.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(iii) Regulating connected transactions

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Material Assets Reorganization in 2013, GPLH and its subsidiaries should minimize and regulate connected transactions with new GPC. If there is any unavoidable connected transaction, GPLH and its controlled subsidiaries will sign agreement with new GPC in accordance with laws and perform the legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the Listing Rules of SSE and the Listing Rules of HKEx and the articles of association of GPC, and warrant that it will not harm the legitimate rights and interests of the subsisting new GPC after completion of the Material Assets Reorganization in 2013 and its other shareholders. The undertaking letter will remain effective so long as new GPC legally and validly exists and GPLH owns controlling interest in new GPC.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(iv) Undertakings related to trademarks

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder, the Company
Undertakings	<p>GPHL and the Company mutually undertake as follows in relation to the transactions under the Trademark Custody Agreement between Guangzhou Pharmaceutical Company Limited and Guangzhou Pharmaceutical Holdings Limited (the "Agreement"):</p> <ol style="list-style-type: none"> Both parties will enter into a supplemental agreement ("Supplemental Agreement") to the Agreement as soon as possible after the Agreement becoming effective and before they enter into the first new or renewal licensing agreement relating to the licensing of Wang Lao Ji trademarks in custody under the Agreement, with the specific arrangement for new/renewal trademark licences to be negotiated by the parties separately. Both parties also agreed that the Supplemental Agreement shall (i) embody the requirement for GPHL to pay the Company a basic custody fee of RMB1 million per year as set out in the Agreement; and (ii) specify that 20% of the new licenses fees will be the custody income for the Company and the remaining 80% will be retained by GPHL. Both parties further undertake that the Supplemental Agreement they entered into in the future under the above arrangement will comply with applicable provisions of the Listing Rules of HKEx and SSE (including but not limited to the requirements of Chapter 14A of the Listing Rules of HKEx and Chapter 10 of the Listing Rules of SSE relating to continuing connected transactions/connected transactions in the ordinary course of business, including that the Supplemental Agreement must specify its validity term, the estimated annual cap of custody income, other terms that must be set out, and etc.).
Time and period of the undertaking	Commitment made on 26 March 2012 and the period of validity is up to the date of completion of the undertakings
Valid period for performance	N/A
Whether timely and strictly performed	Yes
Compliance or not	Yes

Major Events

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) **The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period** *(Continued)*

(iv) Undertakings related to trademarks *(Continued)*

Item	Content
Remark	<p>The Company has entered the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH on 30 April 2019. As verified by both sides, the referring transaction will be conducted upon the consideration price set from the asset appraisal of which base evaluation date is 30 June 2018. The transaction value is RMB1,389,122,631 (excluding value-added tax). Since there were two defensive trademarks registration application being declined before the issue date of the above Confirmation, according to the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited, the corresponding assessed value of the above 2 trademarks will be deducted from the transaction price, which resulted in a transaction price of RMB1,389,119,631 (excluding the value-added tax). The involving assets in the referring transaction had been delivered in accordance with the Agreements, and the Company had paid the transaction price to GPLH with full single payment, and had obtained the underlying assets in accordance with laws. As at and after the asset transfer date, GPLH is not required to pay the custody fee to the Company. The trademark license fee arising from the target assets belongs to the Company. In particular, the trademark license contracts signed in the name of the Company continue to be implemented by the Company; as for the trademark license contracts signed in the name of the GPLH, GPLH will notify the parties to the contracts to sign supplementary agreements in relation to the change of the parties to the contracts.</p>

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(v) Undertakings related to properties with legal defects

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH will promote the development of the subsisting listed company, protect the interests of minority investors, and proactively take measures to solve the issue of Baiyunshan properties with legal defects in titles to ensure that the interests of the subsisting listed company and investors are not jeopardised. 2. Guaranteeing that the subsisting listed company will be able to continue occupying and using such properties after completion of the merger and that it will not incur any additional cost or suffer any material adverse impact due to such issue. 3. After completion of the merger, GPLH will fully compensate the Company within 2 months from the date of incurrance of the actual losses (not including the tax normally incurred in respect of changing the registration name and transfer in relation to the properties and the land premium in relation to the changes from non-granted land use rights to granted land-use rights) in case there are any penalties imposed on or losses incurred by the Company due to the legal defects in the building ownership or land use rights of the Baiyunshan properties to be acquired by the Company, and such losses include but not limited to all economic losses in connection with any civil, administration and criminal liabilities, to ensure that the Company and minority investors will not suffer any damage as a result thereof.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(vi) Undertakings related to trademarks

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> GPHL undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the licensing agreement and its supplemental agreement were held invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption to purchase the "Wang Lao Ji" trademarks as set out in the licensing agreement. On the basis of the original undertaking letter, GPHL has further made the promise as follows: After all of the legal disputes regarding the trademarks of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPHL shall, pursuant to the provisions of the then effective laws and regulations and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPHL after the execution day (inclusive of the date of execution) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities business and as confirmed in the asset appraisal report verified by the State-owned assets authority.

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(vi) Undertakings related to trademarks *(Continued)*

Item	Content
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	N/A
Whether timely and strictly performed	In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPLH, which proposed to amend the performance period of the former undertakings to "two years since the effective date of the judgment on the law case of red can decoration", due to the disputes of red can decoration. As approved at the 8th meeting of the sixth session of the Board, the resolution on the amendment to the performance period of the undertaking of injection of Wang Lao Ji trademark series by GPLH was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 and was approved.
Compliance or not	Yes

Major Events

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(vi) Undertakings related to trademarks *(Continued)*

Item	Content
Remark	<p>On 16 August 2017, the Supreme People's Court of the PRC announced the judgment on the case of "disputes over red can decoration", and the judgment is final. On the same day, GPLH and WLJ Great Health, the Company's wholly-owned subsidiary, received the relevant civil judgment of the Supreme People's Court of the PRC on the case of "dispute over red can decoration" (For details, please refer to the Announcement of the Final Judgement on the case of "disputed over WangLaoJi Red Can Decoration" of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 16 August 2017). According to GPLH's undertaking made on 29 February 2012, the supplementary undertaking made on 15 June 2012 and the revised undertaking made in 2014, the conditions for GPLH to transfer "Wang Lao Ji" series trademarks to the Company had been satisfied.</p> <p>On 27 December 2018, the resolution regarding the proposal on purchasing trademarks in cash and the relevant agreements and connected transactions was considered and approved at the 18th meeting of the seventh session of the Board of the Company, by using the appraised value as the pricing basis, which was determined in the Assets Evaluation Report on Proposed Transfer of Trademarks by Guangzhou Pharmaceutical Holdings Limited Involving the 420 Exclusive Use Rights of Trademarks Owned by Guangzhou Pharmaceutical Holdings Limited (Zhong Lian Guo Ji Ping Zi [2018] No. WIGPZ0701) with valuation reference date of 30 June 2018, the Company intended to acquire all rights of Wang Lao Ji series of trademarks held by GPLH, the controlling shareholder (including trademarks already registered in the PRC and other countries or regions and trademarks under application and pending for approval) in cash, and signed the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited and the Profit Compensation Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited. The acquisition was considered and passed at the first extraordinary general meeting in 2019 held on 28 March 2019. On 30 April 2019, the Company has entered into the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH, in accordance with which the involving assets of the Wang Lao Ji series trademarks had been delivered.</p>

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(1) The commitments of the Company's actual controllers, shareholders, affiliates, acquirers, the company and other promising parties during or continuing to the Reporting Period *(Continued)*

(vi) Undertakings related to trademarks *(Continued)*

Item	Content
Remark (Continued)	Up to 31 December 2019, the Company has submitted the application documents for changing the trademarks of Wang Lao Ji series to both domestic and foreign intellectual property departments. 14 domestic basic trademarks and 337 domestic defensive trademarks have been changed, and 18 defensive trademarks registered in one single foreign country have been changed. There are still 2 domestic defensive trademarks, 45 defensive trademarks registered in one single foreign country and 2 defensive trademarks registered in Medical pending approval.

Save for the above, there is no outstanding undertaking that requires specific disclosure.

(2) The Company's assets or projects involve profit forecast and were still in the profit forecast period during the Reporting Period, Company's explanation on whether the assets or projects have met the original profit forecast and the reasons therefor

Reached Not reached Not applicable

(i) Basic information

On 21 December 2017, the Company entered into the Equity Interest Transfer Agreement with GP Corp. and Alliance BMP, pursuant to which, the Company: (1) acquired 30% equity interest in GP Corp. held by Alliance BMP by way of cash; and (2) granted the put options to Alliance BMP for the sales of all the remaining 20% equity interest in GP Corp. held by it to the Company during the exercise period (the "Transaction" or "Material Assets Reorganization in 2017").

The target asset price of the Transaction is based on the asset valuation report "Guo Zhong Lian Ping Bao Zi (2017) No. 3-0085" issued by Guo Zhong Lian, the parties agreed the transaction price of the 30% equity interest in GP Corp. as RMB1,094 million, which was paid in US dollars, after arm's length negotiations. Alliance BMP may sell its remaining 20% equity interest in GP Corp. to the Company during the exercise period (the exercise period of the put option commences from six months after the completion date of the Transaction up to thirty-six months after the completion date).

The asset transfer and change in business registration of the Transaction was completed on 31 May 2018. After that, GP Corp. has become a subsidiary controlled by the Company. Alliance BMP has not yet exercised the put option of the remaining 20% equity interest in the target company as at the end of the Reporting period.

Major Events

2. PERFORMANCE OF UNDERTAKINGS (Continued)

(2) The Company's assets or projects involve profit forecast and were still in the profit forecast period during the Reporting Period, Company's explanation on whether the assets or projects have met the original profit forecast and the reasons therefor (Continued)

(i) Basic information (Continued)

The above resolutions were approved at the 5th meeting of the seventh session of the Board, the 5th meeting of the seventh session of the Supervisory Committee of the Company and the first extraordinary general meeting of 2018, respectively. For details, please see the "Report of Material Asset Acquisition", "Report of Material Asset Acquisition (Revised)" and "Implementation Report on Material Asset Acquisition" published on the SSE on 22 December 2017, 5 January 2018 and 4 June 2018 and the relevant disclosure in the announcements on the HKEx on 22 December 2017, 2 January 2018 and 4 June 2018 and the relevant disclosure in the announcement on the HKEx website dated 12 February 2018 by the Company.

(ii) Profit forecast

During the Transaction, the Company announced the Asset Valuation Report on the Market Value of All the Equity Interest of the Shareholders in Guangzhou Pharmaceuticals Corporation in Relation to the Proposed Equity Interest Acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Guo Zhong Lian Ping Bao Zi (2017) No. 3-0085) (《廣州白雲山醫藥集團股份有限公司擬實施股權收購涉及廣州醫藥有限公司股東全部權益資產評估說明》國眾聯評報字(2017)第3-0085號) on 22 December 2017. The asset valuation institution evaluates the assets to be acquired by the valuation methods which are based on future earnings forecast. The evaluation result is used as the reference for the pricing of the Transaction. The target asset price of the Transaction was determined after arm's length negotiations between the parties. The counterparty has not made performance guarantee.

According to the Statement on the Difference between the Actual Profit and Profit Forecast concerning the Acquisition of Guangzhou Pharmaceutical Corporation by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited in 2019 issued by KPMG Huachen Accounting Firm (Special General Partnership), set out below is the information on the achievement of the profit forecast of GP Corp. in 2019:

Items	Actual amount (RMB'0000)	Estimated amount (RMB'0000)	Differences (RMB'0000)	Percentage of achievement (%)
Total profit	50,826.45	60,046.47	9,402.45	84.65
Net profit	37,265.34	45,034.85	7,463.21	82.75

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(2) **The Company's assets or projects involve profit forecast and were still in the profit forecast period during the Reporting Period, Company's explanation on whether the assets or projects have met the original profit forecast and the reasons therefor** *(Continued)*

(ii) Profit forecast *(Continued)*

The total profit of GP Corp. in 2019 was RMB 508.2645 million, with the completion rate of 84.65%; the net profit was RMB 372.6534 million, with the completion rate of 82.75%. GP Corp. did not meet the profit forecast of 2019 as in the asset appraisal report of the Transaction, mainly because: In 2019, due to the influence of "4+7" centralized drug procurement policy and drug price reduction, the revenue of the main business of GP Corp. decreased by RMB 290 million from the profit forecast, and the gross profit margin decreased by 0.27% from the profit forecast. The above factors directly resulted in the decrease of the total profit of the Company compared with the profit forecast. In addition, under the influence of the comprehensive implementation of the "two-vote", the sales structure of GP Crop. has changed. The proportion of sales in hospitals with a longer age of collection increased, the turnover period of accounts receivable increased, the total amount of accounts receivable increased, and the provision for financial expenses and credit impairment increased. The pace of implementation and long-term impact of the above policies could not be estimated when the profit forecast was made in 2017.

The target asset price of the Transaction was determined by the parties after arm's length negotiations. Alliance BMP did not make performance guarantee and was not required to make profit compensation to the Company.

(3) **Completion process of performance commitment and its effect on goodwill impairment test**

Applicable Not applicable

(i) Basic information

On 27 December, 2018, with the approval of the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the Supervisory Committee, the Company proposed to purchase the "Wang Lao Ji" series trademarks ("target trademarks") held by the controlling shareholder GPLH in cash, taking the value determined in the Evaluation Report on the Assets of the 420 Trademark Rights Owned by GPLH Involved in the Proposed Transfer of Trademarks by GPLH dated June 30, 2018 (Allied Appraisal Ping Zi [2018] No. WIGPZ0701) as the pricing basis, including all rights in respect of the registered trademarks and the trademarks pending but not yet approved in China and in other countries or regions. The Company signed the Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and GPLH on the Purchase of Trademarks in Cash (the "Target Trademarks Purchase Agreement") and the Performance Compensation Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and GPLH (the "Performance Compensation Agreement"). In accordance with the terms and conditions of the Target Trademarks Purchase Agreement, the Company took the appraisal value of the underlying asset assessed on 30 June, 2018 as the consideration, and the transaction price was RMB 1,389.122631 million (excluding VAT) for the target trademarks and all rights and interests attached thereto.

Major Events

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(3) Completion process of performance commitment and its effect on goodwill impairment test *(Continued)*

(i) Basic information *(Continued)*

On 28 March, 2019, the Company's first extraordinary general meeting in 2019 deliberated and approved the transaction. On 30 April, 2019, the Company and GPLH signed the Confirmation on Asset Delivery Relating to the Transfer of the "Wang Lao Ji" Series Trademarks in view of the fact that all conditions precedent for the acquisition of the relevant items set forth in the Target Trademarks Purchase Agreement had been reached. As at the date of issuance of the aforementioned confirmation, two applications for the registration of defensive trademarks were rejected. Therefore, the transaction price set out in the Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and GPLH on the Purchase of Trademarks in Cash was deducted by the appraisal value corresponding to the relevant trademarks. The transaction price was reduced to RMB 1,389.119631 million (excluding VAT), and the asset delivery of the "Wang Lao Ji" series trademarks from GPLH to the Company was completed.

(ii) Performance commitment

According to the Implementation Guidelines on Related Transactions of Listed Companies on the Shanghai Stock Exchange, if the listed company evaluates the assets to be purchased using on the valuation methods such as cash flow discount method, hypothesis development method and other valuation methods based on the expectation of future earnings and takes them as the pricing basis, it shall disclose the difference between the actual profit of the relevant assets and the profit forecast in the annual report for three consecutive years after the completion of the related transaction, together with the special audit opinion issued by the accounting firm. The Company shall enter into a clear and feasible compensation agreement with its associates for the fact that the actual earnings of the relevant assets fall short of the profit forecast."

According to the Performance Compensation Agreement signed by the Company and GPLH on 27 December 2018, after the completion of this transaction, the Company shall, upon the expiration of each fiscal year of the performance commitment period, engage an accounting firm with securities and futures qualification and recognized by all parties to issue a special audit report on the realization of the promised net profit of trademark licensing of the trademark related products assessed with income method, audit and recognize the licensing annual net income of trademark licensing during the period of performance commitment of the trademark related products assessed with income method.

2. PERFORMANCE OF UNDERTAKINGS (Continued)

(3) Completion process of performance commitment and its effect on goodwill impairment test (Continued)

(ii) Performance commitment (Continued)

According to the Performance Compensation Agreement, after the issuance of the special audit report in the last year of the performance commitment period (i.e., 2021), GPLH is not required to compensate the Company if the total amount of the cumulative actual net income from the relevant trademark licensing as at the end of the performance commitment period is not less than the promised cumulative net income from the trademark licensing for the three years. At the end of the performance commitment period, if the cumulative actual net income from trademark licensing fails to reach the promised cumulative net income from the trademark licensing for the three years, GPLH shall make cash compensation to the Company.

According to the Special Statement on the Realization of Profit Forecast in 2019 for the Trademark Assets Purchased by Guangzhou Baiyunshan Pharmaceutical Holding Co., Ltd. issued by BDO China Shu Lun Pan CPAs LLP, the realization of the net income of "Wang Lao Ji" series trademark assets in 2019 is as follows:

Item	Actual amount (RMB0'000)	Estimated amount (RMB0'000)	Difference (RMB0'000)	Completion rate (%)
Net income of trademark assets	16,172	15,287	885	105.79

In the evaluation report issued by Allied Appraisal on 27 December 2018, the audited estimated net income of the trademark licensing in 2019, 2020 and 2021, evaluated with the income method, is not less than RMB 152.87 million, RMB 162.65 million and RMB 171.45 million, respectively. The net income of "Wang Lao Ji" series trademarks in 2019 was RMB 161.72 million, with a completion rate of 105.79%.

3. APPROPRIATION OF FUNDS AND PROGRESS OF PAYMENTS OF DEBTS DURING THE REPORTING PERIOD

Applicable Not applicable

4. EXPLANATION GIVEN BY THE COMPANY ON THE "NON STANDARD AUDITOR'S REPORT" ISSUED BY THE AUDITORS

Applicable Not applicable

Major Events

5. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERRORS

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates

Applicable Not applicable

(i) Changes in accounting policies

① *Changes in accounting policies due to the implementation of the new lease standards.*

On 7 December 2018, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 21 – Lease (Revised in 2018) (Caikuai [2018] No. 35, hereinafter referred to as the “New lease standards”). Enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement the new lease standards from 1 January 2019.

As approved by the resolution of the 21st meeting of the seventh session of the Board of the Company on 26 April 2019, the Company began implementing the above-mentioned new lease standards on 1 January 2019 (hereinafter referred to as the “First Implementation Date”), complying with the requirements of the Ministry of Finance, as well as made changes to the relevant accounting policies according to the new lease standards.

According to the new lease standards, for contracts existing before the First Implementation day, the Company would not re-evaluate whether it is a lease or includes a lease on the First Implementation Day. For the lease contract that the Company is lessee, the Company chose to adjust only the cumulative effects of the lease contract that was not completed on 1 January 2019.

Adjustment of cumulative effects amount for the first time: the retained earnings and amounts of other relevant items in the financial statements at the beginning of the current period (i.e. 1 January 2019) shall not be adjusted for comparable period information. Details are as follows:

- A. For the finance lease on the First Implementation Day, the Group shall measure the right-of-use assets and lease liabilities respectively according to the original book value of the finance lease assets and finance lease payment payable.
- B. For the operating lease on the First Implementation Day, the Group calculated the lease liability according to the present value of the remaining lease payment discounted by the incremental borrowing rate on the First Implementation Day; The unpaid rent accrued under the original lease standards on an accrual basis shall be included in the remaining lease payment.

5. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERRORS (Continued)

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates (Continued)

(i) Changes in accounting policies (Continued)

① Changes in accounting policies due to the implementation of the new lease standards. (Continued)

For each lease, the Company chose to measure the right-of-use assets according to either of the following:

- (a) Assuming that the book value of the new lease standards is adopted from the beginning of the lease period (using the incremental borrowing rate on the First Implementation Day as the discount rate);
- (b) The amounts equal to the lease liabilities which are subjected to necessary adjustments based on prepaid rent.

On the First Implementation Day, the Group conducted impairment tests on the right-of-use assets and carried out corresponding accounting treatment, in accordance with the provisions of Accounting Standards for Business Enterprises No. 8 – Asset impairment.

The impact of the implementation of the new lease standards by the Group are summarized as follows:

Item	Consolidated balance sheet		
	Book balance prior to changes in accounting policies as at 31 December 2018 (RMB)	Effect of the new lease standards (RMB)	Book balance after changes in accounting policies as at 1 January 2019 (RMB)
Assets:			
Fixed assets	3,165,746,536.73	(215,165,155.44)	2,950,581,381.29
Right-of-use assets	-	846,762,689.48	846,762,689.48
Liabilities:			
Current portion of non-current liabilities	204,024,196.93	139,291,507.59	343,315,704.52
Lease liabilities	-	600,490,563.19	600,490,563.19
Long-term payables	135,795,848.74	(108,184,536.74)	27,611,312.00

Major Events

5. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERRORS *(Continued)*

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates *(Continued)*

(i) Changes in accounting policies *(Continued)*

① *Changes in accounting policies due to the implementation of the new lease standards. (Continued)*

On 1 January 2019, when measuring lease liabilities, the Group used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

Item	The Company's balance sheet		Book balance after changes in accounting policies as at 1 January 2019 (RMB)
	Book balance prior to changes in accounting policies as at 31 December 2018 (RMB)	Effect of the new lease standards (RMB)	
Assets:			
Right-of-use assets	–	7,786,057.78	7,786,057.78
Liabilities:			
Current portion of non-current liabilities	–	2,820,472.89	2,820,472.89
Lease liabilities	–	4,965,584.89	4,965,584.89

On 1 January 2019, when measuring lease liabilities, the Company used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

5. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERRORS (Continued)

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates (Continued)

(i) Changes in accounting policies (Continued)

② Adjustments to the presentation of financial statements

The financial statements of 2019 are prepared by the Group in accordance with the format prescribed in Caikuai [2019] No. 6. Presentation of the relevant financial statements are adjusted retrospectively.

The impact of adjustments in relevant financial statements is as follows:

Item	Consolidated balance sheet		
	Before adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
Assets:			
Notes receivable	2,780,597,684.01	(1,452,402,183.47)	1,328,195,500.54
Account receivables financing	-	1,452,402,183.47	1,452,402,183.47

Item	The Company's balance sheet		
	Before adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
Assets:			
Notes receivable	615,391,740.80	(167,667,277.86)	447,724,462.94
Account receivables financing	-	167,667,277.86	167,667,277.86

(2) Explanation and analysis of the Company on the reasons for and effects of the correction of major accounting errors

Applicable Not applicable

(3) Communication with former accounting firm

Applicable Not applicable

(4) Others

Applicable Not applicable

Major Events

6. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

	Previous auditors	Current auditors
Name of the domestic Certified Public Accountants	Ruihua Certified Public Accountants LLP	WUYIGE Certified Public Accountants LLP
Total remuneration of the domestic Certified Public Accountants (RMB'000)	2,669	2,569
Term of office of the domestic Certified Public Accountants	1	1
	Name	Remuneration (RMB'000)
Internal control audit Certified Public Accountants	WUYIGE Certified Public Accountants LLP	400

Note: The interim audit fee of RMB400,000 was paid to Ruihua Certified Public Accountants LLP during 2019 interim period. The original annual financial audit fee was RMB2,569,000 (tax inclusive). After deducting the interim audit fee paid, the annual financial audit fee payable to WUYIGE Certified Public Accountants LLP shall be RMB2,169,000 (tax inclusive).

Explanatory notes on the appointment and dismissal of auditors

Applicable Not applicable

- (i) As considered and approved at the second meeting of the Audit Committee in 2018, the 9th meeting of the seventh session of the Board of the Company and 2017 Annual General Meeting of the Company, the Company ceased to appoint BDO China Shu Lun Pan CPAs LLP as the auditor and internal control auditor of the Company, and appointed Ruihua Certified Public Accountants LLP as the auditor of the Company for year 2018 and the internal control auditor of the Company for year 2018.
- (ii) As considered and approved at the fourth meeting of the Audit Committee in 2019, the 22nd meeting of the seventh session of the Board of the Company and the Annual General Meeting of the Company in 2019, Ruihua Certified Public Accountants LLP was appointed as the financial auditor and the internal control auditor of the Company for year 2019 with a term of one year.
- (iii) As considered and approved at the 9th meeting of the Audit Committee in 2019 and the 28th meeting of the seventh session of the Board, the Company ceased to appoint Ruihua Certified Public Accountants LLP as the financial auditor and the internal control auditor of the Company for year 2019, and appointed WUYIGE Certified Public Accountants LLP as the financial auditor and the internal control auditor of the Company for year 2019. The said matter was approved at the first extraordinary general meeting of the Company convened on 13 January 2020.

A statement on the change in the employment of an accounting firm during the audit period

Applicable Not applicable

7. RISK OF FACING SUSPENSION OF LISTING

(1) Reasons leading to the suspension of listing

Applicable Not applicable

(2) The response measures intended to be taken

Applicable Not applicable

8. THE SITUATION AND REASONS FOR FACING DESISTING

Applicable Not applicable

9. MATTERS RELEVANT TO WINDING UP AND SCHEME OF ARRANGEMENT

Applicable Not applicable

10. MATERIAL LITIGATION AND ARBITRATION MATTERS

Litigation and arbitration matters during the Reporting Period.

(1) Litigation and arbitration involving controlling shareholders

Party concerned	Litigation	Status	Index to announcement
GPHL	Regarding the legal disputes between GPHL and Guangdong Jiaduobao Beverage Co., Ltd., Zhejiang Jiaduobao Beverage Co., Ltd., JDB (China) Beverage Co., Ltd., Fujian Jiaduobao Beverage Co., Ltd., Hangzhou Jiaduobao Beverage Co., Ltd., and Wuhan Jiaduobao Beverage Co., Ltd. over the "Wang Lao Ji" trademarks	Supreme People's Court of the PRC has issued the second instance judgment	Announcements both dated 2 July 2019 on the websites of the SSE and the HKEx
	Regarding disputes over false propaganda between GPHL Guangdong Jiaduobao Beverage Co., Ltd. and Peng Bijuan	The Supreme People's Court of the PRC has made the ruling on the retrial	Announcements both dated 16 August 2019 on the websites of the SSE and the HKEx

10. MATERIAL LITIGATION AND ARBITRATION MATTERS *(Continued)*

(2) Litigation and arbitration involving the Group

- (i) The case on legal disputes false propaganda and commercial libel between WLJ Great Health, a wholly-owned subsidiary of the Company, and GPLH, the controlling shareholder of the Company in relation to Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd.

In April 2019, WLJ Great Health and GPLH received the Written Civil Ruling captioned (2017) ZuiGaoFaminShen No. 509 from the Supreme People's Court of the PRC, relating to the retrial application of the case on false propaganda and commercial libel between GPLH and WLJ Great Health, and Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. Pursuant to the Written Civil Ruling, the retrial application of Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. was dismissed.

For details, please refer to the announcement dated 29 April 2019 disclosed in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

- (ii) The case on legal disputes over false propaganda between GPLH, and WLJ Great Health as the plaintiffs and Wuhan Jiaduobao Beverage Co., Ltd., Hunan Fengcai Haorunjia Trade Co., Ltd. and Xiaoxiang Morning Post as the respondents

1) On 1 September 2015, the Company announced the Written Civil Ruling captioned (2013) ChangZhongMinWuChuZi No. 00308 from the Changsha Intermediate People's Court of in Hunan province in relation to the case on disputes over false propaganda between GPLH and WLJ Great Health as the plaintiffs and Wuhan Jiaduobao Beverage Co., Ltd., Hunan Fengcai Haorunjia Trade Co., Ltd. and Xiaoxiang Morning Post as the respondents. For details, please refer to the announcement dated 1 September 2019 disclosed in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

2) GPLH, WLJ Great Health and Wuhan Jiaduobao Beverage Co., Ltd. were dissatisfied with the first-instance judgment made by the Changsha Intermediate People's Court in Hunan province and lodged an appeal with the Hunan Provincial High People's Court. On 5 September 2016, the Company announced the Written Civil Ruling captioned (2016) XiangMinZhong No.94 in relation to the case on disputes over false propaganda. For details, please refer to the announcement dated 5 September 2016 disclosed in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

10. MATERIAL LITIGATION AND ARBITRATION MATTERS *(Continued)*

(2) Litigation and arbitration involving the Group *(Continued)*

- (ii) The case on legal disputes over false propaganda between GPLH, and WLJ Great Health as the plaintiffs and Wuhan Jiaduobao Beverage Co., Ltd., Hunan Fengcai Haorunjia Trade Co., Ltd. and Xiaoxiang Morning Post as the respondents *(Continued)*
 - 3) Wuhan Jiaduobao Beverage Co., Ltd., JDB (China) Beverage Co., Ltd., GPLH, WLJ Great Health and Hunan Fengcai Haorunjia Trade Co., Ltd., Xiaoxiang Morning Post, Guangzhou Shanyuan Advertising Co., Ltd. and Hunan Xinjinfu Media Co., Ltd. were dissatisfied with the Written Civil Ruling made by the Hunan Provincial High People's Court captioned (2016) Xiangmin Zhong No. 94, and applied for a retrial to the Supreme People's Court of the PRC. On 16 August 2019, the Company announced the Written Civil Ruling captioned (2017) ZuiGaoFaMinZai No. 155 in relation to the case on disputes with Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. over false propaganda. For details, please refer to the announcement of the Company dated 16 August 2019 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.
- (iii) The civil litigation regarding the case of disputes between WLJ Great Health and JDB (China) Beverage Co., Ltd. over false propaganda
 - 1) On 4 August 2014, the Company disclosed the Written Civil Ruling captioned (2013) YuWuZhongFaMinChuZi No.00345 from the Fifth Intermediate People's Court of Chongqing in relation to the case on disputes over false propaganda between WLJ Great Health as the plaintiff and JDB (China) Beverage Co., Ltd. as the respondent. For details, please refer to the announcement dated 4 August 2014 published on Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the on the websites of the SSE and the HKEx.
 - 2) WLJ Great Health and JDB (China) Beverage Co., Ltd. were dissatisfied with the Written Civil Ruling captioned (2013) YuWuZhongFaMinYuChuZi No.00345 made by the Fifth Intermediate People's Court of Chongqing and lodged an appeal with the Chongqing High People's Court. On 28 December 2015, the Company disclosed the Written Civil Ruling captioned (2014) Yu Gao Famin Zhong Zi No. 00318 from the Chongqing High People's Court. For details, please refer to the announcement of the Company dated 28 December 2015 published on Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

Major Events

10. MATERIAL LITIGATION AND ARBITRATION MATTERS *(Continued)*

(2) Litigation and arbitration involving the Group *(Continued)*

(iii) The civil litigation regarding the case of disputes between WLJ Great Health and JDB (China) Beverage Co., Ltd. over false propaganda *(Continued)*

3) WLJ Great Health and JDB (China) Beverage Co., Ltd. were dissatisfied with the Written Civil Ruling captioned (2014) Yu Gao Famin Zhong Zi No. 00318 made by the the Chongqing High People's Court and applied for a retrial to the Supreme People's Court of the PRC. On 16 August 2019, the Company disclosed the Written Civil Ruling captioned (2017) ZuiGaoFaMinZai No. 151. from the Supreme People's Court of the PRC. For details, please refer to the announcement of the Company dated 16 August 2019 published on Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

(3) Save as mentioned above, the Group had not been engaged in any significant litigation or arbitration during the Reporting Period.

11. INFORMATION ON PENALTIES, RECTIFICATION AND REFORM IN RESPECT OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLER OR ACQUIRER

Applicable Not applicable

12. EXPLANATION ON THE HONESTY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD

Applicable Not applicable

13. EQUITY INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPACT

(1) Incentives disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

(2) Incentives undisclosed in temporary announcement or with progress in subsequent implementation

Equity incentive

Applicable Not applicable

Others

Applicable Not applicable

Employee stock ownership plan

Applicable Not applicable

In order to motivate the employees of the Group, the Employee Stock Ownership Scheme (2015) (“the Employee Ownership Scheme”) was approved at the Board meeting held on 12 January 2015 and at the first extraordinary shareholders’ general meeting in 2015, the Class Meeting of Holders of Domestic Shares and the Class Meeting of Holders of Overseas Listed Foreign Capital Shares held on 13 March 2015 by the independent shareholders.

The Employee Stock Ownership Scheme was completed on 17 August 2016, a total of 1,209 employees participated in the Employee Stock Ownership Scheme, subscribing for a total of 3,860,500 shares (“Above Shares”) in the amount of RMB90,953,380.00 in aggregate. On the same day, the Placement Prosperous Age Exclusive Account No. 66 (as the trustee of the Employee Stock Ownership Scheme (2015)) which held 3,860,500 A shares of the Company, completed the registration of the newly-issued shares at the Depository Corporation. The Above Shares are shares subject to trading restrictions with a lock-up period of 36 months. The Above Shares were floated on 19 August 2019.

For details of the Employee Stock Ownership Scheme, please refer to the announcements dated 12 January 2015, 17 March 2015 and 14 August 2019 published on Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the websites of the SSE and the HKEx and the circulars dated 26 February 2015 and 16 February 2016.

Other incentives

Applicable Not applicable

Major Events

14. CONNECTED TRANSACTIONS

(1) Related party transactions in relation to the ordinary operations

(i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

(ii) Events disclosed in temporary announcements and with progress or change in subsequent implementation

Applicable Not applicable

During the Reporting Period, the ordinary connected transactions of the Company is as follows:

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage in similar transactions (%)	Settlement method of connected transactions
Hua Cheng	Controlled by the same parent company	Purchase of goods	Medicine or pharmaceutical products	Market price	10,963	0.02	Cash
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	186,692	0.30	Cash
Baxter Qiao Guang	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	36,878	0.06	Cash
Subtotal					234,533	0.38	
HWBYS	Joint Venture	Acceptance of service	Publicity fee	Market price	21,755	1.64	Cash
Subtotal					21,755	1.64	
Hua Cheng	Controlled by the same parent company	Sale of products	Medicine or pharmaceutical products	Market price	112,699	0.17	Cash
HWBYS	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	166,330	0.26	Cash
Nuo Cheng	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	56	0.00	Cash
Baxter Qiao Guang	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	8,170	0.01	Cash

14. CONNECTED TRANSACTIONS *(Continued)*

(1) Related party transactions in relation to the ordinary operations *(Continued)*

(ii) Events disclosed in temporary announcements and with progress or change in subsequent implementation *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage in similar transactions (%)	Settlement method of connected transactions
Subtotal					287,255	0.44	
GPHL	Parent company	Provision of labour service	Advertising agency	Market price	951	1.89	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	Advertising agency	Market price	8,925	17.75	Cash
HWBYS	Joint Venture	Provision of labour service	Advertising agency	Market price	36,912	73.41	Cash
Baxter Qiao Guang	Joint Venture	Provision of labour service	Advertising agency	Market price	36	0.07	Cash
Nuo Cheng	Joint Venture	Provision of labour service	Advertising agency	Market price	20	0.04	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	Consigned processing	Market price	25,038	16.51	Cash
HWBYS	Joint Venture	Provision of labour service	Consigned processing	Market price	2,765	1.82	Cash
Subtotal					74,647		

Major Events

14. CONNECTED TRANSACTIONS *(Continued)*

(1) Related party transactions in relation to the ordinary operations *(Continued)*

(ii) Events disclosed in temporary announcements and with progress or change in subsequent implementation *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage in similar transactions (%)	Settlement method of connected transactions
GPHL	Parent company	Acceptance of rights to use trademarks, patents and others	Rights to use trademarks	At price determined by agreement	97,086	82.15	Cash
Hua Cheng	Controlled by the same parent company	Provision of rights to use trademarks, patents and others	Rights to use trademarks	At price determined by agreement	382	26.58	Cash
HWBYS	Joint Venture	Provision of rights to use trademarks, patents and others	Rights to use trademarks	At price determined by agreement	1,056	73.42	Cash
GPHL	Parent company	Others	Leased as tenant	At price determined by agreement	6,106	14.08	Cash
GPHL	Parent company	Others	Leased as landlord	At price determined by agreement	403	0.61	Cash
Baxter Qiao Guang	Joint Venture	Others	Leased as landlord	At price determined by agreement	5,087	7.67	Cash
Nuo Cheng	Joint Venture	Others	Leased as landlord	At price determined by agreement	3,049	4.59	Cash
Total					731,359		

Note: The above connected transactions were transactions carried out in the ordinary course of business of the Group, the prices of which were determined with reference to market prices, and have no negative impact on the Group's abilities to sustain its operations.

(iii) Events undisclosed in temporary announcements

Applicable Not applicable

14. CONNECTED TRANSACTIONS (Continued)

(1) Related party transactions in relation to the ordinary operations (Continued)

- (iv) During the Reporting Period, the details of connected transactions disclosed in accordance with the requirements of the HKEx are set out as below:

	2019 (RMB'000)
Ultimate holding company	
Licensing fee for Wang Lao Ji trademarks	97,086
Rental expenditure	6,106
Rental income	403
Advertising agency service fee	951
Ultimate holding company and its subsidiaries	
License fee for Baiyunshan trademarks	382
Sales of finished goods and raw materials	112,699
Purchase of finished goods and raw materials	10,963
Advertising agency service fee	8,925
Consigned processing service fee	25,038

Meanwhile, other transactions with the joint ventures, associates and the related parties have been disclosed in the notes to the financial statements. Such transactions did not constitute connected transactions under the Listing Rules of HKEx.

The Board believed that the above continuing connected transactions have been conducted in accordance with the terms of relevant agreements or contracts governing the transactions. The Directors confirm that the cap for the licensing fee “Wang Lao Ji” trademarks, rental expenditure, rental income, licensing fee of Baiyunshan’s trademarks, sales of finished goods and raw materials, purchase of finished goods and raw materials, advertising agency service fee and consigned processing service fee of the Company are as follows:

Item	Announcement/ Approval time	Cap announced/ Approved amount (RMB'000)
Ultimate holding company		
Licensing fee of “Wang Lao Ji” trademark	28 May 2018, 17 January 2019	380,000
Rental expenditure	30 March 2017	20,000
Rental income	28 June 2019	440
Ultimate holding company and its subsidiaries		
License fee of Baiyunshan trademark	24 April 2019	2,000
Sales of finished goods and raw material	18 April 2018	180,000
Purchases of finished goods and raw material	18 April 2018	16,000
Advertising agency service fee	18 April 2018	12,000
Consigned processing service fee	18 April 2018	36,000

Major Events

14. CONNECTED TRANSACTIONS *(Continued)*

(1) Related party transactions in relation to the ordinary operations *(Continued)*

- (iv) During the Reporting Period, the details of connected transactions disclosed in accordance with the requirements of the HKEx are set out as below: *(Continued)*

Such continuing connected transactions have been reviewed by the independent non-executive Directors of the Company and confirmed by each independent non-executive Director that all of the continuing connected transactions are conducted in the ordinary and usual course of business of the Company. The transactions are conducted under normal commercial terms or under terms to the Company no less favorable than (i) terms to the independent third parties or (ii) terms given by the independent third parties. Such transactions are conducted in accordance with the terms of the relevant agreements, which are fair and reasonable and in the interest of the shareholders as a whole. The aggregate amount of the connected transactions between the Company and the ultimate holding company and the ultimate holding company and its subsidiaries did not exceed the cap as disclosed in the previous announcement(s) dated 15 July 2016, 18 April 2018, 28 May 2018 and 17 January 2019, or the amount as approved by the Strategic Development and Investment Committee on 1 August 2016 and 30 March 2017, by the Audit Committee on 24 April 2019 and 28 June 2019, and by the Board on 31 March 2020 for such transactions.

The Company's auditors have been engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued a letter containing the work results on Wang Lao Ji trademark usage fee, annual rental expenditure, rental income, Baiyunshan trademark usage fee, sales of finished goods and raw materials, purchase of finished goods and raw materials, advertising agency services and consigned processing services under rule 14A.56 of the Listing Rules of HKEx.

14. CONNECTED TRANSACTIONS *(Continued)*

(2) Related party transactions on acquisition or disposal of assets or equity interests

- (i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

- (ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable applicable

On 27 December 2018, after consideration and approval at the 18th meeting of the seventh session of the Board of the Company and the 12th meeting of the seventh session of the Supervisory Committee of the Company, the Company intended to pay the consideration of RMB1,389,122,631 (exclusive of VAT · the same below) for the transfer of 420 Wang Lao Ji series exclusive rights of trademarks (including some trademarks still pending registration) held by GPLH, the controlling shareholder of the Company. The transaction constitutes a connected transaction and has been considered and approved at the 2019 first extraordinary general meeting of the Company held on 28 March 2019.

On 30 April 2019, the Company entered into the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH. Since there were two defensive trademarks the registration application of which were declined before the issue date of the above Confirmation, according to the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited, the corresponding assessed value of the above 2 trademarks was deducted from the transaction price, which resulted in a transaction price of RMB1,389,119,631 (excluding the value-added tax). The involving assets in the referred transaction had been delivered in accordance with the Agreements, and the Company had paid the transaction price to GPLH with one single full payment, and had obtained the underlying assets in accordance with laws.

For details, please refer to the announcement on the Transfer of the “Wang Lao Ji” Series Trademarks by Guangzhou Pharmaceutical Holdings Limited to Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Connected Transaction dated 27 December 2018, the announcement on the Resolutions of the 2019 First Extraordinary General Meeting of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited dated 28 March 2019, the announcement on the Completion of Transfer of the “Wang Lao Ji” Series Trademark Assets by Guangzhou Pharmaceutical Holdings Limited to Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited dated 30 April 2019, published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the website of the SSE and the announcements dated 27 December 2018, 30 December 2018, 4 January 2019, 28 March 2019 and 30 April 2019 published on the website of the HKEx.

As at 31 December 2019, the Company has submitted the application documents for changing the trademarks of Wang Lao Ji series to both domestic and foreign intellectual property departments. 14 domestic basic trademarks and 337 domestic defensive trademarks have been changed, and 18 defensive trademarks registered in one single foreign country have been changed. There are still 2 domestic defensive trademarks, 45 defensive trademarks registered in one single foreign country and 2 defensive trademarks registered in Madrid pending approval.

Major Events

14. CONNECTED TRANSACTIONS *(Continued)*

(2) Related party transactions on acquisition or disposal of assets or equity interests *(Continued)*

(iii) Events undisclosed in temporary announcements

Applicable Not applicable

(iv) Where there is agreement on financial performance, the performance achievements during the Reporting Period shall be disclosed

Applicable Not applicable

For details, please refer to "3. Completion process of performance commitment and its effect on goodwill impairment test" under "2. Performance of undertakings" in the section headed "V. Major Events" in this annual report.

(3) Material related party transactions on joint external investment

(i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

(ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable Not applicable

(iii) Events undisclosed in temporary announcements

Applicable Not applicable

(4) Claims and liabilities between related parties

(i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

(ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable Not applicable

14. CONNECTED TRANSACTIONS (Continued)

(4) Claims and liabilities between related parties (Continued)

(iii) Events undisclosed in temporary announcements

✓Applicable Not applicable

Related party	Relationship with the related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)	Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)
Bozhou Baiyunshan	Subsidiary of joint venture	16,239	15,619	620	-	-	-

Reasons for the funds provided to/from related parties

The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB620,000 from HWBYS' subsidiary, namely Bozhou Baiyunshan. HWBYS was originally a joint venture with 50% equity interest held by Baiyunshan, and Bozhou Baiyunshan was originally held by Baiyunshan and HWBYS as to 80% and 20%, respectively. On 30 March 2013, Baiyunshan and HWBYS entered into "Equity Transfer Agreement of Bozhou Baiyunshan Pharmaceutical Co., Ltd", according to which Baiyunshan agreed to transfer its equity interest and all the associated rights and obligations in Bozhou Baiyunshan to HWBYS. Since the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS became a joint venture as well as a related party of the Company. The receivables emerged after the share transfer of Bozhou Baiyunshan had completed.

Impact of the funds provided to/from related parties on the Company's operating results and financial position

No significant impact

Major Events

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period

No.	Approval body	Subject matter	Status
(i)	8th meeting of the sixth session of the Board, 7th meeting of the Strategic Development and Investment Committee in 2016	According to the arrangements of the "Retreat into Three", 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPLL. Four enterprises under the Company, namely Ming Xing, He Ji Gong, HWBYS and GP Corp., have in aggregate acquired the land use rights of 303 mu of land available for construction in the first phase.	In progress
(ii)	11th meeting of the Strategic Development and Investment Committee in 2015	The capital of HK\$177,500,000 or the equivalent amount of RMB will be injected to Guangyao Baiyunshan Hong Kong Company by the Company.	The first and the second phases of capital increases, in a total amount of RMB105,090,750, have been completed.
(iii)	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's subsidiary Chemical & Pharmaceutical Technology Company and Zhuhai Fushan Industrial Park Management Committee entered into the "Investment Agreement between Zhuhai Fushan Industrial Park Management Committee and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd." ("Zhuhai Project"), with an initial investment amount of RMB55 million.	The Company has contributed additional capital of RMB12.47 million to Chemical & Pharmaceutical Technology Company and completed the environment assessment, planning design and infrastructure design of the Zhuhai Project; in addition, the Company has completed the first phase capital contribution of RMB42 million to Chemical & Pharmaceutical Technology Company and established Chemical & Pharmaceutical (Zhuhai) Company. Currently, the design of the Zhuhai Project has basically completed and the Zhuhai Project has entered into the construction stage.
	1st meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital in cash of RMB12.47 million to Chemical & Pharmaceutical Technology Company for the use of project design and environmental assessment of the Zhuhai Project.	

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS *(Continued)*

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period *(Continued)*

No.	Approval body	Subject matter	Status
	1st meeting of the Strategic Development and Investment Committee in 2018	The capital of RMB100 million will be injected to Chemical & Pharmaceutical Technology Company to establish GYBYS Chemical & Pharmaceutical (Zhuhai) Co., Ltd ("Chemical & Pharmaceutical (Zhuhai) Company").	
	11th meeting of the seventh session of the Board	The total amount of the investment to the Zhuhai project is RMB731,879,100.	
	5th meeting of the Strategic Development and Investment Committee in 2019	The capital of RMB100 million will be injected to Chemical & Pharmaceutical Technology Company, a wholly-owned subsidiary of the Company.	
(iv)	5th meeting of the Strategic Development and Investment Committee in 2017	Medical Instrument Investment Company, a subsidiary of the Company, would set up a joint venture jointly with Shanghai Xiecheng Investment Management Co., Ltd. (上海協成投資管理有限公司) and Guangzhou OSMUNDA Medical Device Technology Inc., Ltd. (廣州奧諾達醫療器械技術股份有限公司) to build an operating platform for the medical equipment innovation incubator park, and Medical Instrument Investment Company intends to contribute capital in cash of RMB17 million, accounting for 34% of the equity interest.	Initial capital contribution of RMB3.4 million has been completed.
(v)	1st meeting of the Strategic Development and Investment Committee in 2018	GP Corp., a subsidiary of the Company, acquired Zhuhai A&Z Pharmaceutical Co., Ltd. (珠海安士藥業有限公司) for RMB2.5 million to establish a subsidiary in Zhongshan region.	Completed

Major Events

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS *(Continued)*

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period *(Continued)*

No.	Approval body	Subject matter	Status
(vi)	2nd meeting of the Strategic Development and Investment Committee in 2018	Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, will accept transfer of 33,785 shares in PT Sano Gratia Farma for RMB20.496 million (or equivalent in Indonesian Rupiah) and subscribe for new shares issued by PT Sano Gratia Farma for RMB15 million (or equivalent in Indonesian Rupiah). Upon completion of the transactions, Guangyao Baiyunshan Hong Kong Company will hold 58,510 shares in PT Sano Gratia Farma, accounting for 51% of the paid-up capital.	In progress
(vii)	3rd meeting of the Strategic Development and Investment Committee in 2018	Cai Zhi Lin, a subsidiary of the Company, and Guangzhou Hendon Medical Technology Co., Ltd. (廣州亨頓醫藥科技有限公司) will establish a joint venture Guangzhou Cai Zhi Lin Traditional Chinese Medical Center Co., Ltd. (廣州采芝林國醫館有限公司) with a registered capital of RMB10 million, and Cai Zhi Lin will hold 51% of the equity interest (with an investment of RMB5.1 million).	Completed
(viii)	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested in and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	Relevant works such as the review of the design, the procurement of sewage treatment equipment, and the preparation of environmental assessment report have been carried out.
(ix)	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Cai Zhi Lin established Longxi Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. with 100% equity, which has a registered capital of RMB50.00 million, with initial contribution of RMB28.38 million completed through the additional contribution made by the Company to Cai Zhi Lin.	Completed

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS *(Continued)*

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period *(Continued)*

No.	Approval body	Subject matter	Status
(x)	6th meeting of the Strategic Development and Investment Committee in 2018	WLJ Ya'an Company, a wholly-owned subsidiary of the Company's subsidiary WLJ Great Health, commenced the second phase construction with a total investment of approximately RMB47.00 million	Completed the filing of the investment projects
(xi)	6th meeting of the Strategic Development and Investment Committee in 2018	The Company made an additional contribution of RMB30.00 million to its wholly-owned subsidiary Guangyao General Institute, with the first phase of RMB18.00 million and the second phase of RMB12.00 million.	First phase of capital increase completed.
(xii)	7th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary WLJ Great Health intended to build a production base in Lanzhou, Gansu province, with a total investment of RMB350.00 million.	In progress
		The Company's subsidiary WLJ Great Health established Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd., with a registered capital of RMB50.00 million.	Completed
(xiii)	The 8th meeting of the seventh session of the Board	The Company established Baiyunshan Yi Xin Tang, with a registered capital of RMB300 million which shall be paid in installments, of which, the Company contributed RMB90 million, accounting for 30% of its registered capital.	The second phase of capital contribution completed which amounts to RMB72 million
(xiv)	The 11th meeting of the seventh session of the Board	The Company invested in the establishment of GYBYS Biological Medicine and Health R&D Sales Headquarters project.	Under construction
	6th meeting of the Strategic Development and Investment Committee in 2019	The capital of RMB40.41 million was injected to GYBYS Biological Medicine and Health R&D Sales Headquarters project.	
(xv)	1st meeting of the Strategic Development and Investment Committee in 2019	The Company made an additional contribution of RMB61.65 million to Guangzhou Bai Di.	Completed
		GP Corp.'s subsidiary Hainan Guangyao Chenfei Pharmaceutical Co., Ltd. (海南廣藥晨菲醫藥有限公司) established a wholly-own subsidiary, Hainan Guangyao Chenfei Pharmaceutical Chain Co., Ltd. (海南廣藥晨菲醫藥連鎖有限公司)	Completed

Major Events

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS *(Continued)*

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period *(Continued)*

No.	Approval body	Subject matter	Status
(xvi)	1st meeting of the Strategic Development and Investment Committee in 2019	GP Corp., a holding subsidiary of the Company, acquired Qingyuan Zhiling Medical Technology Co., Ltd. (清遠市智領醫療科技有限公司).	Completed
	4th meeting of the Strategic Development and Investment Committee in 2019	The acquisition project of Qingyuan Zhiling Medical Technology Co., Ltd. (清遠市智領醫療科技有限公司) by GP Corp., a holding subsidiary of the Company has changed.	Completed
(xvii)	2nd meeting of the Strategic Development and Investment Committee in 2019	The Company participated in the subscription of convertible bonds of Yi Xin Tang based on the proportion of its shareholding, and the subscription amount did not exceed RMB44.4748 million.	Completed
(xviii)	3rd meeting of the Strategic Development and Investment Committee in 2019	The Company established a wholly-owned subsidiary, Guangzhou Chuangying GYBYS Intellectual Property Co., Ltd., (廣州創贏廣藥白雲山知識產權有限公司) with a registered capital of RMB10 million.	Completed
		Jingyu Guangyao Dong'e Chinese Medicine Development Co., Ltd. was dissolved.	Completed
		GP Corp., a holding subsidiary of the Company, established a wholly-owned subsidiary, Guangzhou Pharmaceutical Information Technology Co., Ltd., (廣州醫藥信息科技有限公司) with a registered capital of RMB60 million.	Completed
		HWBYS, a joint venture of the Company, established a wholly-owned subsidiary, Guangzhou Wulu Cultural Communication Co., Ltd., (廣州葫蘆文化傳播有限公司) with a registered capital of RMB1 million.	Completed

15. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS *(Continued)*

(1) The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period *(Continued)*

No.	Approval body	Subject matter	Status
(xix)	4th meeting of the Strategic Development and Investment Committee in 2019	Ying Bang pharmacy was closed. Guangyao Baiyunshan Macau Co., Ltd., a subsidiary of the Company, established a wholly-owned subsidiary, Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd., (廣藥國際(珠海橫琴)中醫藥產業有限公司) with a registered capital of RMB100 million. The Company made an additional contribution of RMB19.50 million to a wholly-owned subsidiary, Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司).	Completed Completed Completed
(xx)	6th meeting of the Strategic Development and Investment Committee in 2019	The Company's wholly-owned subsidiary Zhong Yi carried out the 3rd GMP construction improvement project of modernization of TCM production. The Company's wholly-owned subsidiary Cai Zhi Lin implemented the first phase of the project of Gansu Guangyao Baiyunshan Traditional Chinese Medicine Technology Industrial Park.	Construction drawing design is in progress. The project feasibility study has been completed and the formalities are being carried out.

(2) Acquisitions of assets and equity interests by the Group during the Reporting Period are as follow:

Except for those disclosed in "2. Significant changes in the material assets of the Group during the Reporting Period" in the section headed 3 "III. Company's Business Profile" in this annual report, the Group did not engage in any material acquisitions or disposal of assets and equity interests.

Major Events

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(1) During the Reporting Period, the Group did not hold on trust, sub-contract or lease assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits of the Group for the Reporting Period.

(2) Guarantees

Applicable Not applicable

(Unit: RMB'000)

External guarantees of the Company (excluding guarantees to subsidiaries)													
Guarantor	The relationship between the guarantor and the listed company	Secured party	Amount guaranteed	Date of guarantee (date of agreement)	Guarantee commencement date	Guarantee maturity date	Collateral type	Whether the guarantee has been performed and discharged	Whether the guarantee is overdue	Amount of guarantee overdue	Whether counter guarantee is provided	Whether guarantee is for the benefit of related parties	Connected relationship
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total amount of guarantee provided during the Reporting Period (excluding guarantee provided to its subsidiaries)													
Total balance of guarantee at the end of the Reporting Period (A) (excluding guarantee provided to its subsidiaries)													
Guarantee provided by the Group for the benefit of its subsidiaries													
Total amount of guarantee provided for the benefit of subsidiaries during the Reporting Period													
Total balance of guarantee provided for the benefit of subsidiaries at the end of the Reporting Period (B)													
Total amount of the external guarantees of the Company (including guarantees for subsidiaries)													
Total amount of guarantee (A+B)													
The proportion of the total amount of guarantees to the Company's net assets (%)													
Including:													
Amount of guarantee provided for the benefit of shareholders, de facto controller and their related parties (C)													
Amount of guarantee directly or indirectly provided for the benefit of parties with a gearing ratio of over 70% (D)													
Portion of the total amount of guarantee in excess of 50% of net assets (E)													
Aggregated amount of the above three types of guarantee (C+D+E)													
Description of the potential joint and several repayment liability for outstanding guarantee													
Description of guarantee													

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(3) Management of cash assets by entrusting third parties

(i) The Group's entrusted wealth management activities during the Reporting Period

1) Overview of the entrusted wealth management products

Applicable Not applicable

Category	Source of funds	Amount (RMB'000)	Amount not yet matured (RMB'000)	Amount not received after maturity (RMB'000)
Bank wealth management products	Fund of the Group	1,542,000	1,000	–
Bank wealth management products	Proceeds from fund raising	–	–	–

Others

Applicable Not applicable

2) Individual entrusted wealth management products

Applicable Not applicable

Trustee	Type of entrusted wealth management product	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted wealth management	Ending date of entrusted wealth management	Capital source	Usage of funds	Method for determination of returns	Annualized return rate (%)	Estimated returns (RMB) (if any)	Actual gains or losses (RMB'000)	Actual recovery	Legal procedures involved or not	Any entrusted financial plan in the future	Impairment provision
Guangzhou branch of China Everbright Bank Co., Ltd.	Phase 12 of the customized structured deposit 333 products for corporate in 2018	600,000	25 December 2018	20 June 2019	Fund raising	/	Fixed income type	4.15	11,940	600,000	Recovered	Yes	No	0
Guangzhou Branch of Shanghai Pudong Development Bank	Phase 18JG2728 of Liduoduo RMB structured deposit products for corporate issued by Shanghai Pudong Development Bank	500,000	25 December 2018	20 June 2019	Fund raising	Inter-bank bills, treasury bonds, corporate bonds, short-term notes, medium-term notes, inter-bank lending, etc.	Fixed income type	.15	9,950	500,000	Recovered	Yes	No	0
Guangzhou Branch of China Citic Bank	Phase 23416 of RMB structured deposit product with win-win interest rate structure	200,000	24 December 2018	19 June 2019	Fund raising	3-Month USD LIBOR	Float income type	4.10	3,980	200,000	Recovered	Yes	No	0

Note: The above table only shows those wealth management products with individual amount accounting for 10% or above of the total amount.

Others

Applicable Not applicable

Major Events

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE *(Continued)*

(3) Management of cash assets by entrusting third parties *(Continued)*

(i) The Group's entrusted wealth management activities during the Reporting Period *(Continued)*

3) *Provision for impairment of entrusted loans*

Applicable Not applicable

(ii) The Company's entrusted loans

1) *Overview of the entrusted loans*

Applicable Not applicable

Category	Source of funds	Amount (RMB'000)	Amount not yet matural (RMB'000)	Amount not received after maturity (RMB'000)
Bank entrusted loan	Funds of the Group	119,373	106,723	0

Note: The Group does not have the situation of external loan.

Others

Applicable Not applicable

2) *One-off entrusted loans*

Applicable Not applicable

Others

Applicable Not applicable

3) *Provision for impairment of entrusted wealth management products*

Applicable Not applicable

(iii) Others

Applicable Not applicable

(iv) Others material contracts

Applicable Not applicable

Major Events

17. AS AT THE END OF THE REPORTING PERIOD, THE EXPENSES ON CONSTRUCTION AND EQUIPMENT IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE WERE RMB3,631,475,000 AND THE RENTAL EXPENSES IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE WERE RMB760,856,000.
18. ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE COMPANY DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSETS RATIO, CONSIDERATION RATIO, PROFITS RATIO AND REVENUE RATIO EXCEEDED 5% DURING THE REPORTING PERIOD.
19. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, TO THE EXTENT THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS.

Upon the receipt of The Replay for Approving on the Non-public Offering of shares by Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (Zhengjianxuke [2016] No. 826) from the CSRC, the Company, through the non-public offering, issued 334,711,699 A shares, with the total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 (after deducting all relevant expenses) raised. For details, please refer to the circular of the Company dated 26 February 2015 and the announcement of the Company dated 18 August 2016 on the websites of the SSE and the HKEx.

The Company used the proceeds of RMB1,602,881,900 in 2019. As at 31 December 2019, the aggregate proceeds invested amounted to RMB4,699,526,300, and the aggregate proceeds invested (after the deduction of bank charges and addition of accrued interest income) amounted to RMB3,551,220,900. The details are as follows:

No.	Name of projects	Proposed investment amount (RMB'0000)	Amount invested as at 31 December 2019 (RMB'0000)	Difference between the accumulated amount invested and the total amount committed for investment as at the end of the Year (RMB'0000)	Date of the projects becoming ready for intended use
1	The construction project of the Great Southern TCM research and development platform	150,000.00	16,928.70	(133,071.30)	31 December 2022 (note a)
2	The construction project of the Great Southern TCM production base (phase 1)	100,000.00	8,924.05	(91,075.95)	31 January 2021 (note b)
3	The project for acquiring the "Wang Lao Ji" series trademarks held by GPLH (the controlling shareholder of the Company)	108,000.00	108,000.00	0	Change in the intended use (note c)
4	The project for establishment of channels and brands	200,000.00	115,308.98	(84,691.02)	N/A
5	The project for establishment of information platform	12,000.00	2,285.70	(9,714.30)	31 December 2020 (note b)
6	Replenishment of liquidity	216,344.65	218,505.20 (including the use of deposits interest)	2,160.55	N/A
	Total	786,344.65	469,952.63	(316,392.02)	-

Major Events

19. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, TO THE EXTENT THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS. (Continued)

Notes:

- a. The Company convened the 29th meeting of the seventh session of the Board and the 20th meeting of the seventh session of the Supervisory Committee on 11 December 2019 and passed the resolution on the postponement part of the raising fund investment projects. Due to the slow progress of the construction project of the Great Southern TCM research and development base, the Company proposed to postpone the implementation date of the construction project of the Great Southern TCM research and development base and the project for to 31 December 2022. For details, please refer to the announcement of the Company dated 11 December 2019 on the websites of SSE and HKEx.
- b. The Company convened the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the Supervisory Committee on 27 December 2018. The proposals in relation to the postponement of certain fundraising investment projects were approved. Due to the slow progress of the construction project of the Great Southern TCM production base (phase 1) and the project for establishment of the information platform, the Company proposed to postpone the implementation date of the construction project of the Great Southern TCM production base (phase 1) and the project for establishment of that information platform to 31 January 2021 and 31 December 2020, respectively. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018 and 4 January 2019 on the websites of the SSE and the HKEx.
- c. Taking into account the development trend of extending modern medical logistics services, changing industry landscape, changes in the equity interest in GP Corp., the availability of the balance of proceeds for the project for establishment of the information platform, the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the Supervisory Committee were held on 27 December 2018. The proposals in relation to the change in use of proceeds from the fundraising of the Company were approved at the first EGM in 2019 held on 28 March 2019. 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 for the project for the establishment of the information platform respectively to the acquisition of the “Wang Lao Ji” series trademarks held by GPL, the controlling shareholder of the Company. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018, 4 January 2019 and 28 March 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEx.

Save for the above, as at 31 December 2019, the use of the proceeds through the non-public offering of A shares above was in line with the intended use of the proceeds as disclosed previously.

In addition, pursuant to the requirements of the Supervisory Guidelines No. 2 for Listed Companies – Supervisory Requirements for Management and Use of Proceeds of Listed Companies (Announcement of CSRC [2012] No.44) issued by the CSRC and the Measures for the Management of Proceeds of Listed Companies on the Shanghai Stock Exchange (revised in 2013) (Shang Zheng Gong Zi [2013] No.13) and other relevant guidelines, the Company made a special report on the deposit and actual use of the proceeds in 2019 (the full text of which had been uploaded to the website of the SSE).

20. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT FOR OTHERS.

21. EXPLANATORY NOTES ON OTHER MAJOR EVENTS

✓Applicable □Not applicable

- (i) According to the overall strategic layout of the Company and in light of the business development needs of GP Corp. and in order to further broaden the Company's overseas financing channels and accelerate the implementation of the Company's internationalization strategy, the Company held the 26th meeting of the seventh session of the Board on 10 September 2019, at which the Resolution in Relation to Authorizing the Management of the Company to Initiate the Relevant Preparatory Works for the Spin-off and Overseas Listing of a Subsidiary on The Stock Exchange of Hong Kong Limited was considered and approved. The Board authorized the management of the Company to initiate the preliminary preparation works for the spin-off and overseas listing of GP Corp. on the HKEx. For details, please refer to the announcement of the Company dated 10 September 2019 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx, respectively. Currently, the preliminary preparation works for the spin-off and overseas listing are advancing in an orderly manner.
- (ii) The Company held the 26th meeting of the seventh session of the Board on 10 September 2019, at which the Resolution on Approving GP Corp., a subsidiary of the Company, to Conduct Asset-backed Securitization was considered and approved, and it agreed GP Corp. to conduct asset-backed securitization of account receivables and approved Industrial Securities Asset Management Co., Ltd. (the "Industrial Securities Asset Management") to establish the "Accounts Receivable Asset-backed Special Scheme". The above-mentioned resolution was considered and approved at the second extraordinary general meeting in 2019 held by the Company on 12 November 2019. For details, please refer to the announcement of the Company dated 10 September 2019 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx, respectively.

On 26 November 2019, the Company obtained the Letter of No Objection on the Listing and Transfer of Asset-backed securities of the Industry Yuanrong – Accounts Receivable 1-5 Phases of GP Corp. Asset-backed Special Scheme (Shang Zheng Han [2019] No. 2125) forwarded by Industrial Securities Asset Management from the SSE. On 27 November 2019, the Company disclosed the Announcement on Receipt of the Letter of No Objection of the Shanghai Stock Exchange on the Listing and Transfer of Asset-backed securities of the Subsidiary's Asset-backed Special Scheme (Announcement No. Lin 2019-097).

On 10 December 2019, the effective participated amount of the Industry Yuanrong-Accounts Receivable Phases 1 of GP Corp. Asset-backed Special Scheme ("Special Scheme") was RMB1.0 billion. The above funds have been fully transferred to the special escrow account opened by the custodian of the Special Scheme on 10 December, 2019 and verified by Deloitte Touche Tohmatsu CPA (Special General Partnership) (德勤會計師事務所(特殊普通合伙)) (Verified Report-De Shi Bao(Yan) Zi (19) No.00591). The Special Scheme has reached the proposed fund scale and satisfied the establishment conditions, thus it was established on 11 December 2019. For details, please refer to the announcement of the Company dated 11 December 2019 published on Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

As at 31 December 2019, the accumulative asset sale scale of GP Corp. receivables assets securitization was amount to RMB 1.889 billion.

21. EXPLANATORY NOTES ON OTHER MAJOR EVENTS *(Continued)*

- (iii) The 18th meeting of the seventh session of the Board of the Company and the 2019 first extraordinary general meeting of the Company were held on 27 December 2018 and 28 March 2019, respectively, at which the resolution regarding the proposal on purchasing trademarks in cash and the relevant agreements and connected transactions was considered and approved. The Company intended to pay the consideration of RMB1,389,122,631 (exclusive of VAT) for the transfer of 420 Wang Lao Ji series exclusive rights of trademarks (including some trademarks still pending registration) held by GPLH, the controlling shareholder to the Company.

On 30 April 2019, the Company entered into the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH. Since there were two defensive trademarks the registration application of which were declined before the issue date of the above Confirmation, according to the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited, the corresponding assessed value of the above 2 trademarks was deducted from the transaction price, which resulted in a transaction price of RMB1,389,119,631 (excluding the value-added tax). The involving assets in the referred transaction had been delivered in accordance with the Agreements, and the Company had paid the transaction price to GPLH with one single full payment, and had obtained the underlying assets in accordance with laws. For details, please refer to the Announcement on the Completion of Transfer of the “Wang Lao Ji” Series Trademark Assets by Guangzhou Pharmaceutical Holdings Limited to Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Announcement No.: Lin 2019-033).

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES

(1) Needy alleviation efforts of listed companies

Applicable Not applicable

(i) Plan of targeted approach to aid the needy

Applicable Not applicable

Xing Qun, Guang Hua and Cai Zhi Lin established poverty alleviation partnership with the three poverty-stricken villages, namely Jingkou, Wanxi and Yuanling, continued to follow the general concept of poverty alleviation of “targeted, early and distinct”, and strived to achieve the fundamental targeted poverty alleviation objective of “they no longer need to worry about food and clothes, compulsory education, basic medical services and residential safety are guaranteed” in accordance with the guideline of “targeted approach to aid the needy towards each village and household with the industry driving the whole village forward”.

(ii) Outline of targeted approach to aid the needy in 2019

Applicable Not applicable

1) *Industrial poverty alleviation*

The Company kept investing more in helping underprivileged families to increase production and income. In Meizhou, Guangdong, we realized industrial aid to underprivileged families with working capability by relying on local mature flue-cured tobacco and pomelo industry. The underprivileged families participate in flue-cured tobacco, pomelo and culturing projects, and 54 of them have signed production-supply-sales contract with business entities. The industrial aid increased the annual per-capital income of underprivileged families by RMB6,000.

2) *Poverty alleviation through employment*

The Company kept improving the implementation of poverty alleviation through employment. This year, we organized 129 people with working capability from underprivileged families in the three designated poor villages who are engaged in agriculture at home to participate in our technical training on planting management, helping them to further master or improve relevant planting technology, so as to enhance their working skills. Besides, we helped the surplus labor of underprivileged families to transfer employment. The cumulative number of poor people accepting employment training is 199, of which 72 were employed.

3) *Poverty alleviation through education*

The Company carried out education aid activities proactively and implemented education aid. We have assisted poor students to apply for education and living cost subsidy of targeted poverty alleviation project, and organized a series of education aid activities to help poor students go back to school and relieve the education burden of underprivileged families.

Major Events

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(1) Needy alleviation efforts of listed companies (Continued)

(iii) Achievement of the Targeted Poverty Alleviation

✓Applicable □Not applicable

In 2019, the Company kept pushing forward with targeted poverty alleviation work and fulfilled its responsibilities for poverty aid actively by investing about RMB1.70 million , helping 27 villagers in three villages to escape poverty, and was awarded “Outstanding Contribution Award for Poverty Alleviation and Village Revitalization of Mei County District, Meizhou City”.

(RMB'0000)

Index	Number and implementation information of GYBYS
1. General information	
Including: 1. Fund	164.55
2. Materials trade	3.51
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	27
2. Itemized input	
(1) Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through assets income <input type="checkbox"/> Poverty alleviation through science and technology <input checked="" type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	12
1.3 Amount invested in industrial poverty alleviation projects	14.34
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	10
(2) Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0
2.2 Number of people received vocational training (Persons/Time)	199
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	72
(3) Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(1) Needy alleviation efforts of listed companies *(Continued)*

(iii) Achievement of the Targeted Poverty Alleviation *(Continued)*

Index	Number and implementation information of GYBYS
(4) Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	3.99
4.2 Number of students received allowance (Persons)	57
4.3 Amount invested in improvement of education resources in poverty area	0
(5) Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poverty area	0
(6) Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0
(7) Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the three left-behind groups	0.90
7.2 Number of people of the three left-behind groups helped (Persons)	5
7.3 Amount invested in helping poor people with disabilities	2.6
7.4 Number of poor people with disabilities helped (Persons)	5
(8) Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the east and west parts of the country	0.00
8.2 Amount invested in fixed-point poverty alleviation work	0.00
8.3 Poverty alleviation fund	0.00
(9) Other projects	
Including: 9.1 Number of projects (Project)	30
9.2 Amount invested	146.23
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	17
9.4 Details of other projects	-
3. Awards (details and levels)	Outstanding Contribution Award for Poverty Alleviation and Village Revitalization of Mei County District, Meizhou City

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(1) **Needy alleviation efforts of listed companies** *(Continued)*

(iv) Follow-up alleviation plan

Applicable Not applicable

2020 is the decisive year for poverty alleviation. We will keep taking advantage of the strength of transferring employment of our Guangdong Meizhou base and promoting the development of industrial poverty alleviation in other regions. Besides, we will combine poverty alleviation, will support and intelligence support to carry out education support activities such as education aid, and further implement project last fort of poverty alleviation and difficulty tackling of whole villages, breaking down the benefiting the people.

(2) **Work on social responsibilities**

Applicable Not applicable

The Company prepared the Social Responsibilities Report of 2019 (full version is available on the website of the SSE and the HKEx) in accordance with the requirements of the "Notice on preparation of the 2019 Annual Report in an orderly manner by Listed Companies" issued by the SSE.

The Company has complied with the rules of Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and prepared the 2019 Social Responsibilities Report (environmental quality, professional health and safety, environmental protection and social participation, which was published on the websites of the SSE and the HKEx on the same day on which the annual report was published.

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(3) Environmental information Status

- (i) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority

✓Applicable □Not applicable

1) Drainage information

✓Applicable □Not applicable

Chemical Pharmaceutical Factory, a branch of the Company, and WLJ Ya' An and Weiling, all being the subsidiaries of the Company, were among the key pollutants discharging units. The key items of waste emissions being monitored are exhaust gas and wastewater.

Company name	Names of major pollutants and characteristic pollutants	Emission mode	Number of emission ports	Distribution of emission ports	Annual average emission concentration (mg/m ³)	Implementation of pollutant emission standards (mg/m ³)	Total annual emissions (ton)	Approved total emissions (ton)	Excessive emissions
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	7.5	"Integrated emission standard of air pollutants", ≤50	0.16	2.16	None
	Nitrogen oxides	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	97.39	"Integrated emission standard of air pollutants", ≤200	2.19	8.62	None
	Particulate matter (smoke dust)	Interval	5	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	0.98	"Integrated emission standard of air pollutants", ≤30	0.14	17.78	None
	Total VOCs	Interval	5	No. 78 Tongbao Road, Tonghe Street, Guag Province, the PRC	7.86	"Integrated emission standard of air pollutants", ≤120	5.09	15.56	None
WLJ Ya' An	COD	Discharge after treatment	1	No.1 Deguang Road, Ya'an Economic Development Zone, Sichuan Province	52.85	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.65	5.86	None
Weiling	COD	Discharge after treatment	1	No. 36, Huancheng East Road, Heshan Community, Hepo Street, Jiexi County, Guangdong Province	71.75	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.20	4.50	None

Note: COD refers to Chemical Oxygen Demand, VOCs refers to volatile organic compounds.

Major Events

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(3) Environmental information Status (Continued)

(i) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority (Continued)

2) Construction and operation of pollution prevention and control facilities

✓Applicable □Not applicable

Chemical Pharmaceutical Factory, WLJ Ya' An and Weiling had, through various pollution preventive facilities and measures, to ensure that the emission of exhaust gas did not exceed the permitted limit and strictly observed the relevant requirements under the "Integrated Emission Standard for Air Pollutants" and "Integrated Wastewater Discharge Standard (III-class criteria)". Details of the pollution preventive facilities and measures undertaken by Chemical Pharmaceutical Factory, WLJ Ya' An and Weiling and their implementations (exhaust gas) are as follows:

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedure	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	Sewage treatment facility tail gas treatment system DA008(6#)	2018.02.01	Odor, VOCs	Washing+biofilter	3,895
	202 production exhaust gas treatment facility DA010 (7#)	2007.10.01	Particulate matter, VOCs	Bag-type dust collecting+ lye spray+ activated carbon adsorption	3,672
	205 cephalosporin sterile APIs production exhaust gas treatment facility DA004(5#)	2009.06.01	VOCs	Condensation+absorber recovery	360
	203 oral APIs production exhaust gas treatment facility DA003(9#)	2014.10.01	VOCs, sulfuric acid mist	Condensation+lye spray	714
	205 oral cephalosporin APIs production acidic organic gas treatment facility DA001 (11#)	2016.01.20	VOCs, Hydrochloride	Lye spray+ photo catalytic oxidation	2,579
	205 oral cephalosporin APIs production dust and exhaust gas treatment facility DA002 (10#)	2016.01.20	Particulate matter	Cellulose filter cylinder filtration	5,350
	203 oral raw medicine production dust and exhaust gas treatment facility DA009 (8#)	2014.10.01	Particulate matter	Cellulose filter cylinder filtration	4,870
	205 cephalosporin sterile raw medicine production dust treatment facility DA007(2#)	2009.06.01	Particulate matter	Cellulose filter cylinder filtration	7,205
	VOCs treatment system (dichloromethane; acetone and ethanol treatment)	2018.11.22	VOC	Dichloromethane: water spray + L2 T-HPs resin adsorption method Acetone and ethanol: closed absorption through water circulation + water spray + biosorption	300; 2200
	WLJ Ya' An	Sewage Treatment Station	2015.09.01	COD, ammonia nitrogen	AO Process
Weiling	Sewage Treatment Station	2016.06.07	COD, ammonia nitrogen	AO Process	40

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(3) Environmental information Status *(Continued)*

(i) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority *(Continued)*

3) *Environmental impact assessment of construction projects and other administrative licenses for environmental protection*

Applicable Not applicable

The designing, construction and trial run of plants, new projects and reconstruction and expansion projects of each key sewage-discharging entity of the Company went through the environmental impact assessment and the environmental protection completion inspection in strict compliance with relevant laws and regulations.

During the Reporting Period, the environmental protection facilities were running smoothly, ensuring the legal discharge of water, air and sound and standardized management of hazardous waste. There was no newly-commenced project in the Reporting Period..

4) *Environmental emergency response plan*

Applicable Not applicable

Each key sewage-discharging entity of the Company prepared the “Environmental Emergency Response Plan” according to standard specifications and organized drills of the environmental emergency response and rescue plan on its own.

5) *Environmental self-monitoring program*

Applicable Not applicable

Each key sewage-discharging entity of the Company prepared the “Environmental Self-monitoring Program” and strictly conducted daily monitoring according to the self-monitoring program and disclosed information to the public. Meanwhile, such entities entered into an “Environmental Monitoring Technology and Service Contract” with a qualified third-party monitoring authority having relevant qualifications whereby such authority is entrusted to conduct a third-party test of the sewage, exhaust gas and noise discharged by each plant in accordance with environmental protection and administration requirements and provide the testing report.

6) *Other environmental information that should be disclosed to the public*

Applicable Not applicable

Major Events

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(3) Environmental information Status *(Continued)*

- (ii) Descriptions of environmental protection status of companies other than the key pollutant-discharging units

Applicable Not applicable

Other than the companies named above which are key pollutant-discharging units, all the other subsidiaries of the Company are low-energy consumption and low-emission enterprises, and most of them are provincial and municipal clean production units as well as national, provincial and municipal green enterprises. They have strictly complied with national, provincial and municipal laws and regulations related to environmental protection, and have not discharged pollutants in excess of the relevant limits.

- (iii) Explanation of undisclosed environmental information of companies other than the key pollutant-discharging units

Applicable Not applicable

- (iv) Description of subsequent status on or changes in environmental information disclosed in the Reporting Period

Applicable Not applicable

(4) Other Description

Applicable Not applicable

23. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY CONVERTIBLE BONDS.

Changes in Share Capital and Shareholders

1. CHANGES IN SHARE CAPITAL

(1) Changes in share capital

(i) Changes in share capital

During the Reporting Period, the Company did not have any change in share capital.

(ii) Explanation of change in shares capital

Applicable Not applicable

(iii) Impact of changes in ordinary shares on financial indicators such as earnings per share and net assets per share in the most recent year and period (if any)

Applicable Not applicable

(iv) Other disclosures the Company deems necessary or required by securities regulators

Applicable Not applicable

Changes in Share Capital and Shareholders

1. CHANGES IN SHARE CAPITAL (Continued)

(2) Changes in restricted shares

✓Applicable □Not applicable

On 18 April 2016, the CSRC issued the Reply for Approving the Non-public Offering of Shares by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Zheng Jian Xu Ke [2016] No.826), approving the Company's non-public offering of not more than 352,292,000 shares of Renminbi-denominated ordinary shares (A shares).

The five target investors of this non-public offering were GPHL, GZ SOA Development, GZ Chengfa, Yunfeng Investment and Placement Prosperous Age Exclusive Account No.66, which subscribed for a total of 334,711,699 shares (A shares) in cash. The registration and custody procedures for the newly-issued shares had been completed on 17 August 2016 at the Depository Corporation. The newly-issued shares are shares subject to selling restrictions with a lock-up period of 36 months, and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

On 19 August 2019, the abovementioned shares with selling restrictions were floated on the market. As at the end of the Reporting Period, the Company had no shares with selling restrictions and 1,625,790,949 shares without selling restrictions.

Shareholder's name	The number of shares with selling restrictions at the beginning of the Year (share)	Number of shares with selling restrictions removed the year (share)	The number of shares with selling restrictions increased the Year (share)	The number of shares with selling restrictions as at the end of the Year (share)	The reason for selling restrictions	The date of removal of the selling restrictions
GPHL	148,338,467	148,338,467	0	0	The non-public offering with a lock-up period of 36 months	19 August 2019
GZ SOA Development	87,976,539	87,976,539	0	0	The non-public offering with a lock-up period of 36 months	19 August 2019
GZ Chengfa	73,313,783	73,313,783	0	0	The non-public offering with a lock-up period of 36 months	19 August 2019
Yunfeng Investment	21,222,410	21,222,410	0	0	The non-public offering with a lock-up period of 36 months	19 August 2019
Placement Prosperous Age Exclusive Account No.66	3,860,500	3,860,500	0	0	The non-public offering with a lock-up period of 36 months	19 August 2019
Total	334,711,699	334,711,699	0	0 /		/

Changes in Share Capital and Shareholders

2. SECURITIES ISSUANCE AND LISTING

(1) Securities issuance during the Reporting Period

Applicable Not applicable

Notes on the securities issuance during the Reporting Period (for bonds with different interest rates within the duration, please specify respectively)

Applicable Not applicable

(2) Changes in the total number of ordinary shares and the structure of shareholders and the structure of assets and liabilities of the Company

Applicable Not applicable

(3) Existing employee stocks

Applicable Not applicable

3. INFORMATION ON SHAREHOLDERS AND ACTUAL CONTROLLER

(1) Number of shareholders as at the end of the Reporting Period

As at 31 December 2019, there were 84,136 shareholders in total, of which 84,107 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 29 were holders of overseas listed shares (H shares).

As at 28 February 2020, there were 104,913 shareholders in total, of which 104,885 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 28 were holders of overseas listed shares (H shares).

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS AND ACTUAL CONTROLLER *(Continued)*

(2) As at 31 December 2019, the top ten shareholders of the Company are set out as follows

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Nature of shareholder
GPHL	0	732,305,103	45.04	0	0	State-owned legal person
HKSCC Nominees Limited	(32,020)	219,707,389	13.51	0	0	Others
GZ SOA Development	(6,687,039)	81,289,500	5.00 (note)	0	0	State-owned legal person
GZ Chengfa	0	73,313,783	4.51	0	0	Other
China Securities Finance Corporation Limited	0	47,278,008	2.91	0	0	Other
HKSCC	10,180,134	20,352,743	1.25	0	0	Other
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Other
Yunfeng Investment	(10,607,551)	10,614,859	0.65	0	0	Other
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	0	8,795,136	0.54	0	0	Other
Zhongou AMC – Agricultural Bank – Zhongou China Securities Financial Asset Management Plan	0	8,680,636	0.53	0	0	Other

Note : As at 31 December 2019, SZ SOA Development held 81,289,500 shares of the Company, accounting for 4.9999971% of the total issued share capital and it is no longer a shareholder holding over 5% of the share capital of the Company.

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS AND ACTUAL CONTROLLER (Continued)

(2) As at 31 December 2019, the top ten shareholders of the Company are set out as follows (Continued)

The top ten shareholders of the Company not subject to selling restrictions

Shareholders	Number of shares without selling restrictions (share)	Class of shares	The number of shares (share)
GPHL	732,305,103	Domestic shares	732,305,103
HKSCC Nominees Limited	219,707,389	H shares	219,707,389
GZ SOA Development	81,289,500	Domestic shares	81,289,500
GZ Chengfa	73,313,783	Domestic shares	73,313,783
China Securities Finance Corporation Limited	47,278,008	Domestic shares	47,278,008
HKSCC	20,352,743	Domestic shares	20,352,743
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
Yunfeng Investment	10,614,859	Domestic shares	10,614,859
China AMC – Agricultural Bank – Huaxia	8,795,136	Domestic shares	8,795,136
China Securities Financial Asset Management Plan			
Zhongou AMC – Agricultural Bank – Zhongou China Securities Financial Asset Management Plan	8,680,636	Domestic shares	8,680,636

Explanation on the connection or persons acting in concert among the above shareholders:

- (A) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (B) The Company was not aware of any connection among the above top ten shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Changes in Shareholders’ Shareholding in Listed Companies”.

Preferred shareholders with their voting rights restored and the number of shares they hold

No

The number of shares held by the top ten shareholders subject to disposal restrictions and the disposal restrictions

Applicable Not applicable

(3) Strategic investors or general legal persons who become the top 10 shareholders due to the placement of new shares

Applicable Not applicable

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS AND ACTUAL CONTROLLER (Continued)

(4) Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2019, the interests and short positions held by the persons (not being the Directors, Supervisors or senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and to be recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares held (share)	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
			Capacity			
GPHL	Domestic shares	732,305,103	Beneficial owner		52.09	–
GZ SOA Development	Domestic shares	81,289,500	Beneficial owner		5.78	–
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner		5.21	–
Norges Bank	H shares	31,078,000	Beneficial owner		–	14.13
Citigroup Inc. (note 1)	H shares	1,418 (long position)	Interests of corporation controlled by you		–	0.0006
		24,224,184 (long position)	Approved lending agent			11.01

Note: 1. According to the notice of substantial corporate shareholders filed by the Citigroup Inc.:

- Interests in long position of 1,418 foreign shares in the Company were held by Citigroup Global Markets Limited, which was owned as to 100% by Citigroup Global Markets Holdings Bahamas Limited. Citigroup Global Markets Holdings Bahamas Limited was owned as to 90% by Citigroup Financial Products Inc. Citigroup Financial Products Inc. was wholly-owned by Citigroup Global Markets Holdings Inc. Citigroup Global Markets Holdings Inc. was wholly-owned by Citigroup Inc. As such, Citigroup Inc. was deemed to be interested in the shares held by Citigroup Global Markets Limited under the SFO.
- Citigroup Inc. and Morges Bank increased their foreign shareholding in the Company after the Reporting Period, respectively. On 19 March 2020, Citigroup Inc. (through its controlled Cooperation) held Interests in long position of 44,000 foreign shares and interests in short position of 45,111 foreign shares. It also held interests in long position of 21,943,894 foreign shares in the Company in the capacity as an approved lending agent. On 23 January 2020, Morges Bank held interests in long position of 34,312,000 foreign shares in the Company.

As far as the Directors are aware, as at 31 December 2019, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and to be recorded in the register required to be maintained by the Company under Section 336 of the SFO.

Changes in Share Capital and Shareholders

4. INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS BENEFICIAL OWNER

(1) Controlling shareholder

(i) Legal person

Applicable Not applicable

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Business scope	To invest in and manage State-owned assets, to sell and manufacture pharmaceutical intermediates, Chinese and Western medicine, Chinese raw medicine, bio-tech products, medical apparatus, pharmaceutical equipment, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Shareholding information of other domestic and overseas listed companies during the Reporting Period	N/A

(ii) Natural person

Applicable Not applicable

(iii) Special note that there is no controlling shareholder in the Company

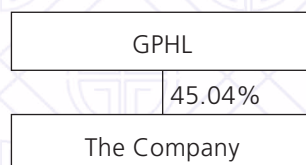
Applicable Not applicable

(iv) Index and date of change of controlling shareholder during the Reporting Period

Applicable Not applicable

(v) A block diagram of the beneficial interest and controlling relationship between the Company and the controlling shareholder

Applicable Not applicable



Changes in Share Capital and Shareholders

4. INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS BENEFICIAL OWNER (Continued)

(2) Beneficial owner(s)

(i) Legal person

Applicable Not applicable

As of the end of the Reporting Period, the controlling shareholder of the Company was GPLH, and the actual controller was Guangzhou SASAC.

(ii) Natural person

Applicable Not applicable

(iii) Special note that there is no actual controller in the Company

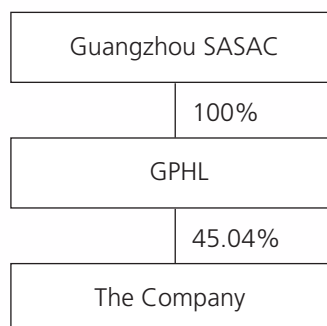
Applicable Not applicable

(iv) Index and date of change of actual controller during the Reporting Period

Applicable Not applicable

(v) A block diagram of the beneficial interests and controlling relationship between the Company and the actual controller

Applicable Not applicable



(vi) The actual controller controls the Company through trust or other asset management methods

Applicable Not applicable

(3) Other information of the controlling shareholder and actual controller

Applicable Not applicable

Changes in Share Capital and Shareholders

5. OTHER SHAREHOLDERS HOLDING 10% OR MORE OF THE COMPANY'S TOTAL ISSUED SHARES

As at the end of the Reporting Period and saved as disclosed above, the Company had no other shareholders holding 10% or more of the Company's total issued shares.

6. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES HAD REPURCHASED, SOLD OR REDEEMED ANY OF THE COMPANY'S SHARES DURING THE REPORTING PERIOD

7. DURING THE REPORTING PERIOD, THERE WAS NO CHANGE IN THE CONTROLLING SHAREHOLDER OF THE COMPANY

8. PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company maintained sufficient public float as at the latest practicable date prior to the issue of this annual report.

9. PRE-EMPTIVE RIGHTS

According to the Articles of Association and the laws of the PRC, there is no pre-emptive right which would oblige the Company to issue new shares to existing shareholders on a pro-rata basis.

10. DESCRIPTION ON RESTRICTIONS ON SHARES

Applicable Not applicable

For relevant contents, please refer to the "The number of shares held by the top ten shareholders subject to disposal restrictions and the disposal restrictions" under "3. Information on Shareholders and actual controller" in this section for details.

Relevant Information on Preferred Shares

DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY PREFERRED SHARES.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Existing Directors, Supervisors and senior management

(i) Profile of executive directors, supervisors and senior management

Mr. Li Chuyuan, aged 55, completed postgraduate education and holds an EMBA degree and is a senior economist as well as a senior engineer of professor grade. Mr. Li is entitled to the special allowances granted by the State Council. He received the “National Model Workers Award”, was selected for the “List of Chinese Good Fellows (中國好人榜)”, and was awarded the “Top Ten Economic Figures of China”, the person of “China Double Embrace”, “Guangdong Top 10 Innovative Persons”, “Guangdong Top 10 Most Influential Persons in Economy” and “Guangzhou Top 10 Outstanding Youth”. He is a member of Guangzhou Municipal People’s Congress, the representative of Guangzhou Communist Party, Guangzhou Outstanding Management Expert, the deputy officer of the Science and Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference and a member of the Guangdong Provincial People’s Congress. Since Mr. Li began his career in July 1988, Mr. Li had successively served as the Deputy Director of operation department of Baiyunshan General Factory, Deputy General Manager, Deputy Secretary of the Communist Party and Chairperson of Baiyunshan, director and Secretary of the Communist Party of Guangzhou Baiyunshan Chinese Medicine Factory, the General Manager, Vice Chairperson and Secretary of the Communist Party of HWBYS, General Manager, Vice Chairperson, Deputy Secretary of the Communist Party of GPHL, the Vice Chairperson of the Company and the Vice Chairperson of the GP Corp. Mr. Li has served as the Chairperson of the Company since 8 August 2013, and now is the Secretary of the Communist Party and Chairperson of GPHL, Secretary of the Communist Party and Chairperson of the Company and Secretary of the Communist Party and Vice Chairperson of HWBYS. Mr. Li has extensive experience in the fields of corporate management and marketing.

Ms. Cheng Ning, aged 54, completed tertiary education and is an accountant. Ms. Chen possesses several professional qualifications, including PRC certified public accountant and, PRC certified tax consultant. Ms. Cheng began her career in August 1986 and had been an officer of the finance department of Baiyunshan General Factory, the deputy head of the finance department of Guangzhou Baiyunshan Bao De Pharmaceutical Factory* (廣州白雲山寶得藥廠), the head of the finance department of Guangzhou Baiyunshan Veterinary Medicine Factory* (廣州白雲山獸藥廠), the head of the settlements division of the operations department, head of the accounts and payments division of the settlements centre, deputy head of the finance department and a member and secretary of the supervisory committee of Baiyunshan, the acting manager and manager of the financial resources department and the head of the finance department of Guangzhou Baiyunshan Enterprise Group Co., Ltd.* (廣州白雲山企業集團有限公司), the deputy head and the head of the finance department of GPHL, a director of each of Zhong Yi, Cai Zhi Lin, Qi Xing, Guangxi Yingkang, WLJ Investment, Wang Lao Ji Catering and GP Corp. and the chairperson of the supervisory committee of WLJ Great Health. Ms. Cheng has been a Director since 19 September 2012 the vice chairperson of the Company since 3 June 2019, and is also currently the standing deputy general manager, the financial controller and a member of the party committee of GPHL, the convenor of the board of directors of Guangyao Baiyunshan Hong Kong Company and a director of Guangyao Group (Macau) International Development Industry Co., Ltd. Ms. Cheng has extensive experience in finance management and internal control management.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(i) Profile of executive directors *(Continued)*

Mr. Yang Jun, aged 50, holds a master degree in business administration and is an economist title. Mr. Yang began his career in July 1992 and served successively as secretary of the board of directors, director, deputy secretary of the party committee, secretary of the discipline inspection commission and convenor of the board of supervisors of Baiyunshan; secretary of the party Committee and director of Jing Xiu Tang; deputy secretary of the party committee and standing deputy general manager of Guangzhou International Group Co., Ltd; chairperson of Guangzhou Rubber Enterprises Group Co., Ltd; deputy secretary of the party committee, standing deputy general manager, trade union chairperson, staff director of Vanlead; deputy secretary of the party committee and director of Guangzhou Public Transport; secretary of the party committee of Guangzhou 1st Bus Co., Ltd. Mr. Yang is currently the deputy secretary of the party committee, vice chairperson, general manager of GPHL, and the chairperson of Guangyao Group (Macau) International Development Industry Co., Ltd. Mr. Yang has rich experience in party construction and innovation and enterprise management.

Ms. Liu Juyan, aged 55, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer of professor grade. She is also an expert who enjoys special allowances from the State Council. Ms. Liu was awarded the “March 8th Flag Bearer” of China and is a member of the Guangzhou Provincial People’s Progress. She was an “Outstanding City Management Expert” of Guangzhou and also was a Guangzhou “121” reserved talent. Ms. Liu began her career in July 1990 and had been the chairperson and general manager of Guangzhou Han Fang, the head of the technology and quality department of GPHL, the chairperson of Yi Gan, the chairperson of the Guangyao General Institute and the chairperson of Nuo Cheng. Since August 2005, Ms. Liu has been the chief engineer of GPHL and the chief technical officer of the Company. Since January 2011, she has been the deputy general manager of GPHL. Ms. Liu has been the vice chairperson of Nuo Cheng since April 2017 and has been a director of the Company since December 2013. Ms. Liu has extensive experience in scientific research and development, technological research and quality management.

Mr. Li Hong, aged 53, holds a bachelor degree and a MBA degree. Mr. Li also holds the titles of engineer and senior political work engineer and possesses the qualification of practising pharmacist. Mr. Li is a specially appointed committee member of the 11th Chinese People’s Political Consultative Conference of Guangdong Province. Mr. Li started his career in July 1990. He had served as a director and the chairperson of the board of Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.; a director and the general manager of Tian Xin; a general manager, chairperson and secretary of the party committee of Ming Xing; a director of Baiyunshan and an assistant to the general manager of GPHL. Mr. Li has been a Director and general manager of the Company since 22 June 2018 and is currently a member of the party committee of GPHL, the party branch secretary of Guangzhou Haima Pharmaceutical Advertising Co., Ltd., the managing director of Guang Yao Group (Macau) International Development Industry Co., Ltd. and a member of the party committee of the Company.

Mr. Wu Changhai, aged 54, holds a bachelor degree and EMBA degree, and is a senior economist. Mr. Wu began his career in August 1989 and had been the Deputy General Manager of Guangxi Ying Kang, the Deputy General Manager, General Manager, director, Chairperson and Secretary of the Communist Party of Zhong Yi, the Chairperson and director of Qi Xing, the chairperson of Xing Qun, chairperson of WLJ Great Health, chairperson of WLJ Ya’an, chairperson of Wang Lao Ji Great Health Industry (Mei Zhou) Co., Ltd., and managing director of GPC. Mr. Wu has served as a director of the Company since 28 June 2010, and is currently a member of the party committee of GPHL, a member of the party committee, a Director and the standing deputy general manager of the Company, the chairperson and general manager of Medical Instrument Investment Company, a member of the party committee and a director of WLJ Great Health, a director of Xing Zhu and a director of Baiyunshan Medical and Healthcare Industry Company. Mr. Wu has extensive experience in the operation and management, marketing and scientific research, development of listed companies and pharmaceuticals, food and beverage, healthcare, and medical devices businesses.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(i) Profile of executive directors *(Continued)*

Mr. Zhang Chunbo, aged 43, holds a bachelor degree and a master degree of EMBA, and is a druggist. Mr. Zhang graduated from the China Pharmaceutical University in July 2000 and began his career in the same year. In December 2010, he obtained a master degree of EMBA from the Lingnan (University) College of the Sun Yat-Sen University. He had served as the vice manager of the second zone, the assistant to the manager of sales department, the vice general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the vice general manager, standing vice general manager, general manager and chairperson of Zhong Yi, and general manager and Chairperson of Qi Xing. Mr. Zhang has been as the vice general manager of the Company since January 2015 and a Director of the Company since 28 June 2019, and is currently a member of the party committee of the Company, and the chairperson of each of Zhong Yi and Qi Xing. Mr. Zhang has extensive experience in corporate management and marketing.

(ii) Independent non-executive Directors

Mr. Chu Xiaoping, aged 65, holds a doctorate degree in management and is a professor and a doctoral advisor. Mr. Chu graduated from the Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and the dean of the Business School of Shantou University in Guangdong and a visiting scholar of the University of Hong Kong. He had been an independent director of Shengyi Technology Co., Ltd., Oppein Home Group Inc., Guangzhou Haoyang Electronic Co., Ltd. and Times Neighborhood. He is currently a professor and a doctoral advisor at the Lingnan (University) College, Sun Yat-sen University. Mr. Chu has in-depth research and extensive experience in the organisation, leadership, innovation and sustainable development of enterprises.

Mr. Jiang Wenqi, aged 62, holds a double master degree in clinical medicine and advanced health management and is a class II professor, doctoral advisor and a chief physician. Mr. Jiang obtained his medical degree from Shanghai Medical University in 1982 and obtained his master degree in oncology from the Sun Yat-sen University in 1988. He was a physician, vice president and the head of the medical department of the Sun Yat-sen University Cancer Center (an affiliate hospital of the Sun Yat-sen University) and the dean of the School of Medicine of the Shenzhen University. Mr. Jiang is currently the president of Guangzhou Huangjiali Cancer Hospital, a professor of the medical department of the Sun Yat-sen University Cancer Center, and the deputy director of Institute of Clinical Pharmacology, Sun Yat-sen University. Mr. Jiang has extensive experience in pharmaceutical industry and hygiene management.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(ii) Independent non-executive Directors *(Continued)*

Mr. WONG Hin Wing, aged 57, holds a Master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an Independent Non-executive Director of AEON Credit Service (Asia) Co. Ltd. (a public company listed on the HKEx), Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the HKEx), CRCC High-Tech Equipment Corporation Limited (a public company with H shares listed on the HKEx), Inner Mongolia Yitai Coal Co., Ltd. (a public company with B shares listed on the SSE and H shares listed on the HKEX), Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (a public company with A shares listed on the SSE and H shares listed on the HKEx), Wine's Link International Holdings Limited (a public company listed on the HKEx) and Jiangxi Bank Co., Ltd. (a public company with H shares listed on the HKEx). Mr. Wong was an independent non-executive director of China Agri-Products Exchange Limited (a public company listed on the Stock Exchange) from December 2016 to November 2018. He is a member of the Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of the Securities and Futures Appeals Tribunal and the Public Interest Entities Auditors Review Tribunal, a member of the Nursing Council of Hong Kong and the Construction Industry Council as well as the Betting and Lotteries Commission. He is the Managing Director and has been a responsible officer of Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 36 years of experience in accounting, finance, investment management and advisory.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(ii) Independent non-executive Directors *(Continued)*

Ms. Wang Weihong, aged 57, completed postgraduate education and holds a master degree in management. Ms. Wang is a professor in management, a member of each of the ninth, tenth and eleventh session of the Chinese People's Political Consultative Conference of Guangdong Province, a member of the twelfth session of the Counsellor Consultative Committee of the Chinese People's Political Consultative Conference and a Counsellor of the Counsellors' office of the People's Government of Guangdong Province. Ms. Wang graduated from the Hunan Institute of Economics and Finance (currently known as the Hunan University). She began her career in July 1986 and had been lecturer of the Department of Trade and Economics of the Hunan Institute of Finance and Economics, and an associate professor of the Department of Marketing and Sale of the Business Faculty of the Hunan University. Since 1999, Ms. Wang has been the head of the Market and Enterprises Research Center of the Business College and a professor of the Guangdong University of Foreign Studies. In recent years, Ms. Wang has become a committee member of the Guangdong Provincial Business Administration Teaching and Guidance Committee, an evaluation expert of the Association of the Social and Scientific Sectors of Guangdong (廣東省社會科學界聯合會) and an evaluation expert of the Guangdong Association of the Science and Technology 's Science and Technology Progress Award. Ms. Wang is also a standing director of the China Marketing Association, the deputy secretary general of China Business Administration Association of University (中國高校商務管理研究會), and a standing director of China Marketing Association of University (中國高校市場學研究會). Ms. Wang has extensive experience in strategy management, science and technology innovation management marketing management and brand planning and operation.

For details of the membership information of the Board committees on which the independent non-executive Directors serve, please refer to "4. Committees of the Board" in the section headed "IX. Corporate Governance" in this report. For details of the terms of the independent non-executive Directors of the Company, please refer to "2. Changes in Interests and Emoluments" in this annual report.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(iii) Supervisors

Mr. Cai Ruiyu, 52 years old, is a master of business administration and accountant and holds the financial economist title. Mr. Cai began to work in July 1988, and successively served as the financial supervisor of Guangzhou Baiyunshan Traditional Chinese Medicine Factory; the chief financial officer, the manager of the production dispatching office, and the deputy manager of the production technology department of Bozhou branch factory; assistant to the general manager, party committee member and deputy general manager of Baiyunshan Hutchison Whampoa; vice director of the organization department, HR department and unified front work department of the Company. Mr. Cai currently serves as the director of the organization department, HR department and unified front work department, employee representative supervisor and chairperson of the supervisors of the Company. Mr. Cai has been engaged in the management of finance, production and operation, administration and personnel, party affairs and administration for more than 30 years, boasting rich experience in party construction innovation, administrative management, operation management and management of cadres and talents.

Ms. Gao Yanzhu, aged 54, holds a bachelor degree and a MBA degree. She is a senior economist, auditor and an engineer and a member of the 16th session of Guangzhou City Liwan District People's Congress. Ms. Gao started her career in July 1988 and had been the deputy director of the office of the operation and management of the enterprise management department of Guangzhou Baiyunshan Enterprise Group Co., Ltd., representative of securities affairs and company's legal adviser of Baiyunshan, deputy department head of the audit department and the deputy director of the risk control office of GPLH and the deputy department head of the audit department and the deputy director of the risk control office of the Company. Ms. Gao the department head of the audit department and the director of the risk control office of the Company. Ms. Gao has extensive experience in audit, risk control and securities affairs.

Mr. Cheng Jinyuan, aged 47, has a bachelor degree and a master degree EMBA. Mr. Cheng started his career in December 1991. He served successively as a cashier of the retired cadre office of the National Defense University; accountant of the Administration of the General Office of the Central Military Commissions, provincial manager of HWBYS; deputy director of sales department of deputy director of discipline inspection office of GPLH, and deputy director of discipline inspection office of the Company. Mr. Cheng currently serves as the director of discipline inspection office of the Company. Mr. Cheng has rich experience in discipline inspection, financial management and marketing.

(iv) Senior management

Mr. Huang Haiwen, aged 39, graduated from the finance profession Peking University with a bachelor degree. Mr. Huang Haiwen started his career in July 2004. He served successively as Shanxi OTC manager of Guangzhou Baiyunshan Traditional Chinese Medicine Factory, manager of Shandong marketing center for Eastern China, deputy director of marketing and general manager of sales department for Jilu Region, and general manager of Shandong marketing center of BWBYS; head and vice general manager of operating division of Guangxi Ying King; head and vice manager of operating division of Baiyunshan General Factory and; vice general manager of Marketing. Mr. Huang Haiwen currently serves as the vice general manager of the Company, general manager of Baiyunshan Pharmaceutical Marketing and manager of Baiyunshan General Factory. Mr. Huang Haiwen has rich experience in marketing management and market operation.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Existing Directors, Supervisors and senior management *(Continued)*

(iv) Senior management *(Continued)*

Ms. Zheng Haoshan, aged 44, holds a master degree in management and is a senior economist. She was awarded the “March 8th Flag Bearer” of Guangzhou. Ms. Zheng Haoshan graduated from South China University of Technology in July 1998 and started her career in the same year. She served successively as the deputy director of the business administration department, the deputy director of the marketing department, the deputy director and director of the business administration, technology and quality department of Baiyunshan, and the deputy director of the business administration department of GPLH. Ms. Zheng Haoshan currently serves as the vice general manager and director of business administration department of the Company; director of GP Corp.; director of Pharmaceutical Import & Export; director of Caithilin Pharmaceutical; director of Ming Xing and director of Zhong Yi. Ms. Zheng Haoshan has rich experience in enterprise management, resource integration and operation analysis.

Ms. Huang Xuezheng, aged 46, holds a master degree. She is an economist and a member of the 15th session of the People’s Congress of Liwan District, Guangzhou City. Ms. Huang started her career in July 1977 and joined the Company in September 2003. She had served as the deputy officer of the Secretariat to the Board of the company, the head of the secretariat and representative of securities affairs. She has served as the secretary to the Board of the Company since 26 April 2017 and is currently the company secretary of the Company, the head of the Secretariat to the Board and a director of Golden Eagle Fund.

(2) Information on the changes in Directors, Supervisors and senior management of the Company during the Reporting Period

(i) **Mr. Chen Mao**, aged 56, holds a bachelor degree in medicine and is a pharmaceutical engineer. He was awarded the “National Labour Day Award”. Mr. Chen began his career in November 1985, and has been the deputy factory manager of Guangzhou Baiyunshan Pharmaceutical Factory* (廣州白雲山中藥廠), the chairperson of Pharmaceutical Technology, the general manager of Baiyunshan, the factory manager of Baiyunshan General Factory, the chairperson of Guang Hua, the chairperson and the secretary of the Communist Party of WLJ Great Health, deputy general manager, general manager, vice chairperson and vice party secretary of GPLH, and chairperson of Baxter Qiao Guang. Mr. Chen was the vice chairperson of the Company from January 2014 to 31 May 2019. Mr. Chen has extensive experience in corporate management and marketing.

Mr. Ni Yidong, aged 48, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer and a licensed pharmacist. Mr. Ni began his career in July 1994 and had been the head of the marketing department, vice general manager and a party committee member of GPLH and the chairperson and secretary of the Party Committee of Zhong Yi. He was a Director of the Company from January 2014 to 22 October 2019. Mr. Ni has extensive experience in corporate management, marketing and brand protection and management.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(2) Information on the changes in Directors, Supervisors and senior management of the Company during the Reporting Period *(Continued)*

- (ii) **Mr. Xian Jiexiong**, aged 60, holds a bachelor degree and a master degree in business administration, and is an economist and senior political engineer. Mr. Xian began his career in September 1976 and had been the deputy secretary of the Party Committee of Guangzhou Grandbuy Co., Ltd., assistant to the general manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprise Group Co., Ltd., and deputy party Committee secretary of GPHL. Mr. Xian has been the chairperson of the Supervisory Committee of the Company from October 2013 to 18 November 2019. Mr. Xian has extensive experience in economic management, operations of the Chinese Communist Party and legal affairs.

Ms. Li Jinyun, aged 52, obtained a bachelor degree from the Central Party School of the Communist Party of China. She is a senior political engineer, an engineer, an economist and is also a representative of the Chinese Communist Party of Guangzhou. Ms. Li began her career in July 1990 and had been the chairperson of the labour union of Guangzhou Baiyunshan Chinese Medicine Factory* (廣州白雲山中藥廠), the deputy secretary of the Party Committee of Chemical Pharmaceutical Factory and the deputy head of the human resources department, the deputy head of the political works department, the head of the organisational and personnel department, a member of the disciplinary committee, the deputy secretary of the retirement office of the Party Committee and the secretary of Party Committee of Baiyunshan. From March 2014 to June 2017, Ms. Li was the head of the organisational department, the head of the human resources department, and the head of the united front work department of the Company. Since September 2016, Ms. Li has been a member of the Supervisory Committee of the Company and resigned on 24 September 2019. She is currently a member of the Party Committee, member of the disciplinary committee and the chairperson of the labour union of GPHL, a member of the Party Committee and chairperson of the labour union of the Company. Ms. Li has been engaged in the political work of the Chinese Communist Party and administration and human resource management for more than 20 years and has extensive experience in the development and innovation aspects of the Chinese Communist Party, talent recruitment and development.

The above outgoing Directors, Supervisors or senior management confirm that there is no disagreement between them and the Board and/or the Supervisory Committee of the Company, nor there are any other matters concerning their resignation that need to be brought to the attention of the shareholders of the Company or HKEx.

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS

(1) Interests in shares (A shares) and emoluments of the current and the outgoing Directors, Supervisors and senior management of the Company during the Reporting Period (Up to 31 December 2019)

During the Year, the total amounts of remuneration received by the Directors, Supervisors and the senior management from the Group, the shareholder(s) of the Company and other connected entities were RMB11,853,710.

Name	Position (Note)	Gender	Age	Commencement date of term of office	Ending date of term of office	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Change in shareholding during the Reporting Period	Reasons for change	Emoluments received from the Company during the Reporting Period (RMB'000) (before tax)	Emoluments received from the Company's shareholder during the Reporting Period (RMB'000)
1. Interest (A shares) and emoluments of the current Directors, Supervisors and senior management of the Company											
Li Chuyuan	Chairperson	Male	55	2010-06-28	Note ①	100,000	100,000	0	Note ④	/	1,411.03
Cheng Ning	Vice chairperson (appointed on 3 June 2019)	Female	54	2012-09-19	Note ①	21,500	21,500	0	Note ④	/	1,270.05
Liu Juyan	Executive director	Female	55	2014-01-28	Note ①	13,000	13,000	0	Note ④	/	1,278.39
Li Hong	Executive director General manager	Male	53	2018-06-22	Note ①	10,000	10,000	0	Note ④	1,344.89	/
Wu Changhai	Executive director Standing deputy general manager	Male	54	2010-06-28	Note ①	13,000	13,000	0	Note ④	1,309.18	/
Zhang Chunbo	Executive Director (appointed on 28 June 2019), Deputy general manager	Male	43	2015-01-12	Note ①	10,000	10,000	0	Note ④	1,130.53	/
Chu Xiaoping	Independent non- executive Director	Male	65	2014-01-28	Note ①	0	0	0	/	100.00	/
Jiang Wenqi	Independent non-executive Director	Male	62	2016-03-17	Note ①	0	0	0	/	100.00	/
Wong Hin Wing	Independent non- executive Director	Male	57	2017-06-23	Note ①	0	0	0	/	100.00	/
Wang Weihong	Independent non- executive Director	Female	57	2017-06-23	Note ①	0	0	0	/	100.00	/
Cai Ruiju	Supervisor	Male	52	2019-9-24	Note ①	5,000	5,000	0	Note ④	398.53	/
Gao Yanzhu	Supervisor	Female	54	2017-06-23	Note ①	5,000	5,000	0	Note ④	966.16	/
Huang Haiwen	Deputy general manager	Male	39	2019-07-12	Note ①	17,500	17,500	0	Note ④	805.98	/
Zheng Haoshan	Deputy general manager	Female	44	2019-07-12	Note ①	50,000	50,000	0	Note ④	547.87	/
Huang Xuezhen	Secretary to the Board	Female	46	2017-04-26	Note ①	2,500	2,500	0	Note ④	990.90	/
2. Interest (A-shares) emoluments of outstanding Directors, Supervisors, and senior management during the Reporting Period											
Chen Mao	Vice chairperson	Male	56	2014-01-28	Note ①	50,000	50,000	0	Note ④	/	876.74
Ni Yidong	Executive Director	Male	48	2014-01-28	Note ①	0	0	0	Note ④	/	1,166.75
Xian Jiaxiong	Chairperson of the Supervisory Committee	Male	60	2014-01-28	Note ①	11,000	11,000	0	Note ④	/	1,299.25
Li Jinyun	Supervisor	Female	52	2016-09-07	Note ①	10,000	10,000	0	Note ④	/	897.80

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS *(Continued)*

(1) Interests in shares (A shares) and emoluments of the current and the outgoing Directors, Supervisors and senior management of the Company during the Reporting Period (Up to 31 December 2019) *(Continued)*

Notes:

- ① Except for Mr. Li Hong whose term of office commenced from 22 June 2018 until members of new session of the Board are elected, Mr. Zhang Chunbo, whose term of office commenced from 28 June 2019 until members of new session of the Board are elected, Mr. Cai Ruiyu whose term of office commenced from 24 September 2019 until the date of expiration of the 7th session of the Supervisory Committee, Mr. Huang Haiwen and Ms. Zheng Haoshan whose term of office commenced from 12 July 2019 until members of new session of the Board are elected, the term of office of the members of the 7th session of the Board, Supervisory Committee and senior management of the Company commenced from 23 June 2017 and up to the date on which members of new session of the Board and the Supervisory Committee are elected.
- ② The emoluments of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Xian Jiaxiong and Ms. Li Jinyun for the Year were received from the Company's shareholder, which included the basic salary, bonus, allowance, subsidy, staff welfare benefits, insurance premiums, statutory surplus reserve, and annuity for 2019 as well as settlement of annual salary for the previous year, etc.
- ③ The emoluments of Mr. Li Hong, Mr. Wu Changhai, Mr. Zhang Chunbo, Ms. Gao Yanzhu, Mr. Cai Ruiyu, Ms. Zheng Haoshan and Ms. Huang Xuezhen for the Year were received from the Company, which included the basic salary, staff welfare benefits as well as settlement of annual salary for the previous year, etc. The specific emoluments shall also be assessed and adjusted in accordance with the Compensation and Performance Appraisal Measures for Senior Management of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. The above emoluments are pre-tax and the individual income tax payable shall be withheld and paid by the Company. The emoluments of Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong for the Year were received from the Company, Mr. Huang Haiwen began to receive emoluments from the Company since 12 July 2019.
- ④ Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Wu Changhai, Mr. Li Hong, Mr. Zhang Chunbo, Mr. Xian Jiaxiong, Ms. Li Jinyun, Ms. Gao Yanzhu, Mr. Cai Ruiyu, Mr. Huang Haiwen, Ms. Zheng Haoshan and Ms. Huang Xuezhen participated in the Stock Ownership Scheme for 2015.

(2) Equity incentives given to the Directors, Supervisors and senior management during the Reporting Period

Applicable Not applicable

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS *(Continued)*

(3) Interests of Directors, Supervisors and chief executives and short positions in shares, underlying shares and debentures of the Company

- (i) As at 31 December 2019, the Directors, Supervisors, and chief executives of the Company who had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code, to be notified to the Company and the HKEx were as follows:

Directors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Li Chuyuan	Beneficial Owner	Company (A shares)	100,000	0.0071
Cheng Ning	Beneficial Owner	Company (A shares)	21,500	0.0015
Liu Juyan	Beneficial Owner	Company (A shares)	13,000	0.0009
Li Hong	Beneficial Owner	Company (A shares)	10,000	0.0007
		Tian Xin	5,000	Note
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Zhang Chunbo	Beneficial Owner	Company (A shares)	10,000	0.0007

Supervisors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Cai Ruiyu	Beneficial Owner	Company (A shares)	5,000	0.0003
Gao Yanzhu	Beneficial Owner	Company (A shares)	5,000	0.0003

Note: In the table above, the shares of Tian Xin held by Mr. Li Hong are company shares, which are non-listed company shares, accounting for 0.01% of the share capital of Tian Xin. The A shares of the Company held by the remaining Directors and Supervisors are held under the Employee Stock Ownership Scheme (2015).

- (ii) Saved as disclosed above, as at 31 December 2019, none of the Directors, Supervisors and chief executives of the Company had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management and Staff

3. POSITIONS HELD BY THE CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE WHO DEPARTED DURING THE REPORTING PERIOD

Position in shareholder's company:

Applicable Not applicable

Name	Company	Position(s) held in the shareholder's company	Commencement date of term of office	Ending date of term of office
Li Chuyuan	GPHL	Chairperson	July 2013	/
		Secretary of the party committee	June 2013	/
Chen Mao	GPHL	Vice chairperson	July 2013	May 2019
		deputy secretary of the party committee	July 2013	May 2019
		General manager	July 2013	May 2019
Cheng Ning	GPHL	Standing deputy general manager	March 2019	/
		Chief Financial Officer	May 2010	/
Liu Juyan	GPHL	Deputy general manager	January 2011	/
		Chief engineer	August 2005	/
Ni Yidong	GPHL	Deputy general manager	July 2012	October 2019
Xian Jiexiong	GPHL	Deputy secretary of the party committee	October 2012	November 2019
Li Jinyun	GPHL	Chairperson of the labor union	May 2017	/

4. INFORMATION ON THE EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Applicable Not applicable

The annual emoluments for Directors and Supervisors were proposed by the Board and the Supervisory Committee, respectively, and were approved at the Annual General Meeting of the Company. The annual emoluments of the senior management include but not limited to salary, welfare benefits and settlement of annual salary for the previous year, etc. The actual amounts of the emoluments of the senior management were subject to the appraisal and adjustment in accordance with the Compensation and Performance Appraisal Measures for Senior Management of GYBYS.

Directors, Supervisors, Senior Management and Staff

5. THE APPOINTMENTS OR DEPARTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD

(1) During the Reporting Period

- (i) The Board of the Company received the written resignation and confirmation from vice chairperson Mr. Chen Mao on 31 May 2019. Mr. Chen Mao resigned from his positions as vice president and executive Director due to personal reasons with effect from the same date;
- (ii) At the 23rd meeting of the seventh session of the Board of the Company held on 3 June 2019, Ms. Cheng Ning was elected as the vice chairperson of the seventh session of the Board, whose term of office commenced from the date of appointment and up to the date on which members of the new session of the Board are elected;
- (iii) At the Annual General Meeting of 2018 of the Company held on 28 June 2019, Mr. Zhang Chunbo was elected as the executive Director of the seventh session of the Board, whose term of office commenced from the date of appointment and up to the date on which members of the new session of the Board are elected;
- (iv) At the 24th meeting of the seventh session of the Board of the Company held on 12 July 2019, Mr. Huang Haiwen and Ms. Zheng Haoshan were appointed as the deputy general managers of the Company, whose terms of office commenced from the date of appointment up to the date on which members of the new session of the Board are elected;
- (v) The Supervisory Committee of the Company received the written resignation and confirmation from Ms. Li Jinyun, the Supervisor representing the employees of the Company on 24 September 2019. Ms. Li Jinyun resigned from her position as Supervisor representing the employees of the Company due to her occupation transference with effect from the same date;
- (vi) The Company held the enlarged meeting of the Labour Union Committee on 24 September 2019, in which the committee considered and approved the election of Mr. Cai Ruiyu as the Supervisor representing the employees of the seventh session of Supervisory Committee of the Company. The term of office commenced from the date of approval at the enlarged meeting of the Labour Union Committee of the Company and up to the date on which the term of office of the seventh session of the Supervisory Committee expires;
- (vii) The Board of the Company received the written resignation and confirmation from Mr. Ni Yidong on 22 October 2019. Mr. Ni Yidong resigned from his positions as executive Director and the member of nomination and remuneration committee of the Company due to job relocation with effect from the same date;
- (viii) The Company received the written resignation from Mr. Xian Jiaxiong, the chairperson of the Supervisory Committee on 18 November 2019. Mr. Xian Jiaxiong resigned from his positions as a Supervisor and the chairperson of the Supervisory Committee of the Company since he has reached the legal age for retirement. Mr. Xian Jiaxiong will continue to perform his duties as a Supervisor and the chairperson of the Supervisory Committee until a new supervisor is elected.

Directors, Supervisors, Senior Management and Staff

5. THE APPOINTMENTS OR DEPARTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD *(Continued)*

(2) After the Reporting Period

- (i) The Company held the first extraordinary general meeting in 2020 on 13 January 2020, which considered and approved the election of Mr. Yang Jun as an executive Director of the seventh session of the Board of the Company, whose term of office commenced from the date of election and up to the date on which members of the new session of the Board are elected; and election of Mr. Cheng Jinyuan as a Supervisor representing shareholders of the seventh session of the Supervisory Committee of the Company, whose term of office commenced from the date of election and up to the date on which members of the new session of the Supervisory Committee are elected;
- (ii) The Company held the 21st meeting of the seventh session of the Supervisory Committee on 13 January 2020, at which Mr. Cai Ruiyu was elected as chairperson of the seventh session of the Supervisory Committee of the Company. The term of office commenced from the date of election and up to the date on which members of the new session of the Supervisory Committee are elected.

In accordance with Rule 13.51(B)(1) of the Listing Rules of HKEx, the details of change in information of Directors after the publication of the interim report of the Company for the six months ended 30 June 2019 are as follows:

Name of Directors	Details of change
Cheng Ning	She served as the director of GPLH (Macau) International Development Industry Co., Ltd. since 5 December 2019.
Wong Hin Wing	He served as a member of Betting and Lotteries Commission since August 2019, and as a panel member of Public Interest Entities Auditors Review Tribunal since October 2019.
Li Hong	He served as the managing director of GPLH (Macau) International Development Industry Co., Ltd. since 5 December 2019.

Directors, Supervisors, Senior Management and Staff

6. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors of the seventh session of the Board and seventh session of the Supervisory Committee has signed a written service contract with the Company. The contract terms are as shown in the following table:

Name of Director/ Supervisor	Contract term
Li Chuyuan	From 23 June 2017 until members of new session of the Board are elected
Cheng Ning	From 23 June 2017 until members of new session of the Board are elected
Liu Juyan	From 23 June 2017 until members of new session of the Board are elected
Li Hong	From 22 June 2018 until members of new session of the Board are elected
Wu Changhai	From 23 June 2017 until members of new session of the Board are elected
Zhang Chunbo	From 28 June 2019 until members of new session of the Board are elected
Yang Jun	From 13 January 2020 until members of new session of the Board are elected
Chu Xiaoping	From 23 June 2017 until members of new session of the Board are elected
Jiang Wenqi	From 23 June 2017 until members of new session of the Board are elected
Wong Hin Wing	From 23 June 2017 until members of new session of the Board are elected
Wang Weihong	From 23 June 2017 until members of new session of the Board are elected
Cai Ruiyu	From 24 September 2019 until members of new session of the Supervisory Committee are elected
Gao Yanzhu	From 23 June 2017 until members of new session of the Supervisory Committee are elected
Cheng Jinyuan	From 13 January 2020 until members of new session of the Supervisory Committee are elected

The term of each session of the Board or the Supervisory Committee is three years. All Directors and Supervisors are eligible to offer themselves for re-election.

None of the Director has any unexpired service contracts with the Company auditor its subsidiaries which is not determinable by the employ or within one year without payment of compensation (other than statutory compensation).

7. PERMITTED INDEMNITY

At no time during the Year and up to the date of this report, there was or is, permitted indemnity provision being in force for the benefit of any of the Directors and the Supervisors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

The Company has arranged appropriate Directors', Supervisors' and senior management's liability insurance coverage during the Year for the Directors, Supervisors and senior management, to provide them with sufficient protection in case of any legal proceedings.

8. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Year or at the end of the Year, the Company, each affiliated company, affiliated companies or holding companies in the group entered into no significant transaction, arrangement or contract in which any business of the group is involved or any Director or Supervisor of the Company or any entity related to such Director or Supervisor directly or indirectly has any material right and interest.

Directors, Supervisors, Senior Management and Staff

9. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE PAST THREE YEARS

Applicable Not applicable

10. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted the Model Code in Appendix 10 to the Listing Rules of HKEx and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by Directors and Supervisors of the Company. After making specific inquiry on all the Directors and Supervisors, the Company confirmed that its Directors and Supervisors had fully complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

11. EMPLOYEES OF THE GROUP

(1) Situation of the employees

Numbers of the employees of the parent company	2,459
Numbers of the employees of the major subsidiaries	23,394
	<hr/>
Total	25,853
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	14,817
Gross payroll of the Group	RMB3.336 billion

Composition

Category constitution	a number of constitute staff
Production staff	4,511
Sales personnel	14,568
Technical staff	3,200
Finance staff	790
Administrative staff	2,784
	<hr/>
Total	25,853

Educational Level

	Number
Post Graduate	646
Undergraduate	7,698
University college	7,889
Secondary and below	9,620
	<hr/>
Total	25,853

Directors, Supervisors, Senior Management and Staff

11. EMPLOYEES OF THE GROUP *(Continued)*

(2) Remuneration policy

Applicable Not applicable

The remuneration of the employees of the Group includes salary, subsidies, bonuses and other fringe benefits such as five social insurances and one housing fund, and supplementary medical insurance. The Group, with the relevant laws and regulations, paid different rate of remuneration for different employees, based on two channels (including their performance, qualification, position and other factors). Meanwhile, the Group provides professional and management channels for the career development of employees, as a breakthrough to the predicament in the talent development due to limited management positions, so that outstanding professionals can receive enough recognition and incentives in the professional channel. In addition, the Group provides employees with care such as shuttle bus, talent apartment various needs.

(3) Training plan

Applicable Not applicable

The Group attaches great importance to employees' career development various needs. The Group established corporate university and enterprise Communist Party school, developed a sound training management system, and built teams with more than 100 internal lecturers. Depending on the character is this of each type of talents, the Group combined the internal and external trainings to build a competent five training system, covering employees at all levels from the production line workers to the senior management of the enterprise, so as to promote the growth of employees at all levels and the Company.

(4) Labour Outsourcing

Applicable Not applicable

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

- (1) The Company has been strictly complying with the Companies Law of the PRC, the Securities Law of the PRC, related laws and regulations of the CSRC and the Listing Rules of the SSE and the Listing Rules of HKEx, continuously improving the management structure of the Company, strengthening work related to information disclosure, and regulating the operations of the Company.

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the Corporate Governance Guidelines, and there were no material discrepancies against the requirements of the CSRC.

During the Reporting Period, the Company complied with the provisions of the Code on Corporate Governance Practices (the “CG Code”) and the Code on Corporate Governance Report as set out in Appendix 14 to the Listing Rules of HKEx, except that (i) Mr. Li Chuyuan, Mr. Chen Mao, Mr. Ni Yidong and Mr. Wu Changhai, executive Directors of the Company, and Ms. Wang Weihong, an independent non-executive Director of the Company, were unable to attend the first extraordinary general meeting for 2019 due to business reasons, which constituted deviation from code provision A.6.7, and (ii) Ms. Liu Juyan, an executive Director, and Ms. Wang Weihong, an independent non-executive Director of the Company, were unable to attend the Annual General Meeting for 2018 due to business reason, which constituted a deviation from code provision A.6.7; and (iii) Ms. Liu Juyan, Mr. Zhang Chunbo, executive Directors of the Company, and Mr. Chu Xiaoping, Mr. Jiang Wenqi and Ms. Wang Weihong, independent non-executive Directors of the Company, were unable to attend the second extraordinary general meeting for 2019 due to business reasons, which constituted deviation from code provision A.6.7.

The Board continues to monitor and review the Company’s corporate governance practices to ensure compliance with the provisions in the Corporate Governance Code.

The Group is committed to: (1) the research and development, manufacturing and sales of pharmaceutical products and great health products; (2) wholesale, retail, import and export of Western and Chinese pharmaceutical products and medical apparatus; and (3) investment in the health industry such as medical service, health management, health preservation and elderly care, etc., and adopted relatively flexible business model and strategies and prudent risk and capital management structure. The Group is committed to strengthening the internal control publicity and guidance and the establishment of systems related to the internal control, and established a relatively standardized internal control management and risk prevention system; formulated the strategic objectives and detailed work plans and measures of the Group, so as to ensure the accomplishment of the strategic objectives.

The review of the business and financial position of the Company for 2019 is set out in the section headed “IV. Discussion and analysis of Operation” in this annual report.

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(1) *(Continued)*

The Board confirmed that it was responsible for risk management and internal control and was responsible for continuously reviewing the effectiveness of the risk management and internal control and overseeing management in the design, implementation and monitoring of the risk management and internal control system. The Audit Committee under the Board monitors the Company's risk management and internal control system to ensure that management has fulfilled its responsibilities to establish an effective system. The Audit Committee convened the second Audit Committee meeting of the Company in 2020 on 31 March 2020 to review and approve the Company's 2019 internal control evaluation report. The Audit Committee (and the Board) are of the view that the internal control and risk management system of the Company is adequate and effective and the Company has complied with the provisions of the CG Code regarding internal control and risk management system, including:

(i) **Procedures for identification, assessment and management of material risks**

Based on comprehensive risk management, the Company, by collecting and managing the relevant information on major risks, identifies those posing a significant risk to corporate business and operations. Furthermore, in line with the assessment standards for risk potentiality and impact, the Company conducts the assessment of risk events, designates a risk rating and develops the strategies for risk management and procedures for internal monitoring to prevent and reduce risks. The Company monitors the related risks continuously and regularly and makes sure that appropriate procedures for internal monitoring are available. In case of material changes, the Company is responsible for modifying the policies on risk management and regularly reporting on the result of risk monitoring to the management and the Board.

(ii) **Main features of risk management and internal monitoring system**

The comprehensive risk management system of the Company covers risk events, risk management strategies and solutions, risk mapping and risk management information system, and the Company has established a risk management oriented internal control system.

(iii) The Board confirmed that it is responsible for the risk management and internal control systems and reviewing their effectiveness continuously. Such systems are designed to manage rather than eliminate the risk of failure of achieving business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

(iv) Self-assessment and risk management review of internal control are conducted semi-annually and annually by the Company. The Company identify key risks based on risk assessment and take measures for the management of key risks; base on the risks, review critical internal control activities of key business procedures for high-risk or important business and give the above a high-priority rating regarding effectiveness assessment and find out the defects; take measures for implementation of defeat rectification measure, sort out and perfect the internal monitoring system towards the essential goal of risk control. The internal control system and the risk management information system are updated at least once a year.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(1) *(Continued)*

(v) Internal audit function

The Company has established the Audit Department and Risk Control Office. Under the leadership of the Board of Directors and the supervision of the Audit Committee, the foregoing two departments are responsible for supervising, examining and evaluating the implementation of internal risk control of the Company and its subsidiaries, and coordinating the audit of internal control and other related affairs. The Supervisory Committee is responsible for supervising the Board on its establishment and implementation of the internal control system. The management is responsible for the effective operation of the risk management mental internal risk control.

(2) **Work related to corporate governance of the Company during the Reporting Period are as follows:**

- (i) The Company performed review on its internal control and fulfillment of social obligations for the year ended 31 December 2018 pursuant to the requirements of the "Notice on preparation of the 2018 Annual Report in an order by manner by Listed Companies" issued by the SSE, and the "Self-assessment Report on Internal Control for 2018" and the "Report on Performance of Social Responsibilities for 2018" were prepared accordingly, which were disclosed after being duly considered and approved at the Board meeting of the Company held on 15 March 2019.
- (ii) According to the Companies Law, the Securities Law, the Code of Corporate Governance of Listed Companies (2018 Revision) and other relevant regulations, and in combination with the Company's practice of standardized operation, the Company has revised the relevant provisions of its Articles of Association and Rules of Procedures of the Board. The above revision has been approved by the Board meeting on 15 March 2019 and the general meeting on 28 June 2019. For the details of the amendments please refer to the circular of the Company dated 11 May 2019.
- (iii) In order to further improve the corporate governance and in combination with the Company's operation practice, the Company has revised the relevant provisions of the code of practice of the Strategic Development and Investment Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd., code of practice of the Audit Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and code of practice of the Nomination and Remuneration Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.. The above revision has been approved by the Board meeting on 15 March 2019.
- (iv) According to the Companies Law, the Securities Law, the Code of Corporate Governance of Listed Companies (2018 Revision) and other relevant regulations, and in combination with the Company's practice of standardized operation, the Company has revised the relevant provisions of its Articles of Association and Rules of Procedures of the Board. The above revision has been approved by the Board meeting on 22 November 2019 and the general meeting on 13 January 2020. For the details of amendments please refer to the circular dated 28 November 2019.

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(2) Work related to corporate governance of the Company during the Reporting Period are as follows: *(Continued)*

- (v) During the Reporting Period, the Company continued to consolidate and improve the three defense lines of "internal control system, risk control system, and audit supervision" to enhance our corporate risk prevention ability, reduce the corporate operational management risk, and focused on the following tasks:
- 1) Initiating special inspections on internal control. We organized special inspections on the implementation of internal control and the self-assessment of internal control in 2018 of more than 20 subsidiaries, and promoted the establishment of a standardized internal control system, so as to ensure the effective operation of the internal control system and improve the operational and management level and risk prevention ability of the companies.
 - 2) Continuing to enforce comprehensive risk management. We organized the evaluation of the operational effectiveness of comprehensive risk management in 2018, carried out annual risk assessments, strengthened the identification and assessment of risks, the formulation of risk strategies, and the implementation of solutions, and further implemented material risk management of companies. Risk tracing and analysis on key subsidiaries of the Company was conducted regularly, and attention was focused on risk management for large amounts of receivables aged over one year, large credit limited and risk-related receivables, and effective measures to prevent risks were adopted. We carried out risk reviews for major economic contracts of subsidiaries of the Company, regularly organized the companies to comprehensively review contract risks, in order to prevent and detect various risks that may exist in economic contracts.
 - 3) Initiating audit work. We conducted various economic responsibility audits and special audits of subsidiaries, carried out special inspections on standardized management of controlled companies, joint ventures, associates and joint stock companies, as well as special audits of major investments; We strengthened the use of audit results to reveal problems existing in the companies and room for improvement, so as to procure the companies to improve their operational management capability.

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(3) Establishment and implementation of inside information management

The Company had formulated the "Insiders Registration System" in 2010. Upon self-assessment made by the Company, there was no trading of shares of the Company by insiders based on any inside information before disclosure of material price sensitive information which may affect the stock price of the Company as at the end of the Reporting Period.

The Company has established satisfactory procedures to deal with inside information and satisfactory measures in relation to internal control. The Company has designated relevant departments to be in charge of the monitoring, management, registration, disclosure and record-keeping of inside information on day-to-day basis. The Supervisory Committee of the Company is responsible for monitoring the implementation of the system regarding the registration and management of the persons in possession of inside information, ensuring that the persons in possession of inside information are aware of their rights, obligations and legal liabilities, urging the relevant persons to strictly comply with the duty of confidentiality. The Supervisory Committee of the Company is determined to eradicate insider dealings.

(4) Establishment and enhancement of the management system regarding the external users of information of the Company

The Company had formulated the Management System Regarding the Users of Information in 2010, which strictly regulates the external disclosure of information by the Company and the use of the information of the Company, prevent information leakage and ensure the fair disclosure of information.

During the Reporting Period, the Company did not violate any requirement of the system.

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

The Company treats all shareholders equally, ensures that they can fully exercise their rights and protects their legal interests; and the shareholders can request and convene shareholders' meeting in strict accordance with the relevant laws and regulations. The Company's corporate governance structure is to ensure that all shareholders, especially the minority shareholders, can enjoy equal benefits and undertake corresponding responsibilities.

Shareholders of the Company shall enjoy the following rights according to the Articles of Association and the Rules and Procedures for Shareholders' General Meetings of the Company:

- (i) Shareholders can request, convene hold, participate in or appoint proxy to attend the general meeting of shareholders on its own initiative, and exercise the noting rights.
- (ii) the right to receive dividends and other distributions proportional to the number of shares held;
- (iii) the right to supervise, advise on or inquire about the operating activities of the Company;
- (iv) the right to transfer, donate or pledge the shares held according to laws and regulations and these Articles of Association;
- (v) Shareholders to enjoy the rights of access to information, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association;
- (vi) the right to be provided with relevant information in accordance with the provisions of these Articles of Association.

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

In accordance with the Shareholders Communication Policy of the Company, the shareholders of the Company have the following rights:

- (i) If shareholders have any question regarding their shareholding, they should direct their questions to the Company's share registrar (H shares) or the designated securities branch (A shares);
- (ii) Shareholders and investors may at any time make a request for the Company's information to the extent that such information is publicly available;
- (iii) The Company shall provide to the shareholders and investors with the designated contact person, e-mail address and enquiry channels of the Company, so as to facilitate them to make reasonable enquires on the Company.

Contact Ms. Huang Xuezhen, Ms. Huang Ruimei
 E-mail: sec@gybys.com.cn/huangxz@gybys.com.cn/huangrm@gybys.com.cn
 Internet website: http://www.gybys.com.cn

The general meetings of shareholders are convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies issued by the CSRC and Rules and Procedures for Shareholders' General Meetings of the Company. The Company strictly complies with the relevant requirements in respect of voting matters and voting procedures, to protect the legal interests of the Company and its shareholders. Accountant and the lawyer will be present at the meeting as witnesses. The Company encourages all shareholders to attend the general meetings and welcome shareholders to speak at the general meetings.

Information on the general meetings of the Company held during the Reporting Period is as follows:

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
First Extraordinary General Meeting in 2019	28 March 2019	The following resolutions have been passed as ordinary resolutions: the resolution on the amounts of guarantees to be provided by Guangzhou Pharmaceuticals Corporation, a controlled subsidiary of the Company, to secure the bank loans for its wholly-owned subsidiaries; the resolution regarding the proposal on purchasing trademarks in cash and the relevant agreements and connected transactions; the resolution on the changes in use of proceeds from the fund raising of the Company; the resolution on the addition of new entities which may use part of the proceeds from the fund raising of the Company.		Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	28 March 2019

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

Information on the general meetings of the Company held during the Reporting Period is as follows:
(continued)

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
The Annual General Meeting in 2018	28 June 2019	(1) By ordinary resolutions: Annual Report and its summary for year 2018; Report of the Board for year 2018; Report of the Supervisory Committee of the Company for year 2018; Financial report of the Company for year 2018; Auditors' report of the Company for year 2018; Proposal on the financial and operational targets and annual budget of the Company for year 2019; Resolutions on the emoluments to be paid to the directors of the Company for year 2019 (all directors); Resolutions on the emoluments to be paid to the Supervisors of the Company for year 2019 (all supervisors); Resolution on the amounts of guarantees to be provided by the Company to secure bank loans for some of its subsidiaries; Resolution on the application by the Company for general banking facilities not exceeding RMB4 billion; Resolution on the entrusted borrowing and entrusted loans business between the Company and its subsidiaries; Resolution on the application for the amounts of bank borrowing by Guangzhou Pharmaceutical Corporation, a subsidiary of the Company, and the amounts of guarantees to be provided by it to secure the bank loans for some of its subsidiaries; Resolution on the proposed cash management of part of the temporary idle proceeds from fund raising of the Company; Resolution on the proposed cash management of part of the temporary internal idle funds of the Company and its subsidiaries; Resolution on the addition of a new entity which may use part of the proceeds from the fund raising of the Company; Resolution on amendments to the Rules of Procedures of the Board of Directors of the Company; Resolution on the re-appointment of Ruihua Certified Public Accountants as the auditor of the Company for year 2019; Resolution on the re-appointment of Ruihua Certified Public Accountants (Special General Partnership) as the auditor for the internal control of the Company for year 2019; Resolution on the election of Mr.Zhang Chunbo as an executive Director of the Company and the emoluments to be paid to him for year 2019; (2) By special resolutions: Resolution on proposal on profit distribution and dividend payment of the Company for year 2018; Resolution on amendments to Articles of Association of the Company; Resolution on granting a general mandate to the Board for issuing new shares of the Company.	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	28 June 2019

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

Information on the general meetings of the Company held during the Reporting Period is as follows:
(continued)

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
Second Extraordinary General Meeting in 2019	12 November 2019	The following resolutions have been passed as ordinary resolutions: Resolution on approving Guangzhou Pharmaceuticals Corporation, a subsidiary of the Company, to conduct asset-backed securitization; Resolution on approving Guangzhou Pharmaceuticals Corporation, a subsidiary of the Company, to apply for additional general banking facilities; Resolution in relation to the emoluments to be paid to Mr. Cai Ruiyu for year 2019, who is the newly elected supervisor representing the employees of the Company.	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	12 November 2019

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

Relationship between the Controlling Shareholder and the Company

GPHL, as the controlling shareholder of the Company, exercises its power and accepts its obligations in accordance with the laws, and has not acted beyond the shareholders' meetings to interfere directly or indirectly in the Company's operations. The Company and GPHL have been working separately in areas relating to assets, business, organization, finance and human resources and are independent of each other. The Board, the Supervisory Committee and the internal departments of the Company are able to operate independently.

3. BOARD OF DIRECTORS

(1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be in charge of the operation and management of the Company's assets. The Board is accountable to the shareholders. The management is responsible for the Company's daily operations and daily administration management works. There are no financial, business, family or other material relationships among members of the Board.

The current Board is the seventh session of the Board of the Company since its establishment, consisting of 11 directors, including Mr. Li Chuyuan (chairperson), Ms. Cheng Ning (vice chairperson), Mr. Yang Jun, Ms. Liu Juyan, 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. The term of office of executive Director Mr. Li Hong is from 22 June 2018 until members of new session of the Board are elected. The term of office of vice chairperson Ms. Cheng Ning is from 3 June 2019 until members of new session of the Board are elected. The term of office of executive director Mr. Zhang Chunbo is from 28 June 2019 until members of new session of the Board are elected. The term of office of Mr. Yang Jun is from 13 January 2020 until members of new session of the Board are elected. The term of office of other Directors is from 23 June 2017 until members of new session of the Board are elected.

The Board shall exercise the following powers:

- (A) convention of general meetings of shareholders, and report to the general meetings;
- (B) implementation of the resolutions of the general meeting;
- (C) formulation of the business plan and investment scheme of the Company;
- (D) making decision on material acquisitions, disposal and guarantee matters;
- (E) making decisions on the disposal of assets of the Company and the acquisition of fixed assets with a transaction value between RMB10 million and RMB50 million;
- (F) formulation of the annual financial budget and financial accounting policy of the Company;
- (G) formulation of the profit distribution policy and loss recovery policy of the Company;
- (H) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;
- (I) drafting of the policies of material corporate acquisition, repurchase of the shares of the Company, or the proposals on merger, separation or dissolution of the Company;
- (J) making decision on the establishment of internal management system in the Company;

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

- (K) employment or dismissal of the general manager of the Company; based on the nominations given by the general manager, employ or dismiss the vice general managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;
- (L) formulation of the basic management system of the Company;
- (M) formulation of the proposal on amendments to the Articles of Association;
- (N) management of disclosure of information of the Company;
- (O) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for the audit of the Company;
- (P) Review the work reports of the general manager and inspect on the work of the general manager (if the general manager serves as a Director of the Company, he or she should abstain from exercising his or her rights as a director when the Board is conducting inspection on the work of the general manager);
- (R) Determining the emolument and subsidy standards for the Directors of the Company;
- (S) Determining the subsidy standards for the independent non-executive Directors;
- (T) other powers granted by the Articles of Association, laws and regulations and the general meetings of shareholders.

The Board shall exercise the above powers by holding meetings of the Board to consider the relevant matters and can implement only after the passing of the Board resolutions.

Directors shall be elected or replaced by general meeting of shareholders, at which a cumulative voting system is adopted for the election of directors. Directors are eligible for re-election upon expiration of their terms of office. All independent non-executive Directors are independent persons, and are not connected with the Company and its substantial shareholders. Their terms of office shall not exceed six years.

The roles of chairperson and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairperson, who is in charge of the daily business of the Board and the examination of the implementation of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board. The chairperson of the Board is Mr. Li Chuyuan and the general manager is Mr. Li Hong during the Reporting Period.

Members of the Board have different industry backgrounds, having expertise and extensive experience in areas such as business management, accounting, finance, pharmaceuticals, law and investment planning.

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

During the Reporting Period, the Directors of the Company participated in the sustainable professional development in order to update their relevant knowledge and skills and ensure they are able to make informed contributions to the Board of the Company. The Company regularly arranges every Director to participate in the professional trainings organized by the CSRC and the stock exchanges on which the Company are listed, and certificates of qualification for training or certificate recognized by the relevant authorities were obtained. The secretary to the Board also participates in the relevant professional trainings of not less than 15 hours each year. All Directors had provided the secretary to the Board with records on their trainings during the Reporting Period. The Company encourages all Directors to attend the relevant training courses and bears the relevant expenses.

All the Directors can obtain from the secretary of the Board and the secretariat to the Board timely relevant information and updates of the statutory and regulatory obligations that Directors of listed companies must comply with and that are related to their continuing obligations in order to ensure that the Directors understand their duties and that the procedures of the Board are implemented and complied with appropriately. The Directors and the special committees of the Board are both entitled, within the scope of their powers, duties and business needs, to engage the services of independent professional institutions for performing their duties or for the business operation when needed. The Company shall bear the reasonable cost incurred therefrom.

The Board shall perform the following functions of corporate governance responsibilities:

- (A) formulate and review the Company's corporate governance policies and procedures;
- (B) review and monitor the personnel training and continuing professional development of the Directors and senior management;
- (C) review and monitor the Company's compliance with the policies and procedures prescribed by laws and regulations;
- (D) formulate, review and monitor the ethics code of conduct and compliance manual applicable to employees and Directors (if any); and
- (E) review the Company's compliance with the corporate governance rules and the disclosure in the corporate governance report.

3. BOARD OF DIRECTORS (Continued)

(2) Board Meetings

In 2019, 11 Board meetings were held (of which 5 were physical meetings and 6 were meetings by way of written resolutions) to discuss the proposals on acquisition of the Wang Lao Ji trademarks, connected transactions, authorizing the management of the Company to initiate the preparation works of the spin-off and listing of the Company's subsidiary on the HKEx and matters related to the financial aspects. The Board meetings had effective discussion and can make decisions which are serious and cautious.

The attendance of the Directors at Board meetings and general meetings during the Reporting Period is set out below:

Directors	Whether an independent director	Number of meetings that should have attended	Participation of Directors at Board meetings				Attendance of Directors at general meetings		
			Number of meetings participated in person	Number of meetings participated by way of communication (note)	Number of meetings participated by appointing a representative	Failure to participate in two meetings in person consecutively	Number of general meetings that should have attended	Number of general meetings attended	
Li Chuyuan	No	11	11	6	0	0	No	3	2
Chen Mao	No	4	2	2	2	0	Yes	1	0
Cheng Ning	No	11	11	8	0	0	No	3	3
Liu Juyan	No	11	9	6	2	0	No	3	1
Ni Yidong	No	8	8	4	0	0	No	2	1
Li Hong	No	11	11	6	0	0	No	3	3
Wu Changhai	No	11	11	7	0	0	No	3	2
Zhang Chunbo	No	6	6	4	0	0	No	2	1
Chu Xiaoping	Yes	11	10	7	1	0	No	3	2
Jiang Wenqi	Yes	11	11	7	0	0	No	3	2
Wong Hin Wing	Yes	11	11	7	0	0	No	3	3
Wang Weihong	Yes	11	11	8	0	0	No	3	0

Notes:

- Participation by way of communication is deemed participation in person.
- Mr. Chen Mao tendered his resignation to resign as the Company's vice chairperson and executive Director on 31 May 2019.
- Mr. Ni Yidong tendered his resignation to the Board as an executive Director due to his job relocation on 22 October 2019.
- At the Company's 2018 Annual General Meeting held on 28 June 2019, Mr. Zhang Chunbo was elected as an executive Director of the seventh session of the Board, with the term of office starting from the date of appointment and ending on the date when members of new session of the Board are elected.

3. BOARD OF DIRECTORS *(Continued)*

(3) Independent non-executive Directors

Currently, the Company has 4 independent non-executive Directors, representing more than 1/3 of the total members of the Board. All the independent non-executive Directors of the Company are familiar with the rights and obligations of the directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive Directors strictly complied with the provisions in the Articles of Association, "Rules of Procedures of the Board", "Independent Directors System" and "The Annual Reporting System of Independent Directors", faithfully and diligently discharged the duties as independent non-executive Directors, carefully, seriously and appropriately exercised the rights of independent non-executive Directors, proactively and seriously attended Board meetings and general meetings of shareholders and offered their experience and strengths to the full extent. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders as a whole. All of the 4 independent non-executive Directors of the Company were members of the special committees formed under the Board.

During the Reporting Period, the independent non-executive Directors of the Company expressed their independent views on the relevant transactions made during the Reporting Period and discharged their duties as independent non-executive Directors seriously.

During the Reporting Period, the independent non-executive Directors of the Company expressed no dissenting views on the Board resolutions and other matters not subject to the consideration of the Board.

The Board confirmed the receipt from each of the independent non-executive directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of HKEx. The Board considered that the existing independent non-executive directors complied with the relevant guidance set out in Rule 3.13 of the Listing Rules of HKEx and still considered the existing independent non-executive Directors to be independent.

Pursuant to the "Notice on preparation of the 2019 Annual Report in an ordering manner by Listed Companies" issued by SSE on 31 December 2019, the independent non-executive Directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive Directors on production and operation issues and the progress of major events, and submitted an action plan in relation to the preparation of the 2019 annual report and auditing work and relevant information. After completion of the preliminary auditing work by the Company's accountants, the independent non-executive Directors communicated with the auditors on issues related to the auditing process.

(4) Loan or guarantee granted to Directors

During the Reporting Period, the Group had not provided any loan or any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

4. COMMITTEES OF THE BOARD

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's financial monitoring internal control, internal audit and risk management system and; the soundness and effectiveness of internal control, to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee of the seventh session of the Board comprises Mr. Wong Hin Wing (chairperson of the Audit Committee), Mr. Chu Xiaoping, Mr. Jiang Wenqi and Ms. Wang Weihong. All four of them are independent non-executive Directors and are qualified under the relevant requirements, whose term of office commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2019 including:

- 1) held 9 meetings in 2019 and each of the members of the committee attended all the meetings, in which the members reviewed the 2018 Annual Report, 2019 Interim Report and financial reports of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management.
- 2) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- 3) reviewed the Company's internal control evaluation report for 2018 and audit risk control work plan for 2019;
- 4) advised the Board regarding the change of auditing firm for the Reporting Period;
- 5) advised the Company on major events of the Company or reminding the management of relevant risks and reviewed the effectiveness of risk management and internal monitoring system.

4. COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

The work on the annual audit for 2019 and relevant jobs regarding the preparation of the annual report are as follows:

In accordance with "the Notice on preparation of the 2019 Annual Report in an orderly manner by Listed Companies" issued by the SSE on 31 December 2019, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2019 and the preparation of the annual report for 2019 in accordance with the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee negotiated with the auditors of the Company and the Company's Finance Department regarding the time line for audit and the relevant arrangements and set out the "Action plan for the Preparation of 2019 Annual Report" and reviewed the audit plan submitted by the auditors.
- 2) On 23 March 2020, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- 3) After the auditors' completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2019 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- 4) On 31 March 2020, the Audit Committee convened the second meeting in 2020 and considered and passed the 2019 Annual Report and its summary and the Company's 2019 Financial Report. At the same time, the Audit Committee finalized its evaluation of the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, adhering to the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

(2) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as strategic development and investment committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to conduct research and issue recommendations on the long-term strategic development strategies and significant investment decisions of the Company and, with authorization from the Board, to examine and approve investment projects intended to be implemented by the Company.

The strategic development and investment committee of the seventh session of the Board comprises Mr. Li Chuyuan (chairperson of the committee), Ms. Liu Juyan, Mr. Chu Xiaoping and Ms. Wang Weihong. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected, except that the term of office of Mr. Li Hong commenced from his appointment date on 3 June 2019 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the strategic development and investment committee had held 6 meetings and all the members attend each meeting.

4. COMMITTEES OF THE BOARD *(Continued)*

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of Directors and senior management, to research on the selection standards and procedures of Directors, general managers and other senior management and to provide recommendations, and to extensively look for qualified persons to act as Directors and senior management, to conduct examination on them and to provide recommendations, to review the remuneration of Directors and senior management and make recommendations to the Board.

The Nomination and Remuneration Committee of the seventh session of the Board comprises Mr. Chu Xiaoping (chairperson of the committee), Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. Wong Hin Wing. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected. During the Reporting Period, the Nomination and Remuneration Committee held five meetings to review the proposals on the emoluments of Directors, Supervisors and senior management of the Company for year 2018, the proposals for the emoluments of the Directors of the Company for year 2019, and the proposal on electing Mr. Zhang Chunbo as a candidate for executive Director of the seventh session of the Board. All of the committee members had attended the meetings.

The Company has adopted the policy for the nomination of Directors, which sets out the criteria and procedures for nomination and appointment of Directors, and the Nomination and Remuneration Committee has been appointed to make recommendations regarding remunerations of executive directors and senior management of the Company to the Board, and to nominate candidates for the Directors of the seventh session of the Board.

The Company has formulated the Diversification Policy for the Board Members, which was approved at the Board meeting held on 26 September 2013 and has been implemented. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. To ensure the effective implementation of the Policy, the Nomination and Remuneration Committee will monitor and review the Policy on a continuing basis. The Company is of the view that the current composition of the Board is diversified and suitable for the business development of the Company.

During the Reporting Period, there was no trading of shares of the Company by insiders on the Nomination and Remuneration Committee based on any inside information before disclosure of material price sensitive information which may affect the stock price of the Company.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the 4th meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect on their implementations.

The Budget Committee of the seventh session of the Board comprises Ms. Wang Weihong (the chairperson of the Committee), Ms. Cheng Ning, Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. Wong Hin Wing. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Budget Committee held one meeting. The proposals on the annual business objectives and budget for year 2019 and the annual work plan of budgeting for year 2019 were approved at the meeting. All of the committee members had attended the meetings.

- (5) The special committees of the Board did not give any important opinions or suggestions during the Reporting Period when discharging their duties.

5. SUPERVISORY COMMITTEE

- (1) During the Reporting Period, the Supervisory Committee monitored the procedures for convening shareholders' meetings and Board meetings and the resolutions proposed to be considered thereat, as well as the implementation by the Board of the resolutions passed at the shareholders' meetings, and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considered that during the Reporting Period the operations conducted by the Company were in compliance with the Companies Law, the Securities Law, the respective listing rules governing the securities exchanges in the PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has implemented the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company, and has established a good internal management system. The Company's Directors and senior management have properly discharged their duties and have not committed any acts in breach of the laws and regulations, the Articles of Association, nor have they engaged in any acts jeopardising the Company's interest or shareholder's interests.

- (2) During the Reporting Period, the Supervisory Committee held eight meetings, all Supervisors had attended the meetings.

- (3) The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations, and had not discovered any issues. The auditors issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for year 2019, which reflected an objective, true and fair view of the financial status and the operations results of the Company.

- (4) The Supervisory Committee monitored and inspected the connected transactions of the Company, and was of the opinion that: the connected transactions of the Company satisfied the development strategy and actual needs of the Company; the connected transactions were reasonable and necessary; the decision-making procedures in respect of connected transactions complied with the relevant laws and regulations and the provisions of the Articles of Association; and the interests of the Company and its minority shareholders were not prejudiced.

- (5) The Supervisory Committee expressed no dissent to the matters subject to their supervision during the Reporting Period, and was not aware of any material risks in the operation of the Company.

6. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

- (1) Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
- (2) Human resources: the Company maintains independence in the areas of staffing, personnel and payroll management.
- (3) Assets: the Group has an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company itself owned 1,611 registered trademarks which are all within validity periods.
- (4) Independence of organization: there was no integration of operation return of the Company and its controller shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently. Further, the Company has independent decision-making mechanisms and complete production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
- (5) Finance: the Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

7. THE ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

The Company has established the performance assessment mechanism in respect of the senior management officers and thus can assess the performance of the senior management officers according to the formulated assessment scheme on an annual basis. At present, the Company is actively exploring relevant proposals regarding the incentive mechanisms, and will promote share incentive plans at the appropriate time so as to improve and complete the mechanism and to mobilize the enthusiasm and initiatives of the management officers at the medium and senior levels and business backbones to the greatest extent, and to arouse their creativity for purposes of generating greater return to the Company and its shareholders.

8. WHETHER TO DISCLOSE THE SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The Board performed a self-assessment on internal control for the Year and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the "Notice on preparation of the 2019 Annual Report in an orderly manner by Listed Companies" issued by SSE on 31 December 2019.

Explanation on significant defects in internal control that were found during the Reporting Period

Applicable Not applicable

9. AUDIT REPORT ON THE INTERNAL CONTROL

- (1) The assessment opinion of the audit firm: WUYIGE Certified Public Accountants LLP considered that as at 31 December 2019, the Group has maintained effective internal control in its financial reporting in all material aspects pursuant to the “Guidelines for Internal Control Standards” and relevant regulations.
- (2) WUYIGE Certified Public Accountants LLP has verified and evaluated the Group’s internal control for the Year (full version is available on the website of the SSE).

Whether to disclose the audit report on internal control: Yes

10. DIRECTORS’ RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the Year and which are in compliance with statutory requirements and other regulatory requirements. As at 31 December 2019, the Board was not aware of any material misstatement or uncertainties that might cast doubt on the Group’s financial position or ability to continue as a going concern. The Board endeavors to ensure a balanced, clear and understandable assessment of the Group’s performance, position and prospects in financial reporting. The statement of the auditors regarding their reporting responsibility for the financial statements is set out in the Financial Reports on pages 177 to 323 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern.

11. OTHERS

(1) Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention to, among other things environmental protection and public, welfare and to mutually promote the sustainable and sound development of the Company in economic activities.

(2) Information disclosure and management of relationship with investors

The Company designated the secretary to the Board to be responsible for handling the Company’s information disclosure, receiving shareholders and investors and answering enquiries from shareholders and investors designated and responding to correspondences from shareholders in a timely manner. The Company has designated Shanghai Securities News, Securities Times, China Securities Journal and Securities Daily in the PRC as newspapers for publishing the Company’s information and disclose, such at the websites designated by the SSE and the HKEx and the Company’s website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

Relevant Information of Company's Bonds

THE COMPANY DID NOT HAVE ANY BONDS DURING THE REPORTING PERIOD

Audit Report



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WUYIGE [2020] No.22-00005

To the Shareholders of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.,

1. OPINION

We have audited the financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereafter, the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated and the company's balance sheets as at 31 December 2019, the consolidated and the company's income statements, the consolidated and the company's statements of cash flows and the consolidated and the company's statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises in all material aspects and present fairly the consolidated and the Company's financial position as at 31 December 2019 and the consolidated and the Company's financial performance and cash flows for the year then ended.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with China Code of Ethics for Certified Public Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following matters as key audit matters that need to be communicated in the audit report.

3. KEY AUDIT MATTERS (Continued)

(1) Revenue recognition

① Matters Description

As stated in the note “V. (45) Operating income and operating costs” of the financial statements, the Company’s 2019 annual operating income was RMB64,951,777,641.83, of which the main business income was RMB64,682,984,312.29, accounting for 99.59% of the total operating income; Due to the significant amount of main business income and key performance indicators, there is an inherent risk that management may manipulate the timing of revenue recognition in order to achieve specific goals or expectations. Therefore, we consider revenue recognition as a key audit matter.

② How our audit addressed the key audit matter

- (a) Understand and evaluate the design of internal control related to revenue recognition, and test the effectiveness of related internal control;
- (b) Review whether the revenue recognition policy meets the requirements of corporate accounting standards and is consistently applied;
- (c) Select a sample of the income transactions recorded this year, check the invoices, sales contracts, warehouse receipts, and customer receipt records, and evaluate whether the relevant revenue confirmation meets the company’s accounting policy for revenue recognition;
- (d) Select a sample of the income transactions recorded this year and execute an independent letter of verification procedure to confirm the authenticity of the income;
- (e) Querying the industrial and commercial registration information of the main customers through public channels to ensure that the main customers are operating normally and the business scope is consistent with the nature of the company’s downstream customers;
- (f) Implementation of analysis procedures for operating income, including analysis of annual and monthly income of major products, changes in major customers and sales prices, changes in gross profit margin of major products, and determination of changes in revenue and gross profit margin for the current year;
- (g) For the income transactions recorded before and after the balance sheet date, select a sample, check the delivery order, customer receipt records and other supporting documents to evaluate whether the income is recorded in the appropriate accounting period.

3. KEY AUDIT MATTERS *(Continued)*

(2) Goodwill impairment test

① Matters Description

For relevant information disclosure, please refer to the note “III. (21), Long-term asset impairment” and the note “V. (19) Goodwill” of the financial statements.

On May 31, 2018, the company acquired a 30% equity interest in Guangzhou Pharmaceutical Co., Ltd. (hereinafter referred to as the “pharmaceutical company”), forming a business combination not under the same control. On the acquisition date, the difference between the merger cost and the fair value share of the acquiree’s identifiable net assets forms goodwill of RMB932 million.

In recent years, due to changes in the environment of pharmaceutical companies and national medical policies, the growth rate of sales of pharmaceutical companies has declined, and there is a risk that goodwill may be impaired.

The management judged the pharmaceutical company as an independent cash-generating unit and hired an independent appraiser to evaluate the fair value of the pharmaceutical company to assist the management in conducting an impairment test on the goodwill of the pharmaceutical company. Impairment assessment involves determining valuation parameters such as discount rates and assumptions about the operating and financial situation in the coming years, including sales growth rates and gross profit margins in the coming years.

As the goodwill of pharmaceutical companies has a significant impact on the financial statements, and the reasonableness of the above judgments and assumptions has a significant impact on the results of goodwill impairment testing, we take this matter as a key audit matter.

② How our audit addressed the key audit matter

- (a) Understand, evaluate and test the company’s key internal controls related to goodwill impairment testing;
- (b) For the goodwill formed by business combinations not under the same control, understand the completion of the performance forecast of the acquired company;
- (c) Discuss with management the method of goodwill impairment testing, including the asset group or combination of asset groups related to goodwill, the future income forecast of each asset group or combination of asset groups, and the reasonable assumptions of discounted cash flows Judgment and evaluation of the profitability of each asset group or asset group portfolio;
- (d) Evaluate the competence, professional quality and objectivity of external valuation experts engaged by management;
- (e) Discuss with external valuation experts engaged by management to understand whether the key assumptions used in the impairment test are reasonable;
- (f) With the assistance of internal valuation experts, evaluate the rationality of the value types and valuation methods of asset evaluation reports issued by external valuation experts, as well as valuation parameters such as discount rates.

4. OTHER INFORMATION

The Management of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. is responsible for the other information. The other information comprises the information included in the 2019 annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. MANAGEMENT AND GOVERNANCE'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Management") is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standard for Business Enterprises, and designing, implementing and maintaining internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

6. AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Audit Report

6. AUDITOR'S RESPONSIBILITY *(Continued)*

- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain adequate and appropriate audit evidence on the financial information of entities or business activities of the company to express an opinion on it. We are responsible for guiding, supervising and executing group audits. We take full responsibility for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

WUYIGE Certified Public Accountants LLP
(Special General Partnership)

Beijing • China

Chinese Certified Public Accountant:
(The engagement partner on the audit)
Ling Xia

Chinese Certified Public Accountant:
(The engagement partner on the audit)
Jingkun Wang

31 March 2020

Consolidated Balance Sheet

31 December 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	31 December 2019	31 December 2018
Current assets:			
Cash at bank and on hand	V.1	18,469,618,237.41	16,114,883,673.51
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable	V.2	1,526,081,541.94	2,780,597,684.01
Accounts receivable	V.3	12,555,024,519.58	10,872,458,472.34
Accounts receivable financing	V.4	1,515,914,114.01	–
Advances to suppliers	V.5	673,352,793.02	837,808,116.68
Other receivables	V.6	1,173,360,042.04	1,056,551,186.68
Including: Interest receivable	V.6	1,666,666.70	1,367,876.63
Dividends receivable	V.6	316,706,053.45	40,036,044.47
Inventories	V.7	9,490,040,264.05	9,231,739,097.84
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		–	–
Other current assets	V.8	578,841,623.65	2,137,248,054.33
Total current assets		45,982,233,135.70	43,031,286,285.39
Non-current assets:			
Debt investment		–	–
Other debt investment		–	–
Long-term receivables		–	–
Long-term equity investment	V.9	1,599,025,192.41	1,759,958,035.39
Other equity instrument investment	V.10	81,977,960.04	84,897,870.89
Other non-current financial assets	V.11	262,469,919.10	226,938,456.16
Investment properties	V.12	218,199,149.16	228,084,499.83
Fixed assets	V.13	2,923,584,939.66	3,165,746,536.73
Construction in progress	V.14	667,402,454.68	480,305,723.50
Bearer biological assets	V.15	3,503,295.00	–
Oil and gas assets		–	–
Right-of-use assets	V.16	842,077,052.31	–
Intangible assets	V.17	2,485,288,578.20	1,013,353,424.62
Development expenditure	V.18	2,011,139.26	–
Goodwill	V.19	825,573,066.90	825,573,066.90
Long-term prepaid expenses	V.20	115,785,234.75	94,315,140.82
Deferred tax assets	V.21	594,992,161.76	569,144,829.25
Other non-current assets	V.22	289,535,847.27	2,580,000.00
Total non-current assets		10,911,425,990.50	8,450,897,584.09
Total Assets		56,893,659,126.20	51,482,183,869.48

Consolidated Balance Sheet

31 December 2019

Item	Notes	31 December 2019	31 December 2018
Current liabilities:			
Short-term borrowings	V.23	5,869,008,916.96	5,905,703,286.10
Financial liabilities held for trading	V.24	—	—
Derivative financial liabilities		—	—
Notes payable	V.25	3,982,425,654.37	2,656,176,505.09
Accounts payable	V.26	9,698,952,240.46	9,313,277,657.72
Advances from customers	—	—	—
Contract liabilities	V.27	4,675,361,799.46	3,686,647,223.24
Employee benefits payable	V.28	839,640,308.29	753,034,630.86
Taxes payable	V.29	248,014,970.03	963,543,253.64
Other payables	V.30	3,227,385,632.70	3,466,357,353.39
Including: Interest payable	V.30	34,840,834.22	41,637,538.72
Dividends payable	V.30	47,933,025.07	65,917,238.98
Liabilities held for sales		—	—
Current portion of non-current liabilities	V.31	229,361,467.97	204,024,196.93
Other current liabilities	V.32	606,814,819.73	—
Total current liabilities		29,376,965,809.97	26,948,764,106.97
Non-current liabilities:			
Long-term borrowings	V.33	4,500,000.00	413,553,706.06
Bonds payable		—	—
Including: Preferred stock		—	—
Perpetual bond		—	—
Lease liabilities	V.34	546,994,554.21	—
Long-term payables	V.35	25,229,042.00	135,795,848.74
Long-term employee benefits payable	V.36	329,428.98	325,325.54
Provisions	V.37	53,205,872.32	49,601,312.48
Deferred income	V.38	575,837,179.25	490,423,604.73
Deferred tax liabilities	V.21	266,908,733.88	249,762,210.96
Other non-current liabilities	V.39	54,201,557.40	50,225,000.00
Total non-current liabilities		1,527,206,368.04	1,389,687,008.51
Total Liabilities		30,904,172,178.01	28,338,451,115.48

Consolidated Balance Sheet

31 December 2019

Item	Notes	31 December 2019	31 December 2018
Shareholders' equity:			
Share capital	V.40	1,625,790,949.00	1,625,790,949.00
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual bond		–	–
Capital surplus	V.41	9,865,084,049.39	9,865,084,049.39
Less: Treasury shares		–	–
Other comprehensive income	V.42	–138,960.56	–477,139.10
Special reserve		–	–
Surplus reserve	V.43	1,526,241,180.49	1,368,735,157.63
Undistributed profits	V.44	11,167,819,445.53	8,825,776,191.86
		<hr/>	<hr/>
Total equity attributable to shareholders of the parent company		24,184,796,663.85	21,684,909,208.78
Minority interest		1,804,690,284.34	1,458,823,545.22
		<hr/>	<hr/>
Total Shareholders' Equity		25,989,486,948.19	23,143,732,754.00
		<hr/>	<hr/>
Total Liabilities and Shareholders' Equity		56,893,659,126.20	51,482,183,869.48
		<hr/>	<hr/>

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Income Statement

January to December 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	2019	2018
I. Operating income	V.45	64,951,777,641.83	42,233,838,051.12
Less: Operating costs	V.45	52,081,135,595.27	32,164,391,714.16
Taxes and surcharges	V.46	298,087,171.25	262,959,874.17
Selling and distribution expenses	V.47	6,384,900,451.60	5,056,820,914.13
General and administrative expenses	V.48	1,978,870,482.38	1,699,062,484.22
R&D expenses	V.49	576,511,023.23	585,497,705.00
Financial expenses	V.50	117,117,328.52	-6,654,528.43
Including: Interest expense	V.50	374,224,115.91	222,800,930.26
Interest income	V.50	303,216,899.66	262,003,043.18
Add: Other income	V.51	430,019,889.08	196,111,096.12
Investment income ("-" for loss)	V.52	198,458,982.24	1,271,314,318.61
Including: Share of profit or loss of associates and joint ventures	V.52	144,486,150.48	317,196,606.84
Gains on termination of financial assets measured at amortized cost ("-" for loss)		-	-
Gains on hedging of net exposure ("-" for loss)		-	-
Gains from changes in fair value ("-" for loss)	V.53	31,623,136.01	115,575,352.23
Impairment losses in respect of credit ("-" for loss)	V.54	-110,033,777.85	-39,326,839.23
Impairment losses in respect of assets ("-" for loss)	V.55	-11,485,403.86	-180,187,389.00
Gains on disposal of assets ("-" for loss)	V.56	1,274,043.27	707,312.22
II. Operating profit ("-" for loss)		4,055,012,458.47	3,835,953,738.82
Add: Non-operating income	V.57	109,179,829.49	197,572,883.49
Less: Non-operating expenses	V.58	35,658,815.35	14,796,366.69
III. Total profit ("-" for loss)		4,128,533,472.61	4,018,730,255.62
Less: Income tax expenses	V.59	687,246,274.38	485,014,019.72
IV. Net profit ("-" for net loss)		3,441,287,198.23	3,533,716,235.90
(I) Classified by the continuity of operations		-	-
1. Net profit from continuing operations ("-" for loss)		3,441,287,198.23	3,533,716,235.90
2. Net profit from discontinued operation ("-" for loss)		-	-
(II) Classified by ownership of the equity		-	-
1. Net profit attributable to the parent company's shareholders ("-" for loss)		3,188,884,638.91	3,440,980,103.08
2. Minority interest ("-" for loss)		252,402,559.32	92,736,132.82

Consolidated Income Statement

January to December 2019

Item	Notes	2019	2018
V. Other comprehensive income, net of tax		338,178.54	6,341,692.68
Other comprehensive income, net of tax attributable to the parent company's shareholders		338,178.54	6,341,692.68
(I) Other comprehensive income that will not be reclassified to profit or loss		-2,481,924.23	-2,452,981.75
1. Changes arising from the remeasurement of defined benefit obligation		-	-
2. Other comprehensive income that will not be reclassified to profit or loss under equity method		-	-
3. Change in fair value of other equity instrument investments	V.60	-2,481,924.23	-2,452,981.75
4. Change in fair value of the company's own credit risk			
(II) Other comprehensive income that may be reclassified into profit or loss		2,820,102.77	8,794,674.43
1. Other comprehensive income that may be reclassified to profit or loss under equity method	V.60	-	-187,789.97
2. Change in fair value of other debt investments		-	-
3. The amount of financial assets reclassified into other comprehensive income		-	-
4. Provision for credit loss of other debt investments		-	-
5. Cash flow hedge reserve		-	-
6. Difference arising from the translation of foreign currency financial statements	V.60	2,820,102.77	8,982,464.40
7. Others		-	-
Other comprehensive income, net of tax attributable to minority shareholders		-	-
VI. Total comprehensive income		3,441,625,376.77	3,540,057,928.58
1. Total comprehensive income attributable to shareholders of the parent company		3,189,222,817.45	3,447,321,795.76
2. Total comprehensive income attributable to minority shareholders		252,402,559.32	92,736,132.82
VII. Earnings per share (EPS):			
1. Basic earnings per share	V.61	1.961	2.116
2. Diluted earnings per share	V.61	1.961	2.116

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Cash Flow

January to December of 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	2019	2018
I. Cash flow from operating activities:			
Cash receipts from the sale of goods and the rendering of services		63,287,834,633.51	39,384,103,795.47
Receipts of taxes refunds		33,585,389.38	7,932,907.74
Other cash receipts relating to operating activities	V.62	1,314,306,416.08	909,372,523.49
Subtotal of cash inflow from operating activities		64,635,726,438.97	40,301,409,226.70
Cash payments for goods purchased and services received		46,811,797,128.27	26,366,733,560.32
Cash payments to and on behalf of employees		4,795,096,236.48	4,022,127,065.94
Payments of all types of taxes		3,032,246,089.42	2,166,052,074.92
Other cash payments relating to operating activities	V.62	4,974,220,102.46	2,529,608,039.65
Subtotal of cash outflow from operating activities		59,613,359,556.63	35,084,520,740.83
Net cash flow from operating activities		5,022,366,882.34	5,216,888,485.87

Consolidated Statement of Cash Flow

January to December of 2019

Item	Notes	2019	2018
II. Cash flow from investing activities:			
Cash receipts from returns of investments		1,585,560,614.86	3,602,960,010.48
Cash receipts from returns on investments		140,790,673.97	211,867,530.96
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		1,116,468.40	1,496,785.04
Net cash receipts from the disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities	V.62	45,408.50	944,043,450.77
Subtotal of cash inflow from investment activities		1,727,513,165.73	4,760,367,777.25
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		2,399,810,857.05	478,616,540.38
Cash payments to acquire investments		353,874,800.00	3,171,871,377.62
Net cash payments for acquisitions of subsidiaries and other business units		2,222,779.56	—
Other cash payments relating to investing activities	V.62	—	161,611.03
Subtotal of cash outflow from investment activities		2,755,908,436.61	3,650,649,529.03
Net cash flow from investing activities		-1,028,395,270.88	1,109,718,248.22

Consolidated Statement of Cash Flow

January to December of 2019

Item	Notes	2019	2018
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		121,017,847.48	257,980,000.00
Including: cash receipts from minorities making investment in subsidiaries		121,015,339.61	257,980,000.00
Cash receipts from borrowing		7,118,767,113.66	2,101,109,217.75
Other cash receipts relating to financing activities	V.62	2,323,388,828.59	958,871,915.99
Subtotal of cash inflow from financing activities		9,563,173,789.73	3,317,961,133.74
Cash repayments of amounts borrowed		7,698,792,097.95	3,570,995,757.97
Cash payments for distribution of dividends, profits or interest expenses		1,089,330,847.61	1,352,569,070.75
Including: payments for distribution of dividends or profit to minorities of subsidiaries		43,642,833.89	482,010,418.40
Other cash payments relating to financing activities	V.62	3,006,863,671.97	1,145,733,010.36
Subtotal of cash outflow from financing activities		11,794,986,617.53	6,069,297,839.08
Net cash flow from financing activities		-2,231,812,827.80	-2,751,336,705.34
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-148,473.81	807,009.93
V. Net increase in cash and cash equivalents		1,762,010,309.85	3,576,077,038.68
Add: opening balance of cash and cash equivalents	V.63	15,071,612,198.38	11,495,535,159.70
VI. Closing balance of cash and cash equivalents	V.63	16,833,622,508.23	15,071,612,198.38

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Changes in Shareholders' Equity

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	January to December 2019										Total Shareholders' Equity			
	Equity attributable to the Shareholders of Parent Company													
	Share capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less:	Other Comprehensive Income	Special reserve	Surplus Reserve	Undistributed profits	Subtotal	Minority Equity	Total Shareholders' Equity
I. Balance at 31 December 2018	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-	-477,139.10	-	1,369,735,157.63	8,825,776,191.86	21,684,909,208.78	1,458,823,545.22	23,143,732,754.00
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Combination of businesses under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2019	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-	-477,139.10	-	1,369,735,157.63	8,825,776,191.86	21,684,909,208.78	1,458,823,545.22	23,143,732,754.00
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	-	338,178.54	-	157,506,022.86	2,342,043,253.67	2,499,887,655.07	346,866,739.12	2,846,754,194.19
(1) Total comprehensive income	-	-	-	-	-	-	-	338,178.54	-	-	3,188,884,638.91	3,189,222,817.45	252,402,559.32	3,441,625,376.77
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	157,506,022.86	-946,841,385.24	-689,335,362.38	-27,551,158.81	-716,886,522.19
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	-	157,506,022.86	-157,506,022.86	-	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to Shareholders	-	-	-	-	-	-	-	-	-	-	-689,335,362.38	-689,335,362.38	-27,551,158.81	-716,886,522.19
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Internal carry-forward of Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (for share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (for share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 31 December 2019	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-	-138,960.56	-	1,526,241,180.49	11,167,819,445.53	24,184,796,663.85	1,804,691,284.34	25,989,486,948.19

Consolidated Statement of Changes in Shareholders' Equity

January to December 2018													
Equity attributable to the Shareholders of Parent Company													
Item	Other equity instruments						Subtotal	Minority Equity	Total Shareholders' Equity				
	Share capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares				Less: Comprehensive Income	Other	Special reserve	Surplus Reserve
I. Balance at 31 December 2017	1,625,790,949.00	-	-	-	9,875,177,958.43	-	-70,206,938.27	-	1,154,762,193.41	6,285,996,403.09	18,871,520,571.66	391,633,221.51	19,263,153,793.17
Add: Changes in accounting policies	-	-	-	-	-	-	63,380,106.49	-	-	-67,801,004.52	4,412,888.03	-	-4,412,888.03
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Combination of businesses under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2018	1,625,790,949.00	-	-	-	9,875,177,958.43	-	-61,826,831.78	-	1,154,762,193.41	6,218,195,404.57	18,867,107,673.63	391,633,221.51	19,258,740,885.14
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-10,093,919.04	-	6,341,692.68	-	213,972,964.22	2,607,801,817.29	2,817,801,335.15	1,067,190,323.71	3,884,991,658.86
(1) Total comprehensive income	-	-	-	-	-10,093,919.04	-	6,341,692.68	-	213,972,964.22	3,440,980,103.08	3,447,321,795.76	92,736,132.82	3,540,057,928.58
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-10,093,919.04	-	-	-	-	-	-10,093,919.04	1,028,886,989.92	1,018,793,070.88
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-	17,050,000.00	17,050,000.00
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-10,093,919.04	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-10,093,919.04	-	-	-	213,972,964.22	-833,393,315.79	-619,406,351.57	-54,432,799.03	-673,839,150.60
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	213,972,964.22	-	-	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Internal carry-forward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 31 December 2018	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-477,139.10	-	1,368,735,157.63	8,885,776,191.86	21,684,909,208.78	1,458,823,545.22	23,143,732,754.00

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Balance Sheet

31 December 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	31 December 2019	31 December 2018
Current assets:			
Cash at bank and on hand		6,321,162,972.77	6,806,911,762.32
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable		508,495,006.80	615,391,740.80
Accounts receivable	XIV.1	129,979,798.36	261,455,709.16
Accounts receivable financing		222,842,858.68	–
Advances to suppliers		6,128,432.10	12,525,525.66
Other receivables	XIV.2	1,934,398,668.36	1,877,892,798.80
Including: Interest receivable	XIV.2	–	–
Dividends receivable	XIV.2	463,226,705.58	382,928,791.41
Inventories		534,931,211.35	946,856,781.67
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		–	–
Other current assets		38,676,123.76	1,507,451,931.22
Total current assets		9,696,615,072.18	12,028,486,249.63
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments	XIV.3	10,089,420,785.24	8,440,656,099.18
Other equity instrument investments		81,977,960.04	84,897,870.89
Other non-current financial assets		255,009,227.54	223,325,494.09
Investment properties		205,859,204.51	214,466,738.50
Fixed assets		481,357,324.46	491,135,835.97
Construction in progress		125,347,198.87	38,386,309.01
Bearer biological assets		–	–
Oil and gas assets	–	–	–
Right-of-use assets		14,749,483.54	–
Intangible assets		1,744,366,663.50	366,396,141.82
Development expenditure		–	–
Goodwill		–	–
Long-term prepaid expenses		2,100,502.42	1,725,586.63
Deferred tax assets		161,954,721.70	126,072,489.93
Other non-current assets		97,433,596.00	–
Total non-current assets		13,259,576,667.82	9,987,062,566.02
Total Assets		22,956,191,740.00	22,015,548,815.65

Balance Sheet

31 December 2019

Item	Notes	31 December 2019	31 December 2018
Current liabilities:			
Short-term borrowings		854,431,644.92	954,431,644.92
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		–	26,931,727.54
Accounts payable		310,400,672.81	295,387,077.43
Advances from customers		–	–
Contract liabilities		283,563,073.97	299,102,767.07
Employee benefits payable		81,797,031.37	86,313,055.87
Taxes payable		55,153,090.24	185,050,078.44
Other payables		2,283,912,927.07	2,116,999,352.64
Including: Interest payable		–	–
Dividends payable		673,222.20	567,433.79
Liabilities held for sales		–	–
Current portion of non-current liabilities		4,276,809.32	–
Other current liabilities		40,378,119.85	–
Total current liabilities		3,913,913,369.55	3,964,215,703.91
Non-current liabilities:			
Long-term borrowings		–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual bond		–	–
Lease liabilities		10,822,166.98	–
Long-term payables		7,802,224.39	7,802,224.39
Long-term employee benefits payable		–	–
Provisions		355,119,019.19	252,971,219.19
Deferred income		70,543,622.88	76,572,361.85
Deferred tax liabilities		13,624,660.96	12,940,147.39
Other non-current liabilities		76,575.18	–
Total non-current liabilities		457,988,269.58	350,285,952.82
Total Liabilities		4,371,901,639.13	4,314,501,656.73

Balance Sheet

31 December 2019

Item	Notes	31 December 2019	31 December 2018
Shareholders' equity:			
Share capital		1,625,790,949.00	1,625,790,949.00
Other equity instruments		-	-
Including: Preferred stock		-	-
Perpetual bond		-	-
Capital surplus		9,820,175,495.89	9,820,175,495.89
Less: Treasury shares		-	-
Other comprehensive income		-4,905,769.41	-2,423,845.18
Special reserve		-	-
Surplus reserve		1,153,632,745.89	996,126,723.03
Undistributed profits		5,989,596,679.50	5,261,377,836.18
Total Shareholders' Equity		18,584,290,100.87	17,701,047,158.92
Total Liabilities and Shareholders' Equity		22,956,191,740.00	22,015,548,815.65

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Income Statement

January to December of 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	2019	2018
I. Operating income	XIV.4	5,027,078,906.58	4,332,044,453.05
Less: Operating costs	XIV.4	3,175,305,546.73	2,115,819,770.26
Taxes and surcharges		44,445,311.86	49,130,665.99
Selling and distribution expenses		517,875,957.16	497,673,650.54
General and administrative expenses		441,728,093.75	464,710,730.77
R&D expenses		188,251,921.82	283,921,217.29
Financial expenses		-82,564,656.42	-86,941,065.75
Including: Interest expense		32,450,947.17	21,351,287.90
Interest income		116,899,581.57	112,832,290.45
Add: Other income		22,162,217.96	14,831,714.51
Investment income ("-" for loss)	XIV.5	868,196,412.41	1,183,707,198.51
Including: Share of profit or loss of associates and joint ventures		118,433,832.36	241,342,102.95
Gains on termination of financial assets measured at amortized cost ("-" for loss)		-	-
Gains on hedging of net exposure ("-" for loss)		-	-
Gains from changes in fair value ("-" for loss)		31,683,733.45	115,717,545.14
Impairment losses in respect of credit		24,755.44	-3,809,858.85
Impairment losses in respect of assets		3,371,458.80	-19,366,231.79
Gains on disposal of assets ("-" for loss)		144,841.90	-
II. Operating profit ("-" for loss)		1,667,620,151.64	2,298,809,851.47
Add: Non-operating income		6,798,390.67	11,227,625.26
Less: Non-operating expenses		2,995,104.49	1,459,323.96
III. Total profit ("-" for loss)		1,671,423,437.82	2,308,578,152.77
Less: Income tax expenses		96,363,209.26	168,848,510.60
IV. Net profit ("-" for net loss)		1,575,060,228.56	2,139,729,642.17
1. Net profit from continuing operations ("-" for loss)		1,575,060,228.56	2,139,729,642.17
2. Net profit from discontinued operation ("-" for loss)		-	-

Income Statement

January to December of 2019

Item	Notes	2019	2018
V. Other comprehensive income, net of tax		-2,481,924.23	-2,640,771.72
(1) Other comprehensive income that will not be reclassified to profit or loss		-2,481,924.23	-2,452,981.75
1. Changes arising from the remeasurement of defined benefit obligation		-	-
2. Other comprehensive income that will not be reclassified to profit or loss under equity method		-	-
3. Change in fair value of other equity instrument investments		-2,481,924.23	-2,452,981.75
4. Change in fair value of the company's own credit risk		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		-	-187,789.97
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-187,789.97
2. Change in fair value of other debt investments		-	-
3. The amount of financial assets reclassified into other comprehensive income		-	-
4. Provision for credit loss of other debt investments		-	-
5. Cash flow hedge reserve		-	-
6. Difference arising from the translation of foreign currency financial statements		-	-
7. Others		-	-
VI. Total comprehensive income		1,572,578,304.33	2,137,088,870.45

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Cash Flow

January to December of 2019

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	2019	2018
I. Cash flow arising from operating activities:			
Cash receipts from the sale of goods and the rendering of services		4,045,115,485.83	3,661,338,559.82
Receipts of taxes refunds		-	-
Other cash receipts relating to operating activities		498,339,053.08	4,167,305,158.72
Subtotal of cash inflow from operating activities		4,543,454,538.91	7,828,643,718.54
Cash payments for goods purchased and services received		2,145,217,146.44	1,658,621,823.66
Cash payments to and on behalf of employees		491,600,235.47	476,058,815.04
Payments of all types of taxes		515,143,457.32	495,658,325.75
Other cash payments relating to operating activities		421,539,413.35	4,148,830,831.51
Subtotal of cash outflow from operating activities		3,573,500,252.58	6,779,169,795.96
Net cash flow from operating activities		969,954,286.33	1,049,473,922.58
II. Cash flow from investing activities:			
Cash receipts from returns of investments		1,544,474,800.00	3,000,000,000.00
Cash receipts from returns on investments		1,259,800,425.39	1,949,416,660.44
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		359,970.87	3,630.00
Net cash received from disposal of subsidiaries and other business units		-	-
Other cash receipts relating to investing activities		1,283,686,450.93	1,437,478,578.43
Subtotal of cash inflow from investment activities		4,088,321,647.19	6,386,898,868.87
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		1,666,672,275.79	60,479,213.08
Cash payments to acquire investments		1,916,651,800.00	5,600,489,331.81
Net cash payments for acquisitions of subsidiaries and other business units		-	-
Other cash payments relating to investing activities		1,136,233,486.36	1,287,733,486.36
Subtotal of cash outflow from investment activities		4,719,557,562.15	6,948,702,031.25
Net cash flow from investing activities		-631,235,914.96	-561,803,162.38

Statement of Cash Flow

January to December of 2019

Item	Notes	2019	2018
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		-	-
Cash receipts from borrowing		854,431,644.92	1,104,431,644.92
Other cash receipts relating to financing activities		52,884,129.44	908,082.74
Subtotal of cash inflow from financing activities		907,315,774.36	1,105,339,727.66
Cash repayments of amounts borrowed		954,431,644.92	304,431,644.92
Cash payments for distribution of dividends, profits or interest expenses		719,323,679.72	649,604,581.78
Other cash payments relating to financing activities		31,038,893.47	26,994,238.54
Subtotal of cash outflow from financing activities		1,704,794,218.11	981,030,465.24
Net cash flow from financing activities		-797,478,443.75	124,309,262.42
IV. Effect of foreign exchange rate changes on cash and cash equivalents		5,520.37	-
V. Net increase in cash and cash equivalents		-458,754,552.01	611,980,022.62
Add: opening balance of cash and cash equivalents		6,759,917,523.78	6,147,937,501.16
VI. Closing balance of cash and cash equivalents		6,301,162,971.77	6,759,917,523.78

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Changes in Shareholders' Equity

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Other equity instruments						Total Shareholders' Equity				
	Share capital	Perpetual bond	Perpetual bond	Others	Capital Reserve	Less: Treasury shares		Other Comprehensive Income	Special reserve	Surplus Reserve	Undistributed profits
I. Balance at 31 December 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-	-	996,126,723.03	5,261,377,836.18	17,701,047,158.92
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2019	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-	-	996,126,723.03	5,261,377,836.18	17,701,047,158.92
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	-	-	157,506,022.86	728,218,843.32	883,242,941.95
(1) Total comprehensive income	-	-	-	-	-	-	-	-	-	1,575,060,228.56	1,575,060,228.56
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	157,506,022.86	-846,841,365.24	-689,335,362.38
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	157,506,022.86	-157,506,022.86	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-689,335,362.38	-689,335,362.38
(4) Internal carry-forward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 31 December 2019	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-	-	1,153,632,745.89	5,989,596,679.50	18,584,290,100.87

Statement of Changes in Shareholders' Equity

January to December 2018

Item	Other equity instruments				Other Comprehensive Income				Total Shareholders' Equity		
	Share capital	Perpetual bond	Perpetual bond	Others	Capital Reserve	Less: Treasury shares	Income	Special reserve	Surplus Reserve	Undistributed profits	Equity
I. Balance at 31 December 2017	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-64,737,939.47	-	782,153,758.81	4,024,415,273.84	16,187,797,538.07
Add: Changes in accounting policies	-	-	-	-	-	-	64,954,866.01	-	-	-69,367,764.04	-4,412,888.03
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	216,926.54	-	782,153,758.81	3,955,047,509.80	16,183,384,640.04
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	-2,640,771.72	-	213,972,964.22	1,306,330,326.38	1,517,662,518.88
(1) Total comprehensive income	-	-	-	-	-	-	-2,640,771.72	-	-	2,139,729,642.17	2,137,088,870.45
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	213,972,964.22	-833,399,315.79	-619,426,351.57
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	213,972,964.22	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-213,972,964.22	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Internal carry-forward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 31 December 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-2,423,845.18	-	996,126,723.03	5,261,377,836.18	17,701,047,158.92

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION

1. Company overview

According to the Circular Tigai sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Group" or "the Company") was incorporated solely by Guangzhou Pharmaceutical Holdings Limited (hereinafter referred to as "GPHL"). The 8 Chinese Patent Medicine ("CPM") manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected into the Company. The Company obtained its business license on 1 September 1997 and the registered number is 440101000005674.

According to the Circular Tigai sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zhengweifa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Group issued 219,900,000 shares on Hong Kong Stock Exchange (H shares) in October 1997. As approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 ordinary shares (A share) of the Group were issued and the Group was listed on Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is "GZ Phar.", and the stock code was 600332.

The Group executed and completed a material asset restructuring transaction in 2013, which includes: (1) The Group issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd. (hereinafter referred to as "Baiyunshan"), a subsidiary of GPHL, in May 2013. (2) The Group issued an addition of 34,839,645 A shares to GPHL, as consideration payment, to acquire the buildings and trademarks which were owned by GPHL or GPHL had the right to dispose of, and 100% equity interest of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Guangyao Baiyunshan Hong Kong Company") (Previously named "Polian Development Co., Ltd."), a subsidiary of GPHL, and 12.5% equity interest of Baxter Healthcare Co., Ltd. (hereinafter referred to as "Baxter Healthcare") held by GPHL. The Company completed the registration of the shares on 5 July 2013. After the completion of the above-mentioned assets restructuring processes, the Group's total amount of outstanding shares was 1,291,340,650 shares. The stock abbreviation was changed into "BYS".

According to the Indemnification Agreement in Respect of the Difference Between Actual Number of Net Income of Assets to be Purchased and Forecast of Net Income entered into between the Group and GPHL, the Company repurchased 261,400 shares of A shares held by GPHL for a total of RMB1, which was cancelled on 27 April 2015. The registration procedures of repurchase and cancellation were completed on 7 May 2015. After the completion of the above-mentioned restructuring, the Group's general capital is 1,291,079,250 shares.

The Group offered 334,711,699 RMB common shares (A share) non-publicly in 2016. Capital stock was increased by 334,711,699 shares, and the Group's general capital increased to 1,625,790,949 shares.

The parent company and the ultimate controlling party are GPHL and Guangzhou State-owned Assets Supervision and Administration Commission respectively.

The approved business scope of the Company and its subsidiaries as included in the consolidated financial statements includes: (1) Research, development, manufacturing and sales of Chinese and Western medicine, chemical raw medicine, natural medicine, biological medicine, intermediate product of chemical raw medicine; (2) The wholesale, retail, import and export business of Western medicine, Chinese medicines and medical instruments; (3) Research, development, manufacturing and sale of Great Health products; (4) Investment in medical, health management and youth preservation, etc.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION (Continued)

1. Company overview

The major CPM products of the Group include: Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“華佗再造丸”), Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡沖劑”), etc. The major Western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone. The major pre-packaged food product of the Group is Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The financial statements were authorized for issue by the Board on 31 March 2020.

2. Scope of consolidation

The Group has 104 subsidiaries included in the scope of consolidation in 2019. For more details, please refer to Note VII “Equity in Other Entities”. The companies in the scope of consolidation of the Group for the current year increased by 12 and decreased by 1 comparing with the prior year. For more details, please refer to Note VI “Changes in the Scope of Consolidation”.

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as “Xing Qun”)	Direct holding
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (hereinafter referred to as “Zhong Yi”)	Direct holding
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (hereinafter referred to as “Chen Li Ji”)	Direct holding
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (hereinafter referred to as “Guangzhou Han Fang”)	Direct holding
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct holding
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (hereinafter referred to as “Qi Xing”)	Indirect holding
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (hereinafter referred to as “Jing Xiu Tang”)	Direct holding
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (hereinafter referred to as “Pan Gao Shou”)	Direct holding
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (hereinafter referred to as “Wang Lao Ji”)	Direct holding

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Guangzhou Wang Lao Ji Food Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Co., Ltd. (hereinafter referred to as "GP Corp.")	Direct holding
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Indirect holding
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Indirect holding
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Indirect holding
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Indirect holding
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Indirect holding
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Indirect holding
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Indirect holding
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Indirect holding
Guangdong Meixian Pharmaceutical Co., Ltd.	Indirect holding
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangyao Sichuan Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Indirect holding
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Indirect holding
Jian Min International Co., Ltd.	Indirect holding
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Indirect holding

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.	Indirect holding
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (hereinafter referred to as "Cai Zhi Lin")	Direct holding
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect holding
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect holding
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect holding
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Indirect holding
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Indirect holding
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Indirect holding
Gansu Guangyao baiyunshan Chinese Medicine Technology Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Import & Export Co., Ltd. (hereinafter referred to as "Pharmaceutical Import & Export")	Direct holding
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (hereinafter referred to as "Guangzhou Bai Di")	Direct holding
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Indirect holding
Tibet Linzhi Guangyao Development Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (hereinafter referred to as "WLJ Great Health")	Direct holding
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect holding

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Guangzhou Wang Lao Ji Industry Company	Indirect holding
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect holding
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Indirect holding
Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd.	Indirect holding
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (hereinafter referred to as "Guangxi Ying Kang")	Direct holding
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd. (hereinafter referred to as "Yi Gan")	Direct holding
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (hereinafter referred to as "Baiyunshan Medical and Healthcare Industry Company")	Direct holding
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Hospital Co., Ltd. (hereinafter referred to as "Guangzhou Baiyunshan Hospital")	Indirect holding
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (hereinafter referred to as "Xing Zhu")	Direct holding
Guangzhou Wang Lao Ji Investment Co., Ltd. (hereinafter referred to as "Wang Lao Ji Investment")	Direct holding
Guangzhou WLJ Catering Management Development Co., Ltd. (hereinafter referred to as "WLJ Catering")	Indirect holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (hereinafter referred to as "Tian Xin")	Direct holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (hereinafter referred to as "Guang Hua")	Direct holding
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (hereinafter referred to as "Guang Hua Health")	Indirect holding
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (hereinafter referred to as "Ming Xing")	Direct holding
Guangzhou Xing Ji Industries Co., Ltd.	Indirect holding

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Baiyunshan Weiling Pharmaceutical Co., Ltd. (hereinafter referred to as "Weiling")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (hereinafter referred to as "Pharmaceutical Technological")	Direct holding
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Guangyao Baiyunshan Hong Kong Company")	Direct holding
Guangzhou Baiyunshan Macao Co., Ltd.	Direct holding
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Direct holding
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Indirect holding
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (hereinafter referred to as "Guangyao Haima")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (hereinafter referred to as "Baiyunshan Pharmaceutical Marketing")	Direct holding
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct holding
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Direct holding
Guangyao Wang Lao Ji (Bijie) Industry Co., Ltd.	Indirect holding
Hainan Guangyao Chen Fei Pharmacy Co., Ltd.	Indirect holding
Qingyuan Guangyao Zheng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangyao (Qingyuan) Pharmaceutical Co., Ltd.	Indirect holding
Guangyao (Zhuhai Hengqin) Pharmaceutical Import & Export Co., Ltd.	Indirect holding
Guangzhou Cai Zhi Lin National Medical Museum Co., Ltd.	Indirect holding
Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd.	Indirect holding

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Zhejiang Baiyunshan Anlikang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Chuangying Guangyao Baiyunshan Intellectual Property Co., Ltd.	Direct holding
Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd.	Direct holding

II. BASIS OF PREPARATION

1. Basis of Preparation

The financial statements are prepared, on a going concern basis, to recognize and measure the transactions and events, which have occurred, in accordance with the *Accounting Standards for Business Enterprises—Basic Standard* (Release of No.33 Order of the Ministry of Finance and Amendment to No.76 Order of the Ministry of Finance), 42 specific accounting standards, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance on and subsequent to 15 February 2006 (hereinafter collectively referred to as "ASBE"), and also they are prepared based on the significant accounting policies and accounting estimates described as below.

2. Going Concern

The Group has the ability to continue as a going concern in the next 12 months since the end of the reporting period. There is no material event that may cast significant doubt upon the Group's ability to continue as a going concern.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries are engaged in pharmaceutical operations. Based on the characteristics of the Company's actual productions and operations, the Company and its subsidiaries have determined several specific accounting policies and accounting estimates for revenue recognition and other transactions and events according to ASBE. For more details, please refer to Note III. 26 "Revenue". For description of significant accounting judgments and estimates made by the management, please refer to Note III. 32 "Significant Accounting Judgment and Estimates".

1. Statement of Compliance with ASBE

The financial statements have been prepared in accordance with the *Accounting Standards for Business Enterprises*, present truly and completely, the Company's financial position as of 31 December 2019, and performance results and cash flows for the period then ended.

2. Accounting Period

Accounting periods are classified into annual periods and interim periods. An interim period is a reporting period shorter than a complete accounting year. The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

3. Operating Cycle

A normal operating cycle refers to the time period between the acquisition of assets for processing and their realization in cash or cash equivalents. The group's operating cycle is of 12 months' duration, which is used as the classification standard for liquidity of assets and liabilities.

4. Functional Currency

RMB is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries choose RMB as the functional currency. The Company's foreign subsidiaries choose HKD as the functional currency according to the primary economic environment in which the Company's foreign subsidiaries operate. The financial statements are prepared in RMB.

5. Business Combination

A business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. Business combinations are classified into business combinations under common control and business combinations not under common control.

(1) Business combination under common control

A business combination under common control is a business combination in which all the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the absorbing party is the party that acquires the control right of other involved enterprises on combination date. The combined party is other enterprises involved in the combination. The combination date refers to the date on which the absorbing party effectively obtains control of the party being absorbed.

Assets and liabilities that are obtained in a business combination by the absorbing party shall be measured at their book values as recorded by the party being absorbed on the combination date. The difference between the book value of the net assets obtained and the book value of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to the capital reserve (share premium). If the capital reserve (share premium) is not sufficient to absorb the difference, excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that are directly attributable to the combination shall be charged against profit or loss in the period in which the cost is incurred.

(2) Business combination not under common control

A business combination not under common control is a business combination in which all the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not under common control, the party that, on the acquisition date, obtains control of other enterprises participating in the combination is the acquirer. Other enterprises participating in the combination are the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Business Combination *(Continued)*

(2) Business combination not under common control *(Continued)*

For a business combination not under common control, combination cost is the aggregate of the fair value of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree on the acquisition date. Service expense including audit fees, legal fees, valuation and consulting fees, and other administrative expenses attributable to the business combination shall be charged against profit or loss in the period in which the service expense is incurred. The transaction expense of the equity securities or debt securities issued by the acquirer as combination consideration shall be included in the initial cost of equity securities or debt securities issued. The contingent consideration in the business combination shall be included into the combination cost at its fair value on the acquisition date. In case that within 12 months after the acquisition date, any new or further evidence is found regarding the existing situation as on the acquisition date, which causes adjustment on contingent consideration, goodwill shall be adjusted accordingly. The combination cost incurred by the acquirer and the identifiable net assets acquired in the combination are initially measured at fair value on the acquisition date. The positive difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree on the acquisition date is recognized as goodwill. As for the negative difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree, it is necessary to review the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination cost. If the combination cost is still less than the fair value of the identifiable net assets it obtains from the acquiree, the difference shall be recorded through profit or loss for the current year.

Where the deductible temporary difference of the acquiree obtained by the acquirer is not recognized on the ground that the recognition condition of deferred tax asset has not been met on the acquisition date, within 12 months after the acquisition date, if further information is obtained to indicate that the relevant situation on the acquisition date existed and the economic interest brought by the deductible temporary difference of the acquirer on the acquisition date is expected to be realized, the amount of the difference shall be recognized as relevant deferred tax asset and goodwill shall be deducted by the same amount. If the goodwill is insufficient to be deducted, the difference is recognized through profit or loss for the current year; otherwise, the difference recognized as the deferred tax asset which is relate to business combination shall be recognized through profit or loss for the current year.

For the business combinations not under common control and completed through multiple transactions, according to *Notice of the Ministry of Finance of the People's Republic of China on Issuing Interpretations No.5 on Accounting Standards for Business Enterprises* (Caikuai [2012] No.19) and the criteria about "package deal" in Article 51 of *Accounting Standards for Business Enterprises No.33 – Consolidated Financial statements* (refer to Note III, 6 (2), whether these multiple transactions are included in "package deal" shall be judged. If they are included in "package deal", the accounting treatment shall be conducted in accordance with the descriptions of previous paragraphs of this Part and Note III. 14 "Long-term Equity Investment"; if they are not included in "package deal", relevant accounting treatment shall be conducted differently in separate financial statements and consolidated financial statements.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Business Combination *(Continued)*

(2) Business combination not under common control *(Continued)*

In separate financial statements, the sum of the book value of the equity investment of the acquiree held before the acquisition date and the investment cost incurred on the acquisition date shall be the initial investment cost of such an investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, when handling this project, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current year, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

In consolidated financial statements, the equity of the acquiree held before the acquisition date shall be remeasured at fair value of the equity on the acquisition date, and the difference between fair value and book value shall be recorded in the current income from investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current year which consists of the acquisition date, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

6. Preparation Method for Consolidated Financial Statements

(1) The principle for determining the scope of consolidated financial statements

The scope of consolidated financial statements shall be determined on the basis of control. Control means the Company has power over the investee, by participating in the relevant activities of the investee and have variable returns, and the ability to use the power to influence the return amount of the investee. The combination scope includes the Company and all subsidiaries. A subsidiary is a corporate body controlled by the Company.

The Company will reassess combination scope if relevant elements on the control definition has changed due to the change of the relevant facts and circumstances.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

6. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) The method for preparation of consolidated financial statements

From the date the Company obtains the actual control over a subsidiary's net assets and production operation decision-making power the Company includes the subsidiary into the consolidated scope; from the date the Company loses control over a subsidiary, the subsidiary shall cease to be consolidated. For a subsidiary disposed of, the operating results and cash flows before the disposal date are appropriately included in the consolidated income statement and the consolidated cash flow statement; for a subsidiary disposed during the current year, no adjustments are made to the opening balance of the consolidated balance sheet. Where a subsidiary is acquired through a business combination not under common control, the subsidiary's operating results and cash flows after the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments is made to the opening balance and comparative figures of the consolidated financial statements. Where a subsidiary is acquired through a business combination under common control, the subsidiary's operating results and cash flows from the beginning of the reporting period to the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and adjustments is made to the comparative figures of the consolidated financial statements accordingly.

When preparing the consolidated financial statements, if a subsidiary and the Company adopt the inconsistent accounting policies or accounting periods, the Company shall adjust the financial statements of the subsidiary based on its own accounting period and accounting policies. For a business combination not under common control, the subsidiary shall be adjusted based on the fair value of the identifiable net asset and adjustments to financial statements shall be made.

All material balances, transactions, and unrealized profits within the scope of consolidated financial statements shall be eliminated in the preparation of consolidated financial statements.

Portion of shareholders' equity and current net profit or loss not attributable to the Company shall be solely presented in shareholders' equity of consolidated balance sheet and net profit of consolidated income statements, respectively. When the amount of loss for the current year attributable to minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess shall be allocated against the minority interests.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

6. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) The method for preparation of consolidated financial statements *(Continued)*

If the Company loses control over a subsidiary due to the disposal of a portion of an equity investment or other reasons, the remaining equity shall be remeasured at its fair value at the date when control is lost. The difference obtained through the total amount of consideration received from the disposal of equity and the fair value of the remaining equity, less the share of net assets of the former subsidiary calculated continuously from the acquisition date or the combination date based on the previous shareholding proportion, shall be recognized as investment income for the current year when control is lost. Other comprehensive income related to the original subsidiary will be transferred into the current profit and loss in investment at the date the Company lost control over the subsidiary. (That is, in addition to the remeasurement of changes in the net liabilities or net assets of the defined benefit plan in the original subsidiary, the rest will be transferred into investment income for the current year.) After that, for the remaining part of this part of equity, according to *Accounting Standards For Enterprise No.2-Long Term Equity Investment* or *Accounting Standards For Enterprises No.22-Recognition And Measurement Of Financial Instrument* and related regulation for subsequent measurement, and there are details in Notes III.14 "Long-term capital investment" or Notes III.10 "Financial instruments"

If the Company loses control over a subsidiary in multiple transactions in which it disposes equity investments in the subsidiary in stages, the Company is required to determine whether each transaction shall be included in a package deal. If one or more than one of the following conditions are met by all of the terms and conditions of the transactions and their economic effects in regard to the disposal of equity investment in subsidiaries, the accounting treatment for these transactions shall be conducted as a package deal: ①These transactions are carried out simultaneously or in the condition that each part will be impacted; ②These transactions as a whole will achieve a complete business results; ③The occurrence of one transaction are dependent on at least one transaction; ④One transaction may seem to be uneconomic when considered solely, but it can be recognized as economic when considered with other transactions. If one transaction is not included in the package transaction, each of transaction will be according to the "Partly disposal of subsidiaries of a long-term equity investment without losing control" and each of the transaction will respectively follow the part disposal subsidiaries of a long-term equity investment under the control not lost (refer to Notes III. 14. (2) ④) and "losing control due to disposal of part of equity investments or other reasons" of the original subsidiaries suited for the principle as accounting treatment. If disposal of equity investments in a subsidiary at other each transaction belonged to a package transaction until the Company losing control, thus each transaction shall be dealt with accounting treatment in which each transaction is recognized as one that dispose of subsidiaries until lose control. However, the difference between the disposals prices of prior before control lost with Company net asset shall be recognized as other comprehensive income, the profit and loss of current year shall be transferred when control is lost.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

7. Classification and Accounting Treatment of Joint Arrangements and Joint Operation

A Joint arrangement is an arrangement of which two or more parties have joint control. The Company divides joint venture arrangement into joint operation and joint venture based on the rights enjoyed and obligations assumed in joint venture arrangements. A joint operation is a joint arrangement whereby the Company has rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of the arrangement.

The Company's investments in joint ventures are measured under equity method. Please refer to Note III. 14. (2) ② "Long-term equity investments measured under equity method" for accounting policies for joint venture investment.

As a joint venture party, for joint operation, the Company recognizes the assets held solely and liabilities assumed solely and recognizes the Company's share of any assets held jointly and liabilities assumed jointly; recognizes the Company's revenue from the sale of its share of the output arising from the joint operation; recognizes the Company's share of the revenue from the sale of the output by the joint operation; recognizes the expenses incurred solely by the Company and the Company's share of any expenses incurred jointly.

When the Company invests or sells assets towards joint operation as a party of the joint-venture (this asset does not constitute business, the same below), or upon purchasing assets by joint operation but before selling such assets to the third party, the Company only recognizes the part belonging to other participants of joint operation in profit or loss caused by this transaction. Where such assets belong to the impairment losses for assets according to Accounting Standard for Business Enterprises No. 8 – Impairment of Assets and other regulations, the Company will recognize losses in full amount for investment or sales of assets from the Company to joint operation. For assets purchased by the Company from joint operation, the Company will recognize these losses according to its shareholding proportion.

8. Recognition Criteria for Cash and Cash Equivalents

The Company's cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, short-term (generally due within three months after the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

9. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements

(1) Methods for Translation of Foreign Currency Transactions

For the foreign currency transaction incurred in the Company, the amount in foreign currency shall be translated into the amount in functional currency at initial recognition as per the spot rate on the transaction date (usually refers to the central parity rate published by the People's Bank of China on that day. The same below); but for foreign exchange businesses and transactions involving foreign exchange, the amount in foreign currency shall be translated into the amount in functional currency as per the actual exchange rate for recording.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements

(2) Methods for Translation of Monetary Items and Non-Monetary Items in Foreign Currency

As for monetary items in foreign currency on the balance sheet date, the amount in foreign currency shall be translated into the functional currency at the spot rate on the balance sheet date; where, the differences arising from the translation shall be recognized through profit or loss for the current year, except that ① differences between foreign exchange incurred from specific borrowings in foreign currency related to assets purchased and construction where capitalization criterion are met shall be treated as per the borrowings capitalization principle; ② differences in foreign exchange arising from other book balance change other than amortized cost for foreign currency monetary items available-for-sale shall be included into other comprehensive incomes.

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be listed in other comprehensive income. When overseas operations are disposed, the difference shall be transferred to the profit or loss for the current year.

The foreign currency non-monetary items measured at historical cost shall continue to be translated at the spot exchange rates at the dates of the transactions. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date when the fair value has been determined, and the difference between the translated reporting currency amount and the original one shall be treated as the changes in fair value and included in the current profit or loss or recognized as other comprehensive income.

(3) Translation Method of Financial Statements Denominated in Foreign Currency

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be presented in other comprehensive income as "difference arising from the translation of foreign currency financial statements". When overseas operations are disposed, the difference shall be transferred to the profit or loss for the current year.

The foreign currency adopted in the foreign currency financial statements for overseas operation shall be translated into RMB as per the following methods: Assets and liabilities on the balance sheet shall be translated at the spot rate at the balance sheet date; shareholders' equity items shall be translated at the spot rate occurred except for the item of "undistributed profit". The income and expense items in the profit statement shall be translated at the average rate in the current year. The opening balance of undistributed profits are the closing balance of undistributed profits translated at the prior year; for closing balance of undistributed profits, each item shall be calculated and presented as per the translated profits; and the difference between the asset items and the sum of liability items and shareholders' equity items after translation shall be recognized into other comprehensive incomes as translation difference from translation of foreign financial statements. When disposing overseas operation and losing the control, difference arising from the translation of foreign currency financial statements, which are presented under shareholders' equity in the balance sheet and related to the overseas operation, shall be transferred to the profit or loss for the current year in whole or in proportion of the disposed overseas operation.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements *(Continued)*

(3) Translation Method of Financial Statements Denominated in Foreign Currency *(Continued)*

Cash flows in foreign currencies shall be translated using the average exchange rate for the current reporting period on the transaction date. The amount influenced by the changes in exchange rate on cash flows shall be presented individually in cash flow statement as a reconciling item.

Opening balance and prior year's actual amount are presented in line with the amount after the translation of prior year financial statements.

For the preparation of consolidated financial statements, when the disposal of all shareholders' equities with respect to the overseas operations by the Company, as well as parts of equity investments, results in a lost in control over the overseas operations, the Company shall convert the difference, which is presented under the items of the owner's equities of the parent company in the balance sheet and which arises from the translation of foreign currency financial statements relating to this overseas business, into the profit or loss of the period for disposal.

When overseas operational control is retained but the proportion of overseas operational equity held by the Company decreases due to disposal of partial equity investments or other reasons, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be recognized as minority shareholder equity. The difference shall not be transferred into current profit or loss. In the event that the disposed overseas operation involves partial equities of affiliated enterprises and joint ventures, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be transferred into the current profit or loss for disposal as per the disposed proportion of overseas operation.

10. Financial Instruments

The Company shall recognize a financial asset or financial liability at the date when the Company enters into a contract concerning about financial instruments.

(1) Classification, recognition and measurement of financial assets

Based on the business model of the Company's management on the financial asset and the features of the cash flows of the financial asset, the Company classifies financial assets into the following categories: financial assets measured at amortized cost; financial assets at fair value through other comprehensive income; financial assets at fair value through profit or loss for the current period.

Financial assets are initially recognized at fair value. Relevant transaction cost of financial assets at fair value through profit and loss for the current period, shall be recognized into profit and loss for the current period. Relevant transaction cost of financial assets listed in other categories shall be included in the amount recognized initially. For accounts receivable or notes receivable arising from the sale of products or rendering of services, exclusive of or without consideration of material financing elements, the initial recognition shall be the amount of consideration to which the company is expected to be entitled.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial Instruments (Continued)

(1) Classification, recognition and measurement of financial assets (Continued)

① *Financial assets measured at amortized cost*

The business model that the company adopts to manage the financial assets measured at amortized cost is to collect the contractual cash flows, and the contractual cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The cash flow generated on a specific date is only the payment of principal and interest based on the amount of principal outstanding. For such financial assets, the company adopts the effective interest rate method and carries out subsequent measurement according to the amortized cost. The profit or loss generated by the amortization or impairment shall be recognized in the current profit and loss.

② *Financial assets at fair value through other comprehensive income*

The company's business model for managing such financial assets is to take the receipt of contract cash flow and sell, and the contract cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The company measures such financial assets according to the fair value and the changes are recognized in other comprehensive income, but the impairment loss or gain, exchange profit and loss and the interest income calculated according to the real interest rate method are recognized in the current profit and loss.

In addition, the company designated some non-tradable equity instruments as financial assets measured at fair value through other comprehensive income. The company shall recognize the relevant dividend income of such financial assets into the current profit and loss, and recognize the change of fair value in other comprehensive income. When the recognition of the financial asset is terminated, the accumulated gains or losses previously recognized in other comprehensive income shall be transferred from other comprehensive income to retained earnings and shall not be recognized in current profit and loss.

③ *Financial assets at fair value through profit or loss for the current period*

The company classifies the financial assets, except for financial assets measured at amortized cost or at fair value through other comprehensive income as mentioned above, into the financial assets measured at fair value through profit or loss for the current period. In addition, the company shall designate some financial assets as financial assets measured at fair value through profit or loss for the current period upon the initial recognition to eliminate or significantly reduce accounting mismatch. For such financial assets, the company adopts the fair value for subsequent measurement, and changes in fair value are recognized in the profit or loss for the current period.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Financial Instruments *(Continued)*

(2) Classification, recognition and measurement of financial liabilities

Financial liabilities shall be classified into other financial liabilities and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition. For financial liabilities measured at fair value through profit or loss for the current period, relevant transaction costs are directly recognized in the current profit and loss, and the relevant transaction costs of other financial liabilities are recognized in the initial recognition amount.

① *Financial liabilities measured at fair value through profit or loss for the current period*

Financial liabilities measured at fair value through profit or loss for the current period comprise financial liabilities held for trading (including derivatives belonging to financial liabilities) and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition.

Financial liabilities held for trading (including derivatives belonging to financial liabilities) shall be subsequently measured at the fair value. Except for those related to hedge accounting, changes in the fair value shall be recognized in the profit or loss of the current period.

For financial liabilities designated to be measured at fair value through profit or loss for the current period, liabilities caused by changes in the company's own credit risk of the changes in fair value recognized in other comprehensive income, when the liability is terminated for recognition, the accumulated change in its fair value caused by the change in its own credit risk recognized in other comprehensive income is transferred to retained earnings. If the above treatment of the impact of the change in the credit risk of such financial liabilities will cause or expand the accounting mismatch in the profit and loss, the company will record all the gains or losses of such financial liabilities (including the amount affected by the change in the credit risk of the enterprise) into the current profit and loss.

② *Other financial liabilities*

In addition to financial liabilities whose transfer of financial assets does not meet the conditions for termination of recognition or arising from the continuing involvement in the transfer of financial assets and other financial liabilities other than the financial security contract are classified as financial liabilities measured by amortized cost, carry out subsequent measurement according to the amortized cost, and record the profits or losses generated by the termination of recognition or amortization into the current profit and loss.

(3) The confirmation basis and measurement method of financial assets transfer

Financial assets that meet one of the following conditions shall be terminated for recognition: ① the contract right of receiving the cash flow of the financial asset is terminated; ② the financial assets have been transferred, and the ownership of financial assets almost all the risks and rewards transferred to the transferee; ③ the financial asset has been transferred, although the enterprise has neither transferred nor retained almost all risks and rewards in the ownership of the financial asset, it has given up its control over the financial asset.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Financial Instruments *(Continued)*

(3) The confirmation basis and measurement method of financial assets transfer

If the enterprise neither transfers nor retains nearly all the risks and rewards in the ownership of the financial assets and does not give up its control over the financial assets, the relevant financial assets shall be recognized according to the degree of continuing involvement in the transferred financial assets, and the relevant liabilities shall be recognized accordingly. The degree of continuing involvement in the transferred financial assets refers to the level of risk faced by the enterprise due to the change in the value of the financial assets.

If the overall transfer of financial assets meets the conditions for the termination of recognition, the balance between the book value of the transferred financial assets and the consideration received due to the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income shall be recognized into the current profit and loss.

If the partial transfer of financial assets meets the conditions for the termination of recognition, the book value of the transferred financial assets shall be apportioned according to its relative fair value between the terminated recognition and the non-terminated recognition, and the difference between the consideration received as a result of the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income and the apportioned book amount shall be recognized in the current profit and loss.

The company shall determine whether almost all risks and rewards in the ownership of the financial assets sold by means of recourse or transferred by endorsement of the financial assets held by the company have been transferred. Where almost all risks and rewards in the ownership of the financial asset have been transferred to the transferee, the recognition of the financial asset shall be terminated; If almost all risks and rewards in the ownership of the financial asset are retained, the recognition of the financial asset shall not be terminated; If there is no transfer or retention of nearly all risks and rewards in the ownership of the financial asset, the enterprise shall continue to judge whether it has retained control of the asset and conduct accounting treatment according to the principles described in the preceding paragraphs.

(4) Derecognition of financial liabilities

If the current obligation of the financial liability (or part thereof) has been discharged, the company shall terminate the recognition of such financial liability (or part thereof). The company (borrower) signs an agreement with the lender to replace the original financial liability by assuming the new financial liability. If the contract terms of the new financial liability and the original financial liability are substantially different, the company shall terminate the confirmation of the original financial liability and simultaneously confirm a new financial liability. If the company materially modifies the contract terms of the original financial liabilities (or part thereof), the original financial liabilities shall be terminated, and a new financial liability shall be recognized according to the revised terms.

Where the recognition of financial liabilities (or part thereof) is terminated, the company shall recognize the difference between its book value and the consideration paid (including the transferred non-cash assets or liabilities) into the current profit and loss.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Financial Instruments *(Continued)*

(5) Offsetting of financial assets and liabilities

When the company has offset the confirmed amount of legal rights of financial assets and financial liabilities, and this kind of legal rights is the executable, at the same time, the company plans to net or cash at the same time when the financial assets and liquidation of the financial liability, financial assets and financial liabilities to offset each other after amount listed in the balance sheet. In addition, financial assets and financial liabilities shall be shown separately in the balance sheet and shall not be offset against each other.

(6) Method for determining the fair value of financial assets and financial liabilities

Fair value refers to the price that market participants can receive or transfer a liability to pay for the sale of an asset in an orderly transaction on the measurement date. Where there is an active market for a financial instrument, the company shall determine its fair value by quoting in the active market. A quote in an active market is a price that is readily available on a regular basis from an exchange, broker, trade association, pricing service, etc., and represents the market price traded in a fair trade. Where there is no active market for the financial instrument, the company shall determine its fair value by means of valuation technology. Valuation techniques include reference to the prices used in recent market transactions by parties familiar with and willing to trade, reference to the current fair value of other financial instruments that are substantially the same, cash flow discounting and option pricing models, etc. In valuation, the company uses valuation techniques applicable in the current situation and supported by sufficient available data and other information to select input values consistent with the characteristics of assets or liabilities considered by market participants in transactions of related assets or liabilities, and gives priority to relevant observable input values as far as possible. Use non-input values where relevant observable input values are not available or are not feasible to obtain.

(7) Equity instruments

Equity instruments are contracts that prove ownership of the residual interest in the company's assets after deducting all liabilities. The issuance (including refinancing), repurchase, sale or cancellation of the equity instruments of the company shall be treated as changes in the equity and the transaction fees related to the equity transactions shall be deducted from the equity. The company does not recognize changes in the fair value of equity instruments.

The Company's equity instruments distribute dividends (including "interests" generated by instruments classified as equity instruments) during the existence period as profit distribution treatment.

11. Determination of expected credit losses and accounting treatment

The financial asset that the Company needs to confirm the impairment loss are financial assets measured at amortized cost, debt instrument investment measured at fair value and recognized in other comprehensive income and the leasing receivables, mainly includes notes receivables, accounts receivables, other receivables, creditor's rights investment, other creditor's rights investment, long-term receivables, etc. In addition, for the contract assets and part of the financial security contracts, the provisions for impairment and the recognition of credit impairment losses shall be made in accordance with the accounting policies described in this part.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Determination of expected credit losses and accounting treatment *(Continued)*

(1) The recognition method of provision for impairment

Based on the expected credit loss, the Company shall calculate the provision for impairment and confirm the credit impairment loss in accordance with its applicable expected credit loss measurement method for the above-mentioned items.

Credit loss refers to the difference between all contract cash flows receivable under the contract discounted at the effective interest rate and all cash flows expected to be collected, which is the present value of the entire cash shortage. The financial assets purchased or produced by the Company with credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustment.

The general method of measuring the expected credit loss refers to whether the credit risk of financial assets (including contract assets and other applicable items, the same below) evaluated by the Company on each balance sheet date has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration; If the credit risk has not increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the next 12 months. The company shall take into account all reasonable and substantiated information, including forward-looking information, in the evaluation of expected credit losses.

For financial instruments with low credit risk on the balance sheet date, the Company assumes that the credit risk has not increased significantly since the initial recognition and chooses to measure the loss provision according to the expected credit loss in the next 12 months.

(2) Criteria for determining whether credit risk has increased significantly subsequent to the initial recognition

If the probability of default of a financial asset within the expected duration as determined on the balance sheet date is significantly higher than the probability of default within the expected duration as determined at the initial recognition, the credit risk of the financial asset increases significantly. Except in special cases, the Company shall use the change of default risk in the next 12 months as a reasonable estimate of the change of default risk in the whole duration to determine whether the credit risk has increased significantly subsequent to the initial recognition.

(3) Portfolio approach to assessing expected credit risk on a portfolio basis

The company evaluates credit risk separately for the credit risk of significantly different notes receivables, accounts receivables and other receivables with the following characteristics. Such as: related party accounts receivable; accounts receivables in dispute with the other party or involving litigation or arbitration; notes receivables, accounts receivables that have shown clear signs that the debtor is likely to be unable to meet repayment obligations.

In addition to individual financial assets that assess credit risk, the Company classifies financial assets into different groups based on common risk characteristics and evaluates credit risk on a portfolio basis.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Determination of expected credit losses and accounting treatment *(Continued)*

(4) Accounting treatment of the impairment of financial assets

In order to reflect the changes in the credit risk of financial instruments since initial recognition, the company remeasures expected credit losses on each balance sheet date, and the increase or reversal of the loss provision thus formed shall be used as impairment losses or gains. Into the current profit and loss, and based on the type of financial instrument, deduct the book value of the financial asset listed in the balance sheet or include it in provision for impairment (loan commitments or financial guarantee contracts) or in other comprehensive income (Debt investments measured at fair value and whose changes are included in other comprehensive income).

(5) Method for determining the credit loss of financial assets

Based on the expected credit loss, the company makes the impairment accounting treatment and recognize the loss provisions on the financial assets (including receivables) measured at amortized cost, classified at fair value and whose changes are included in other comprehensive income (including receivables financing) and lease receivables.

The company assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition at each balance sheet date. The process of credit impairment of financial instruments is divided into three stages. Different stages of financial instrument impairment are applied in different accounting treatment method: (A) In the first stage, if the credit risk of a financial instrument has not increased significantly after initial recognition, the company shall measure the loss provision based on the expected credit loss of the financial instrument in the next 12 months, and shall calculate interest income based on its book balance (that is, without deducting impairment provisions) and the actual interest rate;

(B) In the second stage, if the credit risk of a financial instrument has increased significantly since initial recognition but no credit impairment has occurred, the company will use the expected credit losses measure loss provisions and calculate interest income based on their book balances and actual interest rates;

(C) In the third stage, if credit impairment occurs after initial recognition, the company shall measure the loss provisions according to the expected credit loss of the financial instrument throughout its lifetime, and shall use its amortized cost (book balance minus provision for impairment) to calculate interest income with the actual interest rate.

① *Method for measuring loss provision of financial instruments with lower credit risk*

For financial instruments with lower credit risk at the balance sheet date, the company can directly make the assumption that the credit risk of the instrument has not increased significantly since initial recognition without comparing with the credit risk at the time of initial recognition.

If the default risk of a financial instrument is low, the debtor's ability to fulfill its contractual cash flow obligations in the short term is strong, and even if there are adverse changes in the economic situation and operating environment over a long period of time, the borrower may not necessarily reduce the performance of its contractual cash flow obligations, this financial instrument should be considered as lower credit risk.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

11. Determination of expected credit losses and accounting treatment (Continued)

(5) Method for determining the credit loss of financial assets (Continued)

- ② *Receivables and contract assets that do not contain significant financing components.*

For receivables or contract assets without significant financing components formed by transactions regulated by "Enterprise Accounting Standards No. 14-Revenue", the company adopts a simplified method, which is to always measure loss provisions based on expected credit losses throughout its lifetime.

According to the nature of financial instruments, the company assesses whether the credit risk has increased significantly on the basis of a single financial asset or a portfolio of financial assets. The company divides notes receivable and accounts receivable into several portfolios based on the characteristics of credit risk, and calculates expected credit impairments based on the portfolios. the basis for the portfolio as follows:

Accounts receivable portfolio 1: Individual accrual portfolio

Accounts receivable portfolio 2: Aging portfolio

Notes Receivable Portfolio 1: Low Risk Portfolio

Notes Receivable Portfolio 2: Aging Portfolio

Aging segment analysis is performed based on its entry date.

Portfolio (aging portfolio): expected credit loss rate:

Aging	expected credit loss rate of aging portfolio (%)
Within 1 year (including 1 year, the same below)	1.00
1 to 2 years	10.00
2 to 3 years	30.00
3 to 4 years	50.00
4 to 5 years	80.00
More than 5 years	100.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Determination of expected credit losses and accounting treatment *(Continued)*

(5) Method for determining the credit loss of financial assets *(Continued)*

③ *Methods for measuring loss provisions for other financial assets*

For financial assets other than the above, such as: debt investment, other debt investment, other receivables, long-term receivables except lease receivables, etc., the company measures loss provisions in accordance with the general method, that is, the “three-stage” model.

The company divides other receivables into several portfolios based on the nature of the payment and calculates the expected credit loss on the basis of the portfolio.

the basis for the portfolio as follows:

Other receivables portfolio 1: Aging portfolio

Other receivables portfolio 2: Portfolio of financial assets with extremely low credit risk

Other receivables portfolio 3: Related party portfolio

Other receivables portfolio 4: deposit portfolio

Portfolio (aging portfolio): expected credit loss rate:

Aging	expected credit loss rate of aging portfolio on other receivables (%)
Within 1 year (including 1 year, the same below)	1.00
1 to 2 years	10.00
2 to 3 years	30.00
3 to 4 years	50.00
4 to 5 years	80.00
More than 5 years	100.00

12. Inventories

(1) Category of inventories

Inventories mainly includes materials in transit, raw materials, work in progress, Semi-finished goods, finished goods, low-value consumables, packaging materials, Consigned processing material, goods on consignment, commodity stocks, goods in transit, etc.

(2) Method/formula used to assign cost for inventories

The inventory shall be initially measured at actual costs when acquired. The cost of inventory comprises all costs of purchase, costs of conversion and other costs. Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw material, direct labor and overhead allocated based on normal capacity.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Inventories

- (3) Recognition of net realizable value of inventory and accruing method of provision for the loss on decline in value of inventories.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. An enterprise shall determine the net realizable value of inventories based on solid evidence obtained and after taking into consideration the purpose for which the inventory is held, and the effect of events occurring after the balance sheet date.

Inventories are required to be measured at the lower of cost and net realizable value on the balance sheet date. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made. The provision for the loss on decline in value of inventory is assessed based on the difference between the cost of single inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for the loss on decline in value is reversed and the reversal is included in current profit or loss.

- (4) The perpetual inventory system is adopted.
- (5) **Amortization method for low value consumables**

Immediate write-off method is used for low value consumables upon usage.

13. Assets Held for Sale and Disposal Company

If the Company recovers its book value primarily through the sale instead of the continuous use of a non-current asset or disposal group (including the exchange of non-monetary assets with commercial substance, the same below), then the assets shall be classified as assets held for sale. The specific criteria are all of the following conditions are achieved: a non-current asset or disposal group can be sold immediately under the current conditions based on the practice of selling such assets or disposal groups in similar transactions; the Company has already decided on the sale plan and obtained the purchase commitment; the sale will be completed within one year. Among them, a disposal group refers to a group of assets that are disposed of as a whole through sale or other methods in a transaction, and liabilities that are directly related to these assets are transferred in the transaction. If the asset group or asset group to which the disposal group belongs is allocated the goodwill acquired in the business combination in accordance with *Accounting Standards for Business Enterprises No. 8 – Impairment of Assets*, the disposal group shall include the goodwill allocated to the disposal group.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Assets Held for Sale and Disposal Company *(Continued)*

Upon initial measurement or re-measurement of non-current assets held for sale or disposal group on the balance sheet date, if the book value is higher than the net amount of fair value minus sales expense, the book value shall be written down to the net amount of fair value minus sales expense; the amount written down is recognized as impairment losses for assets and included in current profit or loss. Meanwhile, impairment reserves for assets held for sale is accrued. For the disposal group, firstly, the recognized impairment losses for assets deduct the book value of the goodwill in the disposal group. Then the loss proportionally deducts the book value of the various non-current assets in the disposal group under the measurement regulations based on *Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Companies and Termination of Operations* (hereinafter referred to as the “holding for sale”). If the fair value of the disposal group held for sale on the subsequent balance sheet date minus the sales proceeds increases, the amount previously written down shall be recovered. This part of amount should be reversed within the impairment losses of non-current assets which are applicable for held for sale measurement criteria after these assets are classified as assets held for sale. The reversal amount is recognized in current profit or loss. Meanwhile, the book value of these non-current assets (except goodwill) in disposal group should be increased proportionally according to the book value of each non-current asset which is applicable to held for sale measurement criteria. The book value of goodwill that has been deducted and the impairment losses recognized before the non-current assets classified as held for sale category cannot be reversed.

Depreciation or amortization shall not be accrued for non-current assets held for sale or non-current assets in the disposal group held for sale. The interest of liabilities and other expenses in the disposal group held for sale shall be recognized.

When a non-current asset or disposal group no longer meets the conditions for the held for sale category, the Company no longer divides it into the held for sale category or removes the non-current assets from disposal groups held for sale., and the asset or asset group is measured by the following two items: (1) the amount of book value classified as held for trading after depreciation, amortization, impairment or other adjustments to be recognized based on the hypothesis that they are not classified as held for trading; (2) the recoverable amount, whichever is lower.

14. Long-term Equity Investments

Long-term equity investments in this part refers to the long-term equity investments that the Company can exercise control, joint control or significant influence over the investee. When the Company can no longer exercise control, joint control or significant influence over the investee, the long-term equity investment shall be treated as financial asset measured at fair value through profit or loss for the current year, and for non-transactional long-term equity investment among which, the Company can designate it to be financial asset measured at fair value through other comprehensive income upon initial recognition. Please refer to Note III. 10. Financial instrument for accounting policies.

Joint control refers to joint control owned by the Company over an arrangement as per relevant agreements and relevant activities of this arrangement must be determined upon consent of participants sharing the right of control. The term “significant influence” refers to the power to participate in making determinations on the financial and operating policies of an investment entity, but not to control or do joint control together with other parties over the formulation of these policies.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Long-term Equity Investments *(Continued)*

(1) Recognition of Investment Cost

If the long-term equity investment is obtained from the business combination involving enterprises under the common control, the share of book value of shareholder's equity of the acquiree in consolidated financial statements of the ultimate controlling party under the combination date shall be deemed as the initial investment cost of the long-term equity investment. The difference between the initial investment cost and the book value of cash paid, non-cash assets transferred, and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. If the Company issues equity securities as the consideration for combination, the book value of the shareholder's equity of the combined party on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. With the total face value of the shares issued as equity, the difference between the initial investment cost of long-term equity investment and the total face value of the shares issued shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to "a package deal": where it belongs to "a package deal", the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to "a package deal", the book value of the shareholder's equity of the acquiree on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. The difference among the initial investment cost of long-term equity investments, the book value of long-term equity investment which has reached the amount before the combination and total book value of new payment consideration obtained under the acquisition date shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. As the other comprehensive income is measured under equity method or recognized as financial assets measured at fair value through profit or loss for the current year, the accounting treatment on the equity investments held before the combination date shall not be conducted.

For long-term equity investment obtained through business combination not involving enterprises under the common control, the cost of combination shall be deemed as the initial investment cost of long-term equity investments on the acquisition date, and the cost of combination is the aggregate of the fair values, include the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to "a package deal": where it belongs to "a package deal", the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to "a package deal", the sum of the book value of equity investment of the acquiree held originally and additional investment costs shall be initial investment costs of long-term equity investment if the accounting method is changed as cost approach. If equity held originally is accounted for using equity method, the accounting treatment shall not be conducted on the other comprehensive income related to it.

The intermediary costs for the business combination including the expenses for audit, legal services and consultancy services and other relevant management costs by the merging party and the acquirer shall be recorded into current profit or loss.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Long-term Equity Investments *(Continued)*

(1) Recognition of Investment Cost *(Continued)*

Equity investments other than long-term equity investment from business combination are initially measured at cost. Such cost is respectively recognized at the purchase price in cash actually paid by the Company, fair value of equity securities issued by the Company, specified value in investment contracts or agreements, fair value or original book value of transferred assets in non-monetary asset exchange and transactions and fair value of the long-term equity investment itself based on different means of acquiring that long-term equity investment. Expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investment are also included into investment cost. In case of being able to implement significant influence or common control to the invested entity due to additional investment but which does not constitute control, cost of long-term equity investment shall be the sum of fair value of original held equity investment recognized as per the *Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments* and newly increased investment cost.

(2) Subsequent Measurement and Method of Recognition of Profit or Loss

Where an investing enterprise can exercise joint control (except those that constitutes the joint operators) or significant influence over the investee, a long-term equity investment shall be accounted for using the equity method. In addition, the Company uses the cost model in the financial statements to calculate long-term equity investment that can control the investee.

① *Long-term Equity Investment Income Accounted by Cost Method*

The long-term equity investment accounted by the cost model shall be measured at the initial investment cost. And the additional or recovered investments shall be used to adjust the cost of long-term equity investment. Except for the cash dividends or distributions declared and not yet distributed in the considerations paid to acquire the investment, the cash dividend or distributions declared by the investee that belong to the investee shall be recognized as the investment gains.

② *Long-term Equity Investment Accounted by Equity Method*

If the initial cost of a long-term equity investment, accounted by equity method, is more than attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the difference shall be recorded into current profit or loss and the cost of the long-term equity investment shall be adjusted simultaneously.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Long-term Equity Investments (Continued)

(2) Subsequent Measurement and Method of Recognition of Profit or Loss (Continued)

② Long-term Equity Investment Accounted by Equity Method (Continued)

When it is accounted by equity method, the investment gains and other comprehensive incomes shall be recognized respectively, and the book value of long-term equity investment shall be adjusted according to the net profit or loss and other comprehensive incomes realized by the investee, which shall be enjoyed or shared. The enjoyed part shall be accounted according to profits or cash dividends announced to be assigned by the investee with the corresponding decrease of the book value of long-term equity investment. For other changes of shareholder's equity excluding net profit or loss of investee, other comprehensive income and profits distributed, the book value of long-term equity investments shall be adjusted and included into capital reserve. The Company shall, on the ground of the fair value of all identifiable assets of the investee when it obtains the investment, recognize the attributable share of the net profit or loss of the investee after it adjusts the net profits of the investee. If the accounting policies and accounting period adopted by the investee do not consistent with the investor, the financial statements of the investee shall be adjusted according to the accounting policies and accounting periods of the Company, and according to which the investment profits and other comprehensive incomes shall be recognized. If investment and sales of assets cannot be constructed as business in transactions between the Company, associates and joint ventures, the unrealized profit or loss of internal transaction shall be offset through calculating the part attributable to the Company based on sharing ratio so as to recognize the profit or loss of investment. Where the unrealized losses from the internal transactions between the Company and the invested entity belong to the impairment losses from the transferred assets, they shall not be written off. Where the assets contributed by the Company towards joint ventures or associates constitute business, and the investor acquires long-term equity investment but not the control right thereof, the fair value of the contribution shall be the initial investment cost of the newly added long-term equity investment. The balance of book value between initial investment cost and the contribution shall be recorded into current profit or loss in full amount. If the assets sales, from the Company to joint ventures or associates, constitute business, the total difference between consideration achieved and book value of business shall be recorded into current profit or loss. Where the assets purchased by the Company from associates and joint ventures constitute business, accounting treatment shall be carried out based on *Accounting Standards for Business Enterprises No.20 – Business Combination* and recognize the profit or loss in relation to the transaction in full amount.

The Company shall recognize the net losses of the investee until the book value of the long-term equity investment and other long-term equity which substantially forms the net investment made to the investee are reduced to zero. In addition, if the Company has the extra obligation towards its investee to undertake extra losses, the extra obligation shall be recognized as Provisions according to expected obligation and recorded into current profit or loss. If the investee realizes any net profits later, the Company shall, after the amount of its attributable share of profits offsets against its attributable share of the unrecognized losses, resume recognizing its attributable share of profits.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

③ *Minority Equity Purchase*

When preparing consolidated financial statements, as for the difference between the long-term equity investment increased newly due to purchase minority equity and the net asset proportion continuously calculated from the purchase date (or combination date) by subsidiary based and enjoyed by the Company based on newly increasing shareholding ratio, capital reserve is adjusted. If the capital reserve is insufficient to write down, the retained income shall be adjusted.

④ *Disposal of Long-term Equity Investment*

In the consolidated financial statements, the parent company disposes the long-term equity investment of the subsidiary without losing control right. The difference between the disposing amount and the net asset of the subsidiary enjoyed correspondingly in disposing long-term equity investment is recorded into shareholder's equity; If the parent company loses its control right on the subsidiary due to the disposal of the long-term equity investment of the subsidiary, the relevant accounting policy as indicated in Note III, 6 (2) "Method for Preparation of Consolidated Financial Statements" shall be followed for handling.

When disposing of a long-term equity investment under other circumstances, for equity being disposed, the difference between its book value and actual purchase price shall be recorded into current profit or loss.

If long-term equity investment is accounted by equity method while the residual equity after disposal is still accounted for by equity method, the accounting treatment of other comprehensive income included in shareholder's equity originally shall be conducted as per proportion on the same base as investee disposes of relevant assets and liabilities directly. Other shareholder's equity, which is recognized for changes of other shareholder's equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution, shall be translated into current profit or loss as per proportion.

If long-term equity investment is accounted by the cost model while the residual equity after disposal is still accounted by the cost model, the accounting treatment of other comprehensive incomes which are recognized for being accounted by equity method or recognition and measurement standards of financial instruments shall be conducted on the same base as investee disposes of relevant assets and liabilities directly, and other comprehensive incomes shall be carried over into current profit or loss as per proportion. Owners' equity, which is recognized for changes of other shareholder's equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution when the equity method is adopted, shall be carried over into current profit or loss as per proportion.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

④ *Disposal of Long-term Equity Investment (Continued)*

When the Company loses the control over investee for disposal of some shares, the accounting method shall be changed as equity method in compiling individual financial statements and the remaining shares shall be deemed to be adjusted by equity method upon being obtained if the remaining shares after disposal still have joint control or significant impacts on investee. While the remaining shares after disposal do not have joint control or significant impacts on investee anymore, the accounting treatment shall be conducted as per regulations related to recognition and measurement standards of financial instruments and its difference between fair value and book value on the date of losing the control shall be included into current profit or loss. For other comprehensive income recognized as being accounted by equity method or recognition and measurement standards of financial instruments before the Company obtains the control over investee, its accounting treatment shall be conducted on the same base as investee disposes of relevant assets and liabilities directly upon losing the control over investee, and other shareholder's entity in net assets of investee accounted for by equity method, excluding net profit or loss, other comprehensive income and profits distribution, shall be carried over into current profit or loss in the event of losing the control over investee. Of which, if the residual equity investment after disposal is calculated by equity method, other comprehensive income and shareholder's equity shall be transferred by proportion; where the residual equity investment after disposal changes to be conducted with accounting treatment according to standard of recognition and measurement of financial instruments, other comprehensive income and shareholder's equity shall be transferred.

Where the Company's common control or significant influence over the investee is lost due to the disposal of partial equity investment, the residual equity after disposal will change to be calculated by standard of recognition and measurement of financial instruments, the balance between the fair value and book value thereof on the date the common control or significant influence is lost shall be included into current profit or loss. Other comprehensive income recognized by calculating original equity investment by equity method shall go through accounting treatment on the same basis on which the investee directly disposes the relevant assets or liabilities when ceasing to use equity method; for the shareholder's equity recognized by other changes on shareholder's equity rather than net profit or loss, other comprehensive income and profit distribution of the investee shall be transferred into current investment income when ceasing to use equity method.

If the Company's disposal of equity investments in a subsidiaries leading to losing control, the foregoing transaction is package deal, accounting treatment shall be conducted for each transaction as the transaction that the disposal of the subsidiary with loss of control right; before loss of control right, the difference between each price disposal and the book value of long-term equity investment correspondingly in equity disposed shall be firstly recognized in the other comprehensive income and then wholly transferred into current profit or loss when losing control right.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

15. Investment Property

Investment property is property held to earn rentals or for capital appreciation or both, including the land use rights which have been rented, land use right held for transfer after capital gain, and buildings which have been rented.

Investment property is measured initially at cost. Subsequent costs related to investment property are recognized in the cost of the investment property, if the economic benefits of the asset will probably flow in and the cost can be measured reliably. Other subsequent costs are recognized through profit or loss in the periods in which they are incurred.

After initial recognition, the Company uses the cost model to measure the investment property, and depreciates and amortizes the investment property according to provisions that buildings should be consistent with land use rights.

Please refer to Note III. 21 “Long-term Asset Impairment” for the methods of impairment test and preparing provisions for the impairment of investment property.

When an owner-occupied property or an inventory are transferred into an investment property, or when an investment property is transferred into an owner-occupied property, the book value prior to the transfer is recognized as the book value after the transfer.

When an investment property is transferred into an owner-occupied property, the investment property is reclassified as fixed asset or intangible asset since the date of transfer. When the purpose of an owner-occupied property is transferred to generate rent or receive capital gain, the fixed asset or the intangible asset is transferred to investment property since the date of transfer. After the transfer, investment property measured at cost, recognizes the book value prior to the transfer as the book value after the transfer; for investment property transferred to be measured under fair value model, the fair value at the transfer date shall be recognized as the book value after transfer.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the book value of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

16. Fixed Assets

(1) Recognition Criteria of Fixed Assets

Fixed assets are tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use is considered.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

16. Fixed Assets (Continued)

(2) Depreciation Method of Fixed Assets

From the next month of bringing the fixed asset to the expected conditions for use, the fixed assets are depreciated using the straight-line method over their estimated useful lives. Estimated useful life net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation Method	Depreciation (years)	Residual rate (%)	Annual depreciation rate (%)
Buildings	Straight-line method	10-70	0~10	1.29~10
Machinery equipment	Straight-line method	4-18	0~10	5~25
Transportation equipment	Straight-line method	5-10	0~10	9~20
Electronic equipment	Straight-line method	5-10	0~10	9~20
Office equipment	Straight-line method	4-8	0~10	11.25~25
Decoration	Straight-line method	5	0	20

Estimated net residual value of a fixed asset is the estimated amount that the Company would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(3) Impairment Testing and Accounting Treatment

As for impairment testing method and accounting treatment, please refer to Note III. 21 "Long-term Asset Impairment".

(4) Others

The subsequent expenses related to a fixed asset, if the economic benefits pertinent to the fixed asset are probably to flow into the enterprise and the cost of the fixed asset can be measured reliably, shall be included in the cost of the fixed asset and the book value of the replaced parts shall be derecognized. Any other subsequent expenses shall be recorded into current profit or loss.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying value and related taxes is recognized in current profit or loss.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at the end of each financial year and treats the changes as changes of in accounting estimate.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

17. Construction in Progress

The cost of construction in progress is recognized based on actual project expenditure, including each project expenditure during the construction, capitalized borrowing costs before the construction get ready for its intended use and other relevant expenses.

When a construction in progress is available for use, it is recognized in fixed assets and depreciated from the next months. The construction budget, construction cost, construction actual cost, etc. of a construction in progress, which is available for use but not yet completed the final accounts, is recognized at the estimated cost in fixed assets since the date when it is available for use. Provision for depreciation is accrued according to the Company's depreciation policies of fixed assets. The estimated value is adjusted to actual costs subsequent to the completion of settlement.

Please refer to Note III. 21 "Long-term Asset Impairment" for the impairment test method and impairment provision method of construction in progress.

18. Borrowing Costs

Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, they shall be capitalized: (i) Where the expenditures for the asset are being incurred; (ii) Where the borrowing costs are being incurred; and (iii) where the construction activities which are necessary to prepare the asset for its intended use or sale have commenced capitalization of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs shall be recognized as expenses in the period in which it is incurred.

The amount of interest of specific-purpose borrowings to be capitalized shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. An enterprise shall determine the amount of interest to be capitalized on general-purpose borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the period of capitalization, the exchange differences on foreign currency specific-purpose borrowings shall be all capitalized; the exchange differences on foreign currency general-purposes borrowings shall be recorded into current profit or loss.

Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months until the acquisition, construction or production is resumed.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Biological assets

Bearer biological assets

Bearer biological assets refer to biological assets held for the purpose of producing agricultural products, providing labor services or renting, including economic forests, firewood forests, livestock production and working animals. Bearer biological assets are initially measured at cost. The cost of a Bearer biological asset created or propagated by itself is the necessary expenses directly attributable to the asset before the asset reaches its intended production and operation, including borrowing costs that meet the capitalization conditions.

The Bearer biological assets are depreciated over their useful lives using the straight-line method after reaching the intended production and operation objectives. The service life, estimated net residual value rate and annual depreciation rate of various types of Bearer biological assets are listed as follows:

Category	Service life	Estimated Net Residual Rate (%)	Annual Depreciation Rate (%)
Cha Zhigan tree	10 years	5.00	9.50

The Company reviews the useful life, estimated net residual value and depreciation method of the Bearer biological assets at least at the end of the year, and changes the accounting estimates as changes occur.

The difference between the disposal income of the sale, loss, death or damage of the Bearer biological assets, net of its carrying amount and related taxes, is recognized in profit or loss for the current period.

On each balance sheet date, the Company checks the Bearer biological assets for signs of possible impairment. If the asset shows signs of impairment, its recoverable amount is estimated. The estimated recoverable amount of an asset is based on a single asset. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group is determined based on the asset group to which the asset belongs. If the recoverable amount of the asset is lower than its carrying amount, the asset impairment provision is made based on the difference and recognized in profit or loss for the current period.

Once the above asset impairment loss is confirmed, it will not be reversed in the future accounting period.

If the Bearer biological assets are changed, as the expendable biological assets, the cost after changing the use is determined according to the book value when the use is changed; if the Bearer biological assets are changed as the public welfare biological assets, then according to the Accounting Standards for Business Enterprises No. 8 No.-Asset Impairment stipulates whether impairment is considered. When impairment occurs, provision for impairment is made, and then the book value after provision for impairment is determined.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

20 Intangible Assets

(1) Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

The intangible assets shall be initially measured at cost. The expenses pertinent to an intangible asset shall form part of the cost of the intangible assets, if it is probable that the economic profit related to the asset will flow to the Company and the cost can be measured reliably. In addition, the expenditure of other items shall be recorded into current profit or loss in the period in which it is incurred.

The acquisition of land use right is usually recognized as intangible assets for accounting purposes. Building such as self-constructed plant, relevant expenditure incurred for obtaining land use right and construction cost of the building shall be recognized as intangible asset and fixed asset for accounting purposes. Cost incurred on purchased building shall be allocated between land use right and building. The cost shall be recognized as fixed asset if it cannot be reasonably allocated.

An intangible asset with a finite useful life shall be amortized using straight line method based on the original value, less estimated residual value and the accumulative amount of impairment provision within the estimated useful life. An intangible asset with an indefinite useful life shall not be amortized.

At the year end, it is necessary to review the useful life and amortization method of the intangible asset with limited useful life. In case of any change, it shall be treated as changes in accounting estimation. In addition, according to the available conditions, Intangible assets with conclusive evidence that cannot be reasonably estimated for their useful lives shall be recognized as intangible asset with uncertain useful life.

The Company owns the trademarks of Baiyunshan, Dashen products and series of Xing Qun, Zhong Yi, Pan Gao Shou, Chen Li Ji, Jing Xiu Tang, Qi Xing, Jianzhiqiao, Guo Ying, Jian Min, and Wang Lao Ji etc. The Company believes that these product trademarks shall be used and bring expected economic benefits inflows in the foreseeable future. Therefore, these trademarks are recognized as intangible assets with uncertain useful life.

(2) Research and development expenditure

The expenditures of the research and development project inside the Company can be divided into research expenditure and development expenditure.

The specific qualifying criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows: Expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the original medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

Expenditures on the development phase are all the attributable expenditures incurred after the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the original medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

20 Intangible Assets *(Continued)*

(2) Research and development expenditure *(Continued)*

Research expenditures shall be recorded into profit or loss for the periods in which the expenditures are incurred.

Development expenditures are capitalized when the all following conditions are met, otherwise it will be recorded into the profits and losses in the current year:

- ① the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② its intention to complete the intangible asset and use or sell it;
- ③ how the intangible asset will generate economic benefits. Among other things, the enterprise can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ⑤ its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

If the expenditures cannot be distinguished between research phase and development phase, the Company recognizes all expenditures into current profit or loss.

(3) Impairment test method and impairment provision assessing method of intangible asset

Please refer to Note III. 21 “Long-term Asset Impairment” for the impairment test method and impairment provision method of intangible asset.

21. Long-term Asset Impairment

The Company assesses impairment indicators for fixed asset, construction in progress, the intangible asset with limited service life, the investment properties measured at cost pattern, the long-term equity investment in subsidiaries, associates and joint ventures and the non-current and non-financial asset, such as goodwill on the balance sheet date. If the Company finds evidence on asset impairment, the recoverable amount of the asset shall be measured, and impairment test shall be conducted. Impairment test shall be conducted annually for goodwill, the intangible asset with uncertain service life and the intangible asset not reaching available condition, no matter there is impairment indication.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

21. Long-term Asset Impairment *(Continued)*

Where the measurement result of the impairment test indicates that an asset's recoverable amount is lower than its book value, impairment reserve shall be withdrawn based on its differences and recorded into the impairment loss. The recoverable amount shall be determined on the basis of the higher one of the net amounts of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset. The fair value of asset is recognized based on the price as stipulated in the sales agreement in the fair transaction; where there is no sales agreement but there is an active market of assets, the fair value is recognized based on the price bidden by the buyer of the asset; where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available of asset. The disposal expenses shall include the relevant legal expenses, relevant taxes, truckage as well as the direct expenses for bringing the assets into a marketable state. The present value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. Asset impairment provision is calculated and recognized based on single asset. In case of the difficulty to estimate the recoverable amount of single asset, the recoverable amount of asset group is recognized in accordance with the asset group that such asset belongs to. The asset group refers to the minimum asset portfolio that can independently generate cash inflow.

When conducting impairment test for goodwill separately listed in financial statements, the book value of the goodwill shall be apportioned to asset groups or asset group portfolios which are expected to benefit from the synergistic effect of business combination. When the test result indicates that the recoverable amount of asset groups or asset group portfolios containing goodwill apportioned is less than its book value, relevant impairment loss of goodwill shall be recognized. The impairment loss of goodwill shall offset the book value of the portion of goodwill apportioned to the asset groups or asset group portfolios, and then offset the book value of other assets according to the proportion of the book value of other asset in asset groups or asset group portfolios after deducting the goodwill.

Once the above asset impairment loss is confirmed, the part that the value is restored in the future period is not allowed to be transferred back

22. Long-Term Prepaid Expenses

Long-term prepaid expenses include expenses such as improvements on leasehold fixed assets and expenses that have been occurred but borne in the current year and in the subsequent periods with amortization term of over one year. Amortization is carried out over the expected beneficial period, and disclosed as the net value of the actual expenditures minus accumulated amortization.

23. Contract Liability

Contract liabilities refer to the Company's obligation to transfer goods to customers for consideration received or receivable from customer. If the customer has paid contract consideration or the Company has obtained unconditional right to receive payment prior to the Company transferring goods to the customer, the Company shall recognize payment received or receivable into contract liabilities at the earlier date between the date when the customer makes payment or the due date of payment. Contract assets and contract liabilities under the same contract shall be disclosed in net value. Contract assets and contract liabilities under different contracts cannot be offset.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

24. Employee Benefits

The employee benefits of the Company mainly include short-term employee benefits, post-employment benefits, termination benefits, and other long-term employee benefits, including:

Short-term benefits mainly include employee salaries, bonus, allowances and subsidies, staff welfare, social insurance contributions such as premiums or contributions on medical insurance, maternity insurance premiums, work injury insurance, housing funds, labor union running cost, employee education costs, non-monetary benefits, etc. The Company shall recognize, in the accounting period in which an employee provides service, actually occurred short-term employee benefits as a liability, with a corresponding charge to profit or loss for the current year or in the cost of relevant asset. Where, the non-monetary benefits shall be measured at its fair value.

The domestic enterprises of the Company pay basic pension insurance and unemployment insurance for employees according to the relevant regulations of the local government. In the accounting period in which the employees of the Company's domestic enterprises provide services to the Company, the payment shall be calculated according to the local payment base and proportion, and confirmed as liabilities, which are included in current profit or loss or related asset costs. In addition to the basic pension insurance, most of the domestic enterprises of the Company have established an enterprise annuity plan based on the relevant policies of the national enterprise annuity system. The company pays the enterprise annuity according to a certain proportion of the total wages of the employees, and the corresponding expenses are included in the current profit and loss or related asset costs. The Company's Hong Kong company, Guangzhou Pharmaceuticals Baiyunshan Hong Kong Company, provides mandatory provident fund contributions to eligible Hong Kong employees in accordance with the *Mandatory Provident Fund Schemes Ordinance* of Hong Kong. The cost settlement of all plans is deducted from the income statement for the relevant period. The planned assets are held independently by independently managed funds and managed separately from the assets of the Company. At the same time, according to the Employment Ordinance of Hong Kong, for an employee who is eligible to receive a long service payment at the time of termination of employment, such payment shall be made when the employment is terminated. The Guangzhou Pharmaceutical Baiyunshan Hong Kong Company has made provision for long-term service payments that are expected to be paid in the future. The provision is calculated based on the estimation of the best service wages might be earned by the employee for rendering of services to the Company as of the settlement date.

Where the labor relationship with employees is terminated prior to the expiration of the labor contract with employees, or compensation suggestions are made to encourage employees to accept the cutback voluntarily, the employee payroll liabilities incurred by the dismissal welfare shall be recognized and recorded into the current profit or loss when the Company cannot withdraw unilaterally the dismissal welfare provided for the termination plan of labor relations or cutback suggestions, or when the Company recognizes the cost related to reorganization involving the payment of dismissal welfare, whichever is earlier. However, if it is anticipated that the dismissal welfare cannot be fully paid within 12 months after the end of the annual report period, such welfare shall be handled as other long-term Employee Payroll.

The internal retirement plan for employee shall be treated by the same principle as the above dismissal welfare. The Company will pay the salary and contribute social insurance for the internal retirement from the service stopped to be provided by such employee to normal retirement. Such fee is recorded in the current profit or loss (dismissal welfare) when conforming to the reorganization condition of estimated liability.

Accounting treatment shall be conducted on other long-term employee payrolls provided to employees by the Company according to defined contribution plans if such plans are conformed, and besides, accounting treatment shall be conducted according to defined benefit plans.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Provisions

An obligation related to a contingency shall be recognized as an estimated liability when all of the following conditions are satisfied: (1) the obligation is a present obligation of the enterprise; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

As at the balance sheet date, the contingent liabilities shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Company shall take into full consideration the risks, uncertainty, time value of money, and other factors pertinent to the contingencies. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognized as interest expense.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement shall be recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the book value of the provision.

26. Revenue

If the following conditions are met by the contract between the Company and the customer, revenue is recognized when the customer obtains control over relevant products: (a) the parties to the contract have approved the contract and are committed to perform their respective obligations; (b) each party's rights regarding the goods or services to be transferred have been specified in the contract; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance, such as the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract; and (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At the starting date of contract, the Company recognizes individual performance obligations in the contract, and allocates transaction price into each individual performance obligation based on the relevant proportion of the price of good promised in each individual performance obligation when selling separately. The influence of factors such as variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and customer consideration payables are taken into consideration when determining the transaction price.

For each individual performance obligations in the contract, the transaction price shall be recognized into revenue based on performance progress of each individual performance obligation within relevant performance period when one of the following conditions is met: (a) Customer can obtain and consume the economic benefit from the performance of the company at the same time the company performs the contractual obligations; (b) Customer has control over the work in progress when the company performs the contractual obligations; (c) The goods produced from the company's performance of contractual obligations have irreplaceable application. And the company are entitled to receive payments for the accumulated completed portion of the whole contract. Methods of measuring progress include output methods and input methods. When progress cannot be reliably measured, if the cost incurred is expected to be compensated, the amount of cost incurred shall be recognized as revenue until the progress can be reliably measured.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Revenue *(Continued)*

If none of the above-mentioned conditions are met, the portion of transaction price allocated to the individual performance obligation shall be recognized as revenue when the customer obtains the control over relevant goods. When judging whether the customer has obtained the right to control the goods, the enterprise shall consider the following indications: (a) The enterprise is entitled to charge for the goods at present, that is, the customer is obliged to pay for the goods at present; (b) The enterprise has transferred the legal ownership of the goods to the customer, that is, the customer has obtained the legal ownership of the goods; (c) The enterprise has transferred physical possession of the goods to the customer, that is, the customer has physical possession of the goods; (d) The enterprise has transferred the major risks and rewards of the ownership of the goods to the customer, that is, the customer has obtained the major risks and rewards of the ownership of the goods; (e) The customer has accepted the goods; (f) Other indications showing that the customer has obtained the right to control the goods.

(1) Sale of goods

Revenue from the sale of goods shall be recognized when the Company has transferred the control of goods to the customer.

(2) Rendering of services

The revenue from rendering of services is recognized according to the period in which services are provided.

(3) Transfer of asset use rights

Income from transfer of asset use rights include:

- ① License fee income is recognized when the right to receive payment is established over the grand period;
- ② Income from an operating lease is recognized on a straight-line basis over the period of the lease.

27. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to an enterprise at no consideration. However, capital contributions from the government as an owner of the enterprise are excluded. The government grant is classified into government grant related to assets and government grant related to incomes. Government grants of monetary assets are measured at the amount received or receivable. Government grants of non-monetary assets are measured at fair value. If reliably fair value cannot be obtained, nominal amount shall be used for measurement. Government grants measured at nominal amount shall be recognized through profit or loss for the current year.

The specific standard that the Company make classification of the asset-related grants: Government's documents defined the grants are used to purchase fixed assets or intangible assets, or the financial discounts of specific borrowing, or the grants is undefined by government's documents but is related to the form of long-term assets of the enterprise.

The specific standard that the Company make classification of the income-related grants: It shall be defined to the income-related when not consistent with standard of asset-related grants.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

27. Government Grants *(Continued)*

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

The assets-related government grants shall reduce assets-related book value or shall be recognized as deferred income. For those recognized as deferred income, charged into current profit or loss on stages using reasonable and systemic methods during its assets-related useful lives (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income)

The income-related government grants for compensation to the related expenses or loss of the Company in the subsequent periods shall be recognized as deferred income and current profit or loss during the recognition of related expenses or loss (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income) or shall offset related expenses or loss; those for compensation to the related expenses or loss incurred of the Company shall be recognized as current profit or loss (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income) or shall offset related expenses or loss.

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

The government subsidies that contain both the portion pertinent to assets and the portion pertinent to income shall be subject to accounting treatment respectively according to different portions; and those that are difficult to be distinguished shall be classified as the government subsidies pertinent to income related as a whole.

The government subsidies pertinent to the daily activities of the Company shall be included in other income or used to offset relevant costs and expenses according to the substance of the economic business. The government subsidies irrelevant with the daily activities of the Company shall be included in non-operating revenues and expenses.

If it is necessary to refund any government subsidy which has been recognized, and there is deferred income, the book balance of the deferred income shall be offset, and the excessive part shall be included in the current profits and losses, or if the book value of relevant assets is offset against when the government subsidy is initially recognized, the book value of the assets shall be adjusted. Under any other circumstance, it shall be directly included in the current profits and losses.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Deferred Tax Assets/Deferred Tax Liabilities

(1) Current Income Tax

On the balance sheet date, the current tax liabilities (or assets) incurred in the current year or prior years shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law. The taxable income of enterprises, the basis of the measurement of the current tax, shall be measured according to the adjusted accounting profit before tax for current year by tax law.

(2) Deferred tax assets and deferred tax liabilities

As for the temporary difference arising from the difference between the book value of some asset or liability and its tax base and the difference between the book value of an item that has not been recognized as an asset or liability with its tax base determined in light of the tax law and its tax base, it is allowed to recognize it as the deferred income tax assets or the deferred income tax liabilities by balance sheet liability method.

For temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized. Besides, deferred tax liabilities will not be recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Company can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Except the above-mentioned cases, the deferred tax liabilities generated from other all taxable temporary difference are recognized by the Company.

Related to the initial recognition of the assets or liabilities arising from the following transactions that is not business combination and the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected at the time of transaction, the deductible temporary differences are not allowed to recognize relevant deferred tax assets. As for the deductible temporary differences related to the investments in a subsidiary, associated enterprises and joint enterprises, corresponding deferred tax asset shall not be recognized if the temporary differences are unlikely to be reversed in the excepted future and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences. Except the above-mentioned cases, the Company shall recognize the deferred tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain, and which can be deducted from the deductible temporary difference.

As for any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, the deferred tax assets and deferred tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The book value of deferred tax assets shall be reexamined at the balance sheet date. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred tax assets, the book value of the deferred tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Deferred Tax Assets/Deferred Tax Liabilities *(Continued)*

(3) Tax expenses

Tax expenses include current tax and deferred tax.

Except that other comprehensive income is recognized, the current tax and deferred income tax related to the transactions or events directly recorded in the other comprehensive income or shareholders' equity and the book value of goodwill is adjusted due to the deferred income tax arising from business combination, other current taxes and deferred income tax expenses or incomes are recorded in the profit or loss for the period.

(4) Offset of Income Tax

When the Company has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Company has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

29. Lease

A lease is a contract in which the company transfers or acquires the right to control the use of one or more identified assets within a certain period in exchange for or payment of consideration.

(1) Accounting Treatments of Operating Leases for Lessees

On the beginning date of the lease term, the company recognizes the right to use the assets and lease liabilities of the lease, excluding the simplified short-term lease low-value asset lease.

The use right asset is initially measured at a cost, which includes: ① the initial measurement amount of the lease liability; ② if the lease incentive exists in the lease payment amount paid on or before the beginning date of the lease term, the amount related to the lease incentive already enjoyed will be deducted; ③ initial direct cost; ④ the expected cost of disassembling and removing the leased asset, recovering the site where the leased asset is located or restoring the leased asset to the state agreed in the lease terms. The company withdraws the depreciation of the right to use assets by referring to the relevant depreciation provisions of accounting standards for business enterprises no. 4 – fixed assets (see note III, 16 “fixed assets” for details); According to the provisions of “accounting standards for enterprises no. 8-asset impairment” to determine whether the right to use assets impairment, and identified impairment losses for accounting treatment (see note III, 21 “long-term asset impairment”).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Lease *(Continued)*

(1) Accounting Treatments of Operating Leases for Lessees *(Continued)*

The initial measurement of the lease liability is based on the present value of the outstanding lease payment at the beginning of the lease term. The amount of lease payment refers to the amount paid by the company to the lessor in connection with the right to use the leased assets during the lease term, including: ① If the lease incentive exists in the fixed payment amount and the actual fixed payment amount, the amount related to the lease incentive shall be deducted; ② variable lease payments depending on the index or ratio, which is determined at the initial measurement according to the index or ratio at the beginning of the lease period; ③ the exercise price of the option, provided that the company reasonably determines that it will exercise the option; ④ the payment required to exercise the option to terminate the lease, provided that the term of the lease reflects that the company will exercise the option to terminate the lease; ⑤ according to the company's guarantee residual value is expected to pay. The company calculates the interest expense of the leasing liability during the lease term according to the fixed periodic interest rate and includes it into the current profit and loss.

The company shall record the variable lease payment not included in the measurement of lease liabilities into the current profit and loss when it actually occurs.

For short-term lease and low-value asset lease, the company chooses to simplify the process and record the profits and losses of the current period in accordance with the straight-line method during the lease period.

When there is a change in the scope, consideration and term of lease other than the terms of the original contract, the company shall treat the change of lease as a separate lease or not as a separate lease according to the circumstances.

If it is not a separate lease, the company shall, on the effective date of the lease change, re-measure the lease liability according to the present value calculated by the lease payment amount after the change and the revised discount rate, and adjust the book value of the right to use assets accordingly.

If the carrying value of the right to use assets has been reduced to zero, but the leasing liabilities still need to be further reduced, the company shall record the remaining amount into the current profits and losses.

(2) The company records the leasing business as the lessor

① *leasing classification*

On the lease commencement date, the company divides the lease into finance lease and operating lease based on the essence of the transaction. Finance lease refers to the lease that transfers virtually all the risks and rewards related to the ownership of the leased assets. The term "operating lease" refers to any lease other than finance lease.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Lease *(Continued)*

(2) The company records the leasing business as the lessor *(Continued)*

② Operating lease

The company adopts the straight-line method to recognize the rental income for each period of the lease term. The initial direct expenses related to the operating lease are capitalized at the time of occurrence and are recorded into the profits and losses of the current period in accordance with the same basic stages as recognized rental income during the whole lease period. The variable lease payment amount acquired related to the operating lease and not included in the lease receipt shall be recorded into the current profit and loss when actually incurred.

③ Financial lease

On the commencement date of the lease term, the company shall confirm the receivables of the finance lease and terminate the confirmation of the finance lease assets. The finance lease receivables are initially measured by the sum of the present value discounted by the embedded interest rate of the lease, which is the unsecured residual value and the unreceived lease receipt at the beginning of the lease term. The amount of lease payment includes: a. fixed amount of payment and substantial fixed amount of payment to be paid by the lessee. If there is A lease incentive, the amount related to the lease incentive will be deducted; B. Variable lease payments, subject to an index or ratio, determined at the time of initial measurement based on the index or ratio at the date of commencement of the lease period; C. The exercise price of the option, provided that it is reasonably determined that lessee will exercise the option; D. The amount payable by the lessee to exercise the option to terminate the lease, provided that the lease term reflects that the lessee will exercise the option to terminate the lease; E. Residual value of security provided to lessor by lessee, parties related to lessee and an independent third party capable of performing its security obligations.

The variable lease payment acquired by the company, which is not included in the measurement of net lease investment, shall be recorded into the current profit and loss when actually incurred.

30. Other Important Accounting Policies and Accounting Estimates

(1) Discontinued operations

Discontinued operations is a component that meets one of the following conditions and can be separately distinguished and disposed of by the Company or classified as held for sale: ① this component represents an independent principal business or a separate principal operation area; ② this component is part of an associated program to be disposed of for an independent main business or a separate main business area; ③ this component is a subsidiary acquired for resale.

For the accounting treatment of discontinued operations, please refer to the descriptions in Note III. 13. "Assets Held for Sale and Disposal Company".

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes in Significant Changes in Accounting Policies and Accounting Estimates

(1) Changes in accounting policies

- ① *Changes in accounting policies due to the implementation of the new lease standards.*

On 7 December 2018, the Ministry of Finance issued the *Accounting Standards for Business Enterprises No. 21 – Lease* (Revised in 2018) (Caikuai [2018] No. 35, hereinafter referred to as the “New lease standards”); Enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement the new lease standards from 1 January 2019.

As approved by the resolution of the 21st meeting of the 7th Board of Directors of the Company on 26 April 2019, the Company began implementing the above-mentioned new lease standards on January 1, 2019 (hereinafter referred to as the “First Implementation Date”), complying with the requirements of the Ministry of Finance, as well as change the relevant accounting policies according to the new lease standards.

According to the new leasing standards, for existed contracts before the first implementation day, the Company would not to re-evaluate whether it is a lease or it includes a lease on the first implementation day. For the lease contract that the Company is lessee, the Company chose to adjust only the cumulative effects of the lease contract that was not completed on 1 January 2019.

Adjustment of cumulative effects amount for the first time the retained earnings and amounts of other relevant items in the financial statements at the beginning of the current period (1 January 2019) shall not be adjusted for comparable period information. Details are as follows:

- A. For the finance lease on the first implementation day, the company shall measure the right-of-use assets and lease liabilities respectively according to the original book value of the financing lease assets and finance lease payable.
- B. For the operating lease on the first implementation day, the Company calculated the lease liability according to the present value of the remaining lease payment discounted by the incremental borrowing rate on the first implementation day; The unpaid rent accrued under the original lease standards on an accrual basis shall be included in the remaining lease payment.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes in Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

① Changes in accounting policies due to the implementation of the new lease standards. (Continued)

According to each lease, the Company chose to measure the right-of-use assets according to either of the following:

- (a) Assuming that the book value of the new leasing standards is adopted from the beginning of the lease period (using the incremental borrowing rate on the first implementation day as the discount rate);
- (b) The amounts equal to lease liabilities are subjected to necessary adjustments based on prepaid rent.

On the first implementation day, the Company conducted impairment tests on the right-of-use assets and carried out corresponding accounting treatment, in accordance with the provisions of Accounting Standards for Business Enterprises No. 8-Asset impairment.

The impact of the implementation of the new lease standards by the Group are summarized as follows:

Consolidated balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2018	Effect of the new lease standards	Book balance after changes in accounting policies as at 1 January 2019
Assets:			
Fixed assets	3,165,746,536.73	(215,165,155.44)	2,950,581,381.29
Right-of-use assets	-	846,762,689.48	846,762,689.48
Liabilities			
Current portion of non-current liabilities	204,024,196.93	139,291,507.59	343,315,704.52
Lease liabilities	-	600,490,563.19	600,490,563.19
Long-term payables	135,795,848.74	(108,184,536.74)	27,611,312.00

On January 1, 2019, when measuring lease liabilities, the Group used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes in Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

- ① *Changes in accounting policies due to the implementation of the new lease standards. (Continued)*

According to each lease, the Company chose to measure the right-of-use assets according to either of the following:

The Company's balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2018	Effect of the new lease standards	Book balance after changes in accounting policies as at 1 January 2019
Assets:			
Right-of-use assets	—	7,786,057.78	7,786,057.78
Liabilities			
Current portion of non-current liabilities	—	2,820,472.89	2,820,472.89
Lease liabilities	—	4,965,584.89	4,965,584.89

On January 1, 2019, when measuring lease liabilities, the company used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Changes in Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

② Adjustments on the presentation of financial statements

The financial statements of 2019 are prepared by the Group in accordance with the format prescribed in Caikuai [2019] No. 6. Presentation of relevant accounts are adjusted retrospectively.

The impact of adjustments in relevant financial statements is as follows:

Consolidated balance sheet

Item	Before adjustment	Amount adjusted	After adjustment
Assets			
Notes receivable	2,780,597,684.01	(1,452,402,183.47)	1,328,195,500.54
Accounts receivables financing	-	1,452,402,183.47	1,452,402,183.47

The Company's balance sheet

Item	Before adjustment	Amount adjusted	After adjustment
Assets			
Notes receivable	615,391,740.80	(167,667,277.86)	447,724,462.94
Accounts receivables financing	-	167,667,277.86	167,667,277.86

32. Significant Accounting Judgments and Estimates

In the application of the accounting policies, due to the intrinsic uncertainty of business operations, the Company needs to judge, estimate, and make assumptions on the book value of report item which cannot be reliably measured. These judgments, estimations, and assumptions are made based on the Company management's historical experiences, and with references of other related factors. These judgments, estimations and assumptions can have impact on the reported amount of income, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. It is probable that the actual results arising from the uncertainty of these estimates are different from the current estimates of the Company's management, and then lead to significant adjustments to the book value of assets or liabilities influenced in future.

The Company performs periodic revision on the above determinations, estimations, and assumptions on the basis of constant operation. When a change in accounting estimation is just influencing the current term, its influenced amount is recognized in the current term. When a change is influencing not only the current term but also the future terms, its influenced amount is recognized in the current term and also the future terms.

The following are the critical judgments that the Company has made in the process of judging, evaluating and assuming as at balance sheet date:

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

32. Significant Accounting Judgments and Estimates *(Continued)*

(1) Revenue recognition

As stated in Note III. 26-Revenue, the Company makes the following significant accounting judgments and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognized where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc.

The Company make judgments primarily based on historical experiences and works to. Changes in these significant judgments and estimates can have significant impacts on the operating income, operating costs, and profit or loss of the current or subsequent periods.

(2) Impairment of financial assets

Expected credit loss model is adopted by the Company to evaluate the impairment of financial assets. Adopting expected credit loss model requires making significant judgment and evaluation, considering all the reasonable and supportable information, including forward-looking information. To conclude the expected change in of credit risk of the debtor, the Company shall make such judgment and evaluation based on historical data with factors such as change in economy policies, macroeconomic indicators, industry risk, external market environment, technology environment, customer condition, etc.

(3) Provision for decline in value of inventories

The Company accrues inventory falling price reserves of inventories with higher cost than net realizable value and obsolete and unsalable inventories according to their cost and net realizable value, whichever is lower, based on inventory accounting policies. The impairment of inventory to net realizable value is based on the evaluation of its sale ability and net realizable value. The identification of impairment of inventory calls for the management to make judgment and estimation after receiving sound evidence and considering the purpose of holding the inventory and the influence factors of events after balance sheet date. Difference between the actual results and the original estimation will be calculated, provided or reversed by the influence on the book value of inventories and inventory falling price reserves in the estimated change period.

(4) Fair value of financial instruments

The Company recognizes the fair value of financial instruments without active trading market through various valuation methods. These valuation methods include discounted cash flow model analysis, etc. The Company needs to evaluate the future cash flow, credit risks, market volatility and relevance, etc. and choose the proper discount rate. These relevant hypotheses are uncertain, and the changes will inflict impact on the fair value of financial instruments.

Where an investment in equity instruments or contract has a public offer, the Company does not use the cost as the best estimate of its fair value.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

32. Significant Accounting Judgments and Estimates *(Continued)*

(5) Provision for the impairment of long-term assets

The Company will judge whether there exists indication showing that the impairment might incur on non-current assets rather than financial assets on the balance sheet date. Except impairment test conducted each year, when there exists indication of impairment, then impairment test should be conducted too for intangible asset that service life is uncertain. Impairment test should be conducted on non-current assets rather than financial assets if the Company finds evidence that book value is unrecoverable.

When the book value of assets or asset group is higher than recoverable amount, which is the net amount of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset, it indicates that the impairment incurs.

Net amount of the fair value minus disposal expense should be determined by reference to sales agreement price or observable market price of similar assets in fair transaction minus incremental cost directly attributable to such assets disposed.

Upon estimation of current value of future cash flow, significant judgment on production, sale price, related operation cost and discount rate for current value calculation is required. The Company may use all attainable relevant information upon estimation of the recoverable amounts, including estimation on the capacity, sale price and relevant operation cost made based on reasonable and supportable hypothesis.

The Company will test if the goodwill suffers from impairment at least once a year. It requires estimation of the current value of future cash flow for asset groups or their combinations with good will distributed. Upon estimation of future cash flow, the Company needs to estimate cash flow generated by future asset groups or their combinations and meanwhile choose proper discount rate to recognize the current value of future cash flow.

(6) Depreciation and Amortization

The Company calculates and accrues depreciation and amortization by the method of line within service life after considering the remaining value of investment properties, fixed assets and intangible assets. The Company periodically reviews service life to decide the amount to be included into each report period of depreciation and amortization expenses. Service life is recognized by the Company based on past experience for the same type of assets together with anticipated technological updates. If past estimation has been significantly changed, expenses for depreciation and amortization should be adjusted in the future.

(7) Deferred tax assets

If it is highly possible that there is enough taxable profit to offset losses, the Company recognizes deferred income assets for all unused taxation losses. It requires huge judgment of the management of the Company to estimate the time and amount of future taxable profit together with tax payment planning strategy to decide the amount of deferred income tax assets to recognized.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

32. Significant Accounting Judgments and Estimates (Continued)

(8) Income Taxes

During regular business activities of the Company, there are uncertainties in final taxation disposal and calculation for some transactions. Whether some projects can list approval needed from taxation authorities before tax. If the final recognition result of these taxation matters is different from the initially estimated amount, such difference will influence the income tax and deferred income tax of current year during final recognition.

(9) Provisions

Based on the contract terms, existing knowledge and historical experience, the Company estimates and makes provision for product quality assurance, estimated contract losses, and penalty for delay in delivery. In the event that such contingent events have formed a current obligation and the performance of such current obligations is likely to result in the outflow of economic benefits from the Company, the Company recognizes the contingent liabilities as the provisions according to the best estimate of the expenditure required to perform the relevant current obligations. The recognition and measurement of Provisions is mainly dependent on management's judgment. In the process of making judgments, the Company needs to assess factors such as risks, uncertainties and time value of money related to such contingent events.

Among them, the Company will provide provisions for after-sales warranty to customers for the sale, repair and modification of the products sold. The Company's recent maintenance experience data has been taken into account when estimating liabilities, but recent maintenance experience may not reflect future maintenance. Any increase or decrease in this preparation may affect the profit and loss of the future year.

IV. TAXES

1. Main Tax Types and Tax Rate

Types of tax	Tax basis	Specified tax rate
Value added tax ("VAT")	Taxable income	(1) Sales of goods: 16%, 13%, 10%, 9% (2) Services etc.: 6%, 5%, 3%
Consumption tax	Taxable income	Calculated and paid at 10% on taxable income of the sale of alcohol products
Urban maintenance and construction tax	Actual payment of turnover tax	Calculated and paid at 7% on the payment of turnover tax.
Education surcharge	Actual payment of turnover tax	Calculated and paid at 3% on the payment of turnover tax.
Local education surcharge	Actual payment of turnover tax	Calculated and paid at 2% on the payment of turnover tax.
Corporate income tax	Taxable profit	Please refer the details below.

Note: The tax rates of 17% and 11% applicable to the Group's VAT taxable sale or import of goods were adjusted to 16% and 10%, respectively, on 1 May 2018, in accordance with the requirements of the *Notice of the Ministry of Finance of the People's Republic of China and the State Administration of Taxation on Adjusting Value-Added Tax Rates* (No. 32 [2018], Ministry of Finance of the People's Republic of China).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. TAXES (Continued)

1. Main Tax Types and Tax Rate (Continued)

According to the Announcement of the *Ministry of Finance of the People's Republic of China, the State Administration of Taxation and General Administration of Customs* on Policies about Deepening the *Value-added Tax (VAT)* Reform (No. 39 [2019], Ministry of Finance of the People's Republic of China, the State Administration of Taxation and General Administration of Customs), the applicable tax rate will be adjusted to 13%/9% from April 1, 2019. Meanwhile, as a taxpayer of the production and living service industry, the Company can deduct 10% of the input tax in the current period from April 1, 2019 to December 31, 2021 to offset the tax payable.

Corporate income tax

Taxpayer	Income tax rate
The Group, Xing Qun, Zhong Yi, Chen Li Ji, Guangzhou Han Fang, Jing Xiu Tang, Pan Gao Shou, Wang Lao Ji, Tian Xin, Guang Hua, Ming Xing, Weiling, Guangxi Ying Kang, WLJ Great Health, Guangyao General Institute	Calculated and paid at 15% of the taxable income
The Group's domestic subsidiaries other than the above-mentioned enterprises	Calculated and paid at 25% of the taxable income
Guangyao Baiyunshan Hong Kong Company of the Group	Calculated and paid at 16.5% of the taxable income

2. Important Tax Preferential Treatments and Approval Documents

According to the state's relevant tax preferential policies for High/New enterprises, qualified High/New technology enterprises can enjoy preferential corporate income tax policies and pay corporate income tax at a reduced rate of 15%.

The subsidiaries of the Group, which have obtained the Certificates of High/New Technology Enterprises, can enjoy preferential tax rate of 15% for current period, which including: the Company (No. GR201744003162), Xing Qun (No. GR201744011135), Zhong Yi (No. GR201744005343), Chen Li Ji (No. GR201744001501), Guangzhou Han Fang (No. GR201744008646), Jing Xiu Tang (No. GR201744000331), Pan Gao Shou (No. GR201744002878), Wang Lao Ji (No. GR201744001303), Tian Xin (No. GR201744009163), Guang Hua (No. GR201544000485), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No. GR201545000083), Weiling (No. GR201844007959), WLJ Great Health (No. GR201644006480), Guangyao General Institute (GR201844005664).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at Bank and on Hand

Item	Closing balance	Opening balance
Cash on hand	883,955.59	981,910.86
Cash at bank	16,829,618,823.88	15,049,107,347.81
Other currency balance	1,639,115,457.94	1,064,794,414.84
Total	18,469,618,237.41	16,114,883,673.51
Including: Total amount of cash kept in foreign countries	69,807,439.31	37,505,038.18

Notes:

- (1) Other currency balance RMB1,639,115 thousand (31 December 2018: RMB1,064,794 thousand) is comprised of the Group's third-party payment accounts, deposits, foreign exchange deposits, credit card deposits, letters of credit, guarantee deposits, term deposits, housing funds, bank acceptance bill deposit, frozen account funds and the others.
- (2) As on 31 December 2019, the amount of the Group's cash at bank and on hand with restrictions on ownership was RMB1,635,996 thousand (31 December 2018: RMB1,043,271 thousand). Breakdown of cash at bank and on hand with restrictions on use is as follows:

Item	Closing balance	Opening balance
Deposit for notes payable	1,284,103,385.06	838,954,099.58
Factoring deposit for accounts receivable	–	100,438,849.65
Frozen account funds	61,036,156.17	78,283,834.37
Letters of credit	19,696,428.25	3,794,247.96
Term deposit	270,179,688.00	20,000,000.00
Factoring repayment for accounts receivable	72,351.99	–
Guarantee deposits	108,380.00	1,212,244.60
Housing funds	591,339.71	588,198.97
Other	208,000.00	–
Total	1,635,995,729.18	1,043,271,475.13

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable

(1) Category of notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes	1,409,558,796.80	723,355,686.56
Commercial acceptance notes	117,699,742.56	604,839,813.98
Subtotal	1,527,258,549.36	1,328,195,500.54
Less: Bad debt reserves	1,176,997.42	–
Total	1,526,081,541.94	1,328,195,500.54

Note: For the difference between the opening balance and the closing balance of the previous year (December 31, 2018), please refer to the differences in accounting policies for details.

(2) Notes receivable pledged at the period end

Item	Amount pledged at the year end
Bank acceptance notes	19,080,980.39
Commercial acceptance notes	–
Total	<u>19,080,980.39</u>

(3) Notes which are not matured as at the balance sheet date but have been endorsed or discounted at the period end

Item	Amount derecognized at the period end	Amount not derecognized at the period end
Bank acceptance notes	1,265,066,368.39	530,830,741.61
Commercial acceptance notes	–	1,700,000.00
Total	1,265,066,368.39	<u>532,530,741.61</u>

Notes:

- ① Pursuant to provisions of the Negotiable Instruments Law of the People's Republic of China, if the bank of acceptance refuses to pay the payables, the holding party is entitled to recover the payables (continuing involvement) from the Group. Consequently, the Group is in continuing involvement in the notes which are not matured at balance sheet date but have been endorsed or discounted.
- ② The Group believes that the fair value of the continuing involvement is not significant, as the Group has transferred substantially all the risks and awards of the above-mentioned notes receivable which have been endorsed or discounted. The Group does not recognize any assets or liabilities arising from the continuing involvement in book.
- ③ The maximum loss from the continuing involvement of the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value of RMB1,265,066 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

- (3) Notes which are not matured as at the balance sheet date but have been endorsed or discounted at the period end (Continued)

Notes: (Continued)

- ④ Undiscounted cash flows payable arising from the possibility that the Group may buy back the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value, including the balance of notes receivable as on 31 December 2019 which shall be matured by 31 December 2020.
- ⑤ For the period from January to December 2019, no profit or loss is recognized at the date of the transfer. The Group did not recognize any current or accumulated income or expenses arising from the continuing involvement of derecognized financial assets.
- ⑥ The above-mentioned notes receivable, which have been endorsed or discounted, occurred roughly balanced in the current year and the distribution is roughly balanced either.

- (4) As on 31 December 2019, the bank acceptance notes endorsed by the Group to other parties but not matured was RMB1,623,767 thousand (31 December 2018: RMB2,332,235 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	30 Aug 2019	1 Mar 2020	10,559,518.36
Customer 2	15 Nov 2019	15 Feb 2020	10,063,000.00
Customer 3	22 Oct 2019	22 Jan 2020	10,000,000.00
Customer 4	29 Jul 2019	29 Jan 2020	10,000,000.00
Customer 5	6 Nov 2019	6 Feb 2020	10,000,000.00

- (5) As on 31 December 2019, commercial acceptance notes endorsed by the Group but not matured was RMB1,500 thousand (31 December 2018: RMB52,760 thousand). The details of notes are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	17 Jul 2019	17 Jan 2020	1,500,000.00

- (6) As on 31 December 2019, bank acceptance notes discounted by the Group but not matured was RMB172,130 thousand (31 December 2018: RMB206,666 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	26 Sep 2019	24 Mar 2020	10,000,000.00
Customer 2	11 Dec 2019	11 Jun 2020	8,000,000.00
Customer 3	21 Nov 2019	21 Feb 2020	6,398,997.40
Customer 4	16 Aug 2019	16 Feb 2020	5,000,000.00
Customer 5	31 Jul 2019	31 Jan 2020	5,000,000.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

- (7) As on 31 December 2019, commercial acceptance notes endorsed by the Group but not matured was RMB200 thousand (on 31 December 2018, nil), The maximum amount by balance is as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	11 Mar 2019	10 Mar 2020	200,000.00

- (8) As on 31 December 2019 and 31 December 2018, the Group had no accounts receivable transferred from notes receivable due to the inability of performance by the drawer.

- (9) Notes receivable disclosed by methods of accruing provision for bad debts

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio	1,527,258,539.36	100.00	1,176,997.42	0.08	1,526,081,541.94
Including: portfolio 1	117,699,742.56	7.71	1,176,997.42	1.00	116,522,745.14
portfolio 2	1,409,558,796.80	92.29	-	-	1,409,558,796.80
Total	<u>1,527,258,539.36</u>	<u>100.00</u>	<u>1,176,997.42</u>	<u>0.08</u>	<u>1,526,081,541.94</u>

Cont.

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio	1,328,195,500.54	100.00	-	-	1,328,195,500.54
Including: portfolio 1	-	-	-	-	-
portfolio 2	1,328,195,500.54	100.00	-	-	1,328,195,500.54
Total	<u>1,328,195,500.54</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>1,328,195,500.54</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

(9) Notes receivable disclosed by methods of accruing provision for bad debts

- ① The Group had no notes receivable which are subject to separate provision at the period end.
- ② Notes receivable which are subject to provision by aging portfolio

Item	Closing balance		Expected credit loss (%)
	Book balance	Provision for bad debts	
Within one year	117,699,742.56	1,176,997.42	1.00
Total	<u>117,699,742.56</u>	<u>1,176,997.42</u>	-

- ③ Notes receivable which are subject to provision by financial asset portfolio with extremely low credit risk

Item	Closing balance		Expected credit loss (%)
	Notes receivable	Provision for bad debts	
Notes receivable with extremely low credit risk	1,409,558,796.80	-	-
Total	<u>1,409,558,796.80</u>	<u>-</u>	<u>-</u>

(10) Provision for bad debts.

Category	Opening balance	Provision	Current changing amount		Closing balance
			Amount recovered or reversed	Amount resold or written off	
Provision by notes receivable	-	1,176,997.42	-	-	1,176,997.42
Total	<u>-</u>	<u>1,176,997.42</u>	<u>-</u>	<u>-</u>	<u>1,176,997.42</u>

- (11) The Group had no notes receivable written off for the current period.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable

(1) The aging analysis of accounts receivable based on booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	12,279,203,329.97	10,608,071,266.73
1 to 2 years	281,873,461.22	296,900,276.44
2 to 3 years	165,330,048.12	21,494,905.55
3 to 4 years	12,655,288.53	24,379,618.72
4 to 5 years	15,509,462.78	149,135,708.99
Over 5 years	181,864,903.62	60,509,283.89
Total book balance of accounts receivable	12,936,436,494.24	11,160,491,060.32
Less: Provision for bad debts	381,411,974.66	288,032,587.98
Total book value of accounts receivable	12,555,024,519.58	10,872,458,472.34

(2) Accounts receivable disclosed by method of accruing provision for bad debts

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	358,916,862.27	2.78	191,992,184.94	53.49	166,924,677.33
Accounts receivable subject to provision by portfolio of features of credit risk	12,577,519,631.97	97.22	189,419,789.72	1.51	12,388,099,842.25
Including: portfolio 1	12,577,519,631.97	97.22	189,419,789.72	1.51	12,388,099,842.25
Total	12,936,436,494.24	100.00	381,411,974.66	2.95	12,555,024,519.58

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

(Cont.)

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	190,638,700.65	1.71	94,158,214.38	49.39	96,480,486.27
Accounts receivable subject to provision by portfolio of features of credit risk	10,969,852,359.67	98.29	193,874,373.60	1.77	10,775,977,986.07
Including: portfolio 1	10,969,852,359.67	98.29	193,874,373.60	1.77	10,775,977,986.07
Total	11,160,491,060.32	100.00	288,032,587.98	2.58	10,872,458,472.34

① Accounts receivable subject to separate provision at the period end

Accounts receivable (by debtor)	Book balance	Provision for bad debts	Closing balance Expected credit loss (%)	Reason
Customer 1	145,866,752.86	75,272,580.21	51.60	Discontinued business with the customer and amount is expected to be unrecoverable
Customer 2	50,998,659.40	5,099,865.94	10.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ③.
Customer 3	37,710,221.64	3,771,022.16	10.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ③.
Customer 4	21,083,009.87	6,305,575.50	29.91	Amount is expected to be unrecoverable fully.
Customer 5	19,432,662.47	19,432,662.47	100.00	Discontinued business with the customer and amount is expected to be unrecoverable
Customer 6	15,709,515.92	15,709,515.92	100.00	Litigation is involved. Please refer to Note XIII (11). 1. (1) ②
Customer 7	10,541,832.00	10,541,832.00	100.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ③.
Customer 8	5,762,294.75	5,762,294.75	100.00	The court has frozen the funds of the customer. Recoverability is expected to be low.
Customer 9	5,191,200.00	5,191,200.00	100.00	Amount is expected to be unrecoverable.
Customer 10	4,971,878.60	4,971,878.60	100.00	The lawsuit is won and under implementation. Recoverability is expected to be low.
Others	41,648,834.76	39,933,757.39	95.88	Amount is expected to be unrecoverable.
Total	358,916,862.27	191,992,184.94	-	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

② Accounts receivable subject to provision by aging portfolio

Portfolio 1

Aging	Closing balance		Expected credit loss (%)
	Book balance	Provision for bad debts	
Within 1 year	12,261,896,423.02	122,619,145.47	1.00
1 to 2 years	250,281,362.91	25,028,136.29	10.00
2 to 3 years	25,801,067.27	7,740,320.18	30.00
3 to 4 years	8,670,416.95	4,335,208.47	50.00
4 to 5 years	5,866,912.57	4,693,530.06	80.00
Over 5 years	25,003,449.25	25,003,449.25	100.00
Total	<u>12,577,519,631.97</u>	<u>189,419,789.72</u>	—

Cont.

Aging	Book balance	Opening balance	
		Provision for bad debts	Expected credit loss (%)
Within 1 year	10,595,318,494.61	105,939,311.19	1.00
1 to 2 years	292,704,339.66	29,270,433.98	10.00
2 to 3 years	22,461,434.74	6,738,430.45	30.00
3 to 4 years	11,636,777.53	5,818,388.78	50.00
4 to 5 years	8,117,519.60	6,494,015.67	80.00
Over 5 years	39,613,793.53	39,613,793.53	100.00
Total	<u>10,969,852,359.67</u>	<u>193,874,373.60</u>	—

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(3) Provision for bad debts accrued, recovered or reversed this year

The amount of bad debt provision for this year was RMB112,534 thousand; The amount of bad debt provision recovered or reversed for this year was RMB9,113 thousand.

Among them, the important amount of bad debt provision reversal or recovery for this year is as below:

Customer Name	Amount recovered or reversed	Method recovered
Customer 1	9,113,152.84	Strengthened the cleanup of accounts receivable then recovered the bad debt
Total	<u>9,113,152.84</u>	

(4) Accounts receivable written off in the current period:

Item	Amount written off
Accounts receivable written off	10,040,826.74

Among them: significant accounts receivable written off are as follows

Customer Name	Nature	Amount written off	Reason	Performed write-off procedures	Whether due to related party transactions
Customer 1	Sale of goods	6,882,055.56	Unrecoverable	Approved by management	No
Customer 2	Sale of goods	<u>3,085,425.87</u>	Unrecoverable	Approved by management	No
Total		<u>9,967,481.43</u>			

(5) The top five customers by balances at the year end are as follows

Company	Closing balance	Proportion to total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	531,456,644.62	4.11	5,303,657.05
Customer 2	318,161,315.10	2.46	3,194,387.93
Customer 3	316,501,057.08	2.45	3,203,782.96
Customer 4	208,152,428.70	1.61	6,046,211.24
Customer 5	<u>185,170,248.97</u>	<u>1.43</u>	<u>1,870,103.31</u>
Total	<u>1,559,441,694.47</u>	<u>12.06</u>	<u>19,618,142.49</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

- (6) Accounts receivables derecognized due to transfer of financial assets in the current period.

Items	Transfer method of financial assets	Accounts receivables derecognized	Profit or loss from the derecognition
ABS initial base assets	sold	1,013,473,408.71	13,473,408.71
ABS increment base assets	sold	875,427,990.78	–
Total		<u>1,888,901,399.49</u>	<u>13,473,408.71</u>

- (7) The Group had no assets or liabilities arising from the transfer of the accounts receivable with the continuing involvement for the current period.

4. Receivables financing

Item	Closing balance	Opening balance
Notes receivable	<u>1,515,914,114.01</u>	<u>1,452,402,183.47</u>
Total	<u>1,515,914,114.01</u>	<u>1,452,402,183.47</u>

Note: For the difference between the opening balance and the closing balance of the previous year (December 31, 2018), please refer to the differences in accounting policies for details.

5. Prepayments

- (1) The aging analysis of prepayments is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	647,412,646.18	95.15	787,644,850.07	94.01
1 to 2 years	16,851,520.10	2.50	20,097,405.33	2.40
2 to 3 years	5,060,708.51	0.75	21,941,790.90	2.62
Over 3 years	4,027,918.23	0.60	8,124,070.38	0.97
Total	<u>673,352,793.02</u>	<u>100.00</u>	<u>837,808,116.68</u>	<u>100.00</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments (Continued)

(2) The top five suppliers by balances are as follows:

Company	Closing balance	Proportion to total closing balance of advance payments (%)
Supplier 1	136,925,159.73	20.33
Supplier 2	116,171,379.47	17.25
Supplier 3	36,700,720.00	5.45
Supplier 4	28,202,167.66	4.19
Supplier 5	27,069,261.93	4.02
Total	<u>345,068,688.79</u>	<u>51.24</u>

6. Other Receivables

Item	Closing balance	Opening balance
Interest receivable	1,666,666.70	1,367,876.33
Dividends receivable	316,706,053.45	40,036,044.47
Other receivables	904,685,208.63	1,059,658,110.76
Less: Provision for bad debts	49,697,886.74	44,510,845.18
Total	<u>1,173,360,042.04</u>	<u>1,056,551,186.68</u>

(1) Interest receivable

① Interest receivable by category

Item	Closing balance	Opening balance
Term deposit	1,666,666.70	1,367,876.63
Less: Provision for bad debts	—	—
Total	<u>1,666,666.70</u>	<u>1,367,876.63</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(2) Dividends receivable

① Dividends receivable are as follows

Item (or investee)	Closing balance	Opening balance
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd. (hereinafter referred to as "HWBYS")	278,767,530.00	–
Guangzhou Nuo Cheng Biological Products Co., Ltd. (hereinafter referred to as "Nuo Cheng")	37,938,523.45	37,938,523.45
Chuangmei Medicines Co., Ltd. (hereinafter referred to as "Chuangmei Medicines")	–	2,097,521.02
Subtotal	316,706,053.45	40,036,044.47
Less: Provision for bad debts	–	–
Total	316,706,053.45	40,036,044.47

② The Group had no significant dividends receivable with aging over 1 year for the current period.

③ The Group had no provision for bad debts for dividends receivable for the current period.

(3) Other receivables

① Other receivables disclosed per aging:

Aging	Closing balance	Opening balance
Within 1 year	745,093,461.94	952,725,652.85
1 to 2 years	77,127,890.11	41,084,695.46
2 to 3 years	25,407,276.76	22,885,932.40
3 to 4 years	14,692,212.94	6,697,006.37
4 to 5 years	5,923,360.23	4,582,548.11
Over 5 years	36,441,006.65	31,682,275.57
Total	904,685,208.63	1,059,658,110.76

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

② Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from external parties	628,808,015.60	754,837,110.46
Margin, deposit and down payment	149,762,074.79	175,353,366.04
Advances to employees	50,395,230.88	68,329,344.32
Petty cash	13,888,670.96	8,362,855.17
Receivables due from related parties	7,053,789.51	9,178,773.24
Tax refund for exports	130,089.65	715,195.60
Others	54,647,337.24	42,881,465.93
Total book balance of other receivables	904,685,208.63	1,059,658,110.76
Less: Provision for bad debts	49,697,886.74	44,510,845.18
Total	854,987,321.89	1,015,147,265.58

③ Provision for bad debts

Provision for bad debts	First stage	Second stage	Third stage	Total
	Expected credit losses in the next 12 months	Expected credit losses throughout life (no credit impairment)	Lifetime expected credit losses (credit impairment has occurred)	
Opening balance	44,510,845.18	-	-	44,510,845.18
Provision at current period	5,463,258.01	-	-	5,463,258.01
Reversal of bad debt provision at current period	26,691.31	-	-	26,691.31
Charge off at current period	-	-	-	-
Written off at current period	249,525.14	-	-	249,525.14
Other changes	-	-	-	-
Ending balance	49,697,886.74	-	-	49,697,886.74

④ Provision for bad debts

The amount of bad debt provision for this year was RMB5,463 thousand; The amount of bad debt provision recovered or reversed for this year was RMB27 thousand.

Among them, there is no significant amount of bad debt provision reversal or recovery for this year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

⑤ Other receivables written off in the current period.

Item	Amount written off
Other receivables written off	249,525.14

The Group had no significant other receivables written off for this year.

⑥ The top five debtors by balances are as follows:

Company	Nature	Closing balance	Aging	Proportion to the total closing balance of other receivables (%)	Closing balance of bad debt provision
Other receivables 1	Receivables due from external parties	59,544,552.04	Within 1 year, 1 to 2 years	6.58	596,310.49
Other receivables 2	Receivables due from external parties	19,344,041.31	Within 1 year	2.14	193,440.42
Other receivables 3	Receivables due from external parties	10,932,650.18	Within 1 year	1.21	109,326.50
Other receivables 4	Receivables due from external parties	10,315,700.00	3 to 4 years	1.14	10,315,700.00
Other receivables 5	Receivables due from external parties	10,246,720.22	Within 1 year	1.13	93,778.23
Total		<u>110,383,663.75</u>		<u>12.20</u>	<u>11,308,555.64</u>

⑦ The Group had no other receivables related to government grants.

⑧ The Group had no other receivables that had been derecognized due to transfer of financial assets.

⑨ The Group had no assets or liabilities arising from the transfer other receivable with the continuing involvement for this year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories

(1) Disclosure of inventories by categories is as follows:

Item	Closing balance		Opening balance	
	Book balance	Provision for decline in value of inventories	Book balance	Provision for decline in value of inventories
Raw materials	1,013,657,884.08	9,913,957.23	1,003,743,926.85	1,307,647,020.59
Turnover materials	158,726,849.10	-	158,726,849.10	156,092,841.92
Consignment processing material	3,874,143.16	-	3,874,143.16	3,012,285.84
Work in progress	664,587,736.78	-	664,587,736.78	703,677,617.26
Commodity stocks	7,724,802,592.59	65,694,984.43	7,659,107,608.16	7,173,857,957.53
Total	9,565,649,205.71	75,608,941.66	9,490,040,264.05	9,344,287,723.14

(2) Provision for decline in value of inventories and contract performance cost

Item	Opening balance	Provision	Decrease in this year		Closing balance
			Reversed	Written-off	
Raw materials	9,294,225.68	2,885,287.71	2,053,704.24	211,851.92	9,913,957.23
Work in progress	4,655,870.97	-	3,076,937.03	1,578,933.94	-
Commodity stocks	98,598,528.65	24,206,229.81	10,453,476.11	46,656,297.92	65,694,984.43
Total	112,548,625.30	27,091,517.52	15,584,117.38	48,447,083.78	75,608,941.66

(3) In the year end, there is no capitalization of borrowing costs in the inventory.

(4) No amortization of contract performance costs in this year.

8. Other Current Assets

Item	Closing balance	Opening balance
Deductible Input VAT	445,728,811.25	519,056,234.63
Prepaid enterprise income tax	70,747,299.62	50,985,240.99
Structured deposits	30,000,000.00	1,530,000,000.00
Undisposed assets for whole relocation (Note)	20,401,231.79	24,438,333.74
Bank financial products	11,495,150.95	12,035,289.38
Others	469,130.04	732,955.59
Total	578,841,623.65	2,137,248,054.33

Note: According to the notice of Haifuzhengfang [2015] No. 2, Haizhengbankexiezi [2015] No. 1 and Haizhengbankexiezi [2016] No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qi xing Pharmaceutical, subsidiaries of the Group, have ceased production and moved out of the building for whole relocation before September 2015. The values of the land and houses, machinery and equipment and inventories for compensation shall be appraised with a professional appraisal report. As of December 31, 2019, the evaluation report has been issued, and relevant government departments are still reviewing.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-term Equity Investment

Investee	Opening balance	Increase	Decrease	Investment gains and losses recognized under equity method	Change in the current year Adjustment to other comprehensive income	Declaration of cash dividends or profits	Provision for impairment	Others	Closing balance	Closing balance of provision for impairment
I. Joint ventures										
HWBYS	389,717,804.13	-	-	68,649,660.43	-	328,767,530.00	-	-	129,599,934.56	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (hereinafter referred to as "Baxter Qiao Guang")	42,701,110.59	-	-	4,817,706.01	-	-	-	-	47,518,816.60	-
Nuo Cheng	228,876,210.25	-	-	26,362,086.49	-	-	-	-	255,238,296.74	-
Subtotal	661,295,124.97	-	-	99,829,452.93	-	328,767,530.00	-	-	432,357,047.90	-
II. Associates										
Jinying Fund Management Co., Ltd.	60,823,876.62	-	-	2,973,004.48	-	-	-	-	63,796,881.10	-
Guangzhou Baiyunshan Weiji Medical Investment Management Co., Ltd.	2,032,056.21	-	-	1,311.61	-	-	-	-	2,033,367.82	-
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd. (hereinafter referred to as "Baiyunshan Yi Xin Tang")	44,962,519.01	27,000,000.00	-	(189,967.54)	-	-	-	-	71,772,551.47	-
Guangdong Guangqiao Jinshen Equity Investment Fund Management Co., Ltd.	3,070,247.16	8,000,000.00	-	(1,687,016.48)	-	-	-	-	9,383,230.68	-
Yunnan Hongqiang Yi Xin Tang Pharmaceutical (Group) Co., Ltd. (hereinafter referred to as "Yi Xin Tang")	874,461,065.45	-	-	44,558,494.70	-	12,578,616.30	-	-	906,440,943.85	-
Chuangmei Medicines Co., Ltd.	62,991,964.68	-	-	-	-	-	-	2,431,825.69	65,423,790.37	-
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	47,545,148.15	-	-	(1,715,416.40)	-	-	-	-	45,829,731.75	-
Guangzhou Zhongcheng Medical Instruments Industry Development Co., Ltd.	2,776,033.14	-	-	(788,385.67)	-	-	-	-	1,987,647.47	-
Subtotal	1,098,662,910.42	35,000,000.00	-	43,152,024.70	-	12,578,616.30	-	2,431,825.69	1,166,668,144.51	-
Total	1,759,958,035.39	35,000,000.00	-	142,981,477.63	-	341,346,146.30	-	2,431,825.69	1,599,025,192.41	-

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Investments in Other Equity Instruments

(1) Investments in other equity instruments

Item	Investment cost	Opening balance	Closing balance	Dividend income recognized in the current period	Amount transferred from other comprehensive income to retained earnings	Reasons designated as measured at fair value and their changes included in other comprehensive income
Sino-Israel Bio-industry Investment Fund	74,997,500.00	66,916,260.65	64,018,169.89	-	-	Long-term holdings for strategic purposes
South China Center for Innovative Pharmaceuticals Co., Ltd.	10,000,000.00	10,000,000.00	10,000,000.00	-	-	Long-term holdings for strategic purposes
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	7,677,876.51	-	-	Long-term holdings for strategic purposes
Yilin Bio-industry Co., Ltd	300,000.00	303,733.73	281,913.64	-	-	Long-term holdings for strategic purposes
Total	92,975,376.51	84,897,870.89	81,977,960.04	-	-	-

11. Other Non-Current Financial Assets

Item	Closing balance	Opening balance
Financial assets classified at FVTPL	262,469,919.10	226,938,456.16
Including: Equity instrument investments	258,469,919.10	226,938,456.16
Other	4,000,000.00	-
Total	262,469,919.10	226,938,456.16

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Investment Properties

(1) Investment property measured using the cost model

Item	Buildings	Land use right	Total
I. Original cost			
1. Opening balance	401,011,186.32	18,344,900.69	419,356,087.01
2. Increase	1,900,937.86	–	1,900,937.86
(1) Conversion of self-use properties or inventory to investment properties	1,743,717.00	–	1,743,717.00
(2) Changes in foreign exchange rate	157,220.86	–	157,220.86
3. Decrease	–	–	–
4. Closing balance	402,912,124.18	18,344,900.69	421,257,024.87
II. Accumulated depreciation and amortization			
1. Opening balance	181,747,547.25	9,524,039.93	191,271,587.18
2. Increase	11,421,234.65	365,053.88	11,786,288.53
(1) Provision or amortization	10,330,231.30	365,053.88	10,695,285.18
(2) Conversion of self-use properties or inventory to investment properties	1,034,477.32	–	1,034,477.32
(3) Changes in foreign exchange rate	56,526.03	–	56,526.03
3. Decrease	–	–	–
4. Closing balance	193,168,781.90	9,889,093.81	203,057,875.71
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
3. Decrease	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	209,743,342.28	8,455,806.88	218,199,149.16
2. Opening balance of book value	219,263,639.07	8,820,860.76	228,084,499.83

(2) Depreciation is RMB10,330 thousand in 2019 (2018: RMB10,571 thousand). Amortization is RMB365 thousand in 2019 (2018: RMB412 thousand).

(3) Increase in original value and accumulated depreciation of investment property due to change in foreign exchange rate is RMB157 thousand and RMB57 thousand respectively in 2019 (2018: decreased RMB325 thousand and RMB17 thousand respectively).

(4) All of the investment properties with land use right are located in Mainland China with useful life vary from 10 to 50 years.

(5) The Group had RMB1,744 thousand conversion of self-use properties or inventory to investment properties for this year (2018: Nil).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	2,942,169,658.84	2,950,591,381.29
Disposal of fixed assets	—	—
Less: Provision for impairment	18,584,719.18	—
Total	2,923,584,939.66	2,950,591,381.29

(1) Fixed assets

Item	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
I. Original cost							
1. Opening balance	3,055,207,838.62	2,222,617,348.83	130,039,950.40	169,360,341.86	256,890,169.03	51,191,286.66	5,885,306,935.40
2. Increase	9,587,271.73	216,161,734.77	6,541,317.71	25,663,296.84	32,135,551.13	5,796,124.35	295,885,296.53
(1) Purchases	7,223,304.53	73,511,441.59	4,338,418.18	11,400,680.89	22,047,593.02	302,255.03	118,823,693.24
(2) Transferred from construction in progress	2,201,589.08	142,370,530.25	2,202,899.53	14,221,924.33	10,081,976.67	5,493,869.32	176,572,789.18
(3) Changes in foreign exchange rate	162,378.12	—	—	—	—	—	162,378.12
(4) Other	—	279,762.93	—	40,691.62	5,981.44	—	326,435.99
3. Decrease	3,637,277.48	57,145,166.37	14,123,421.24	9,278,957.04	9,012,808.38	1,230,725.70	94,428,356.21
(1) Disposal or scrap	1,893,560.48	57,145,166.37	14,123,421.24	9,278,957.04	9,012,808.38	1,230,725.70	92,684,639.21
(2) Other	1,743,717.00	—	—	—	—	—	1,743,717.00
4. Closing balance	3,061,157,832.87	2,381,633,917.23	122,457,846.87	185,744,681.66	280,012,911.78	55,756,685.31	6,086,763,875.72
II. Accumulated depreciation							
1. Opening balance	1,119,898,654.09	1,398,018,825.53	89,470,493.89	110,084,851.57	164,925,314.23	32,717,447.50	2,915,115,586.81
2. Increase	118,578,056.61	140,261,903.57	7,442,307.72	13,719,206.35	27,562,926.31	4,852,644.30	312,417,044.86
(1) Provision	118,531,715.79	140,261,903.57	7,442,307.72	13,676,816.16	27,557,523.19	4,852,644.30	312,322,910.73
(2) Changes in foreign exchange rate	46,340.82	—	—	—	—	—	46,340.82
(3) Other	—	—	—	42,390.19	5,403.12	—	47,793.31
3. Decrease	2,782,068.64	48,214,164.49	13,398,813.89	8,879,775.31	8,432,866.76	1,230,725.70	82,938,414.79
(1) Disposal or scrap	1,747,591.32	48,214,164.49	13,398,813.89	8,879,775.31	8,432,866.76	1,230,725.70	81,903,937.47
(2) Transfer to investment properties	1,034,477.32	—	—	—	—	—	1,034,477.32
4. Closing balance	1,235,694,642.06	1,490,066,564.61	83,513,987.72	114,924,282.61	184,055,373.78	36,339,366.10	3,144,594,216.88
III. Provision for impairment							
1. Opening balance	11,767,229.72	6,238,300.93	158,224.47	1,443,365.80	2,846.38	—	19,609,967.30
2. Increase	—	18,652.13	—	—	1,585.50	—	20,237.63
(1) Provision	—	18,652.13	—	—	1,585.50	—	20,237.63
3. Decrease	—	1,042,639.37	—	—	2,846.38	—	1,045,485.75
(1) Disposal or scrap	—	1,042,639.37	—	—	2,846.38	—	1,045,485.75
4. Closing balance	11,767,229.72	5,214,313.69	158,224.47	1,443,365.80	1,585.50	—	18,584,719.18
IV. Book value							
1. Closing balance of book value	1,813,695,961.09	886,353,038.93	38,785,634.68	69,377,033.25	95,955,952.50	19,417,319.21	2,923,584,939.66
2. Opening balance of book value	1,923,541,954.81	818,360,222.37	40,411,232.04	57,832,124.49	91,962,008.42	18,473,839.16	2,950,581,381.29

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets (Continued)

(1) Fixed assets (Continued)

Note:

- ① Original value of fixed assets transferred from construction in progress is RMB176,573 thousand in 2019 (2018: RMB212,249 thousand).
- ② Increase in original value and accumulated depreciation of fixed assets due to the fluctuation in foreign exchange rate are RMB162 thousand and RMB46 thousand respectively in 2019 (2018: decreased RMB699 thousand and RMB216 thousand respectively).
- ③ Fixed assets depreciation accrued in 2019 is RMB312,323 thousand (2018: RMB249,932 thousand), which is comprised of depreciation in operating cost RMB123,083 thousand, depreciation in selling expenses RMB50,691 thousand, depreciation in General and administrative expenses RMB109,689 thousand and depreciation in R&D expenditure RMB28,860 thousand (2018: depreciation in operating cost RMB107,956 thousand, depreciation in selling expenses RMB42,398 thousand, depreciation in General administrative expenses RMB76,639 thousand and depreciation in R&D expenditure RMB22,939 thousand).

(2) Temporary idle fixed assets

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value	Note
Buildings	430,613.36	248,679.11	–	181,934.25	
Machinery and equipment	<u>1,695,298.59</u>	<u>1,210,028.88</u>	<u>255,795.47</u>	<u>229,474.24</u>	
Total	<u>2,125,911.95</u>	<u>1,458,707.99</u>	<u>255,795.47</u>	<u>411,408.49</u>	

(3) Fixed assets leased out under operating lease

Item	Closing balance of book value	Opening balance of book value
Buildings	<u>41,753,698.72</u>	<u>11,793,975.54</u>
Total	<u>41,753,698.72</u>	<u>11,793,975.54</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets (Continued)

(4) Fixed assets which do not have a certificate of property right

Item	Book value	Reason for do not have certificate of property right	Estimated time for acquiring certificate of property right
Buildings	48,307,554.09	Not handled yet as necessary procedures were not complete	Unknown
Total	<u>48,307,554.09</u>	–	–

Notes:

As on 31 December 2019, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has buildings with the original costs of HK\$ 8,893 thousand and the net book value of HK\$6,231 thousand, and investment property with the original costs of HK\$ 6,843 thousand and the net value of HK\$ 3,532 thousand pledged as collateral, and obtained a credit line with a limit of HK\$300 thousand, the letter of credit and the total amount of 90-day credits of HK\$100,000 thousand, and an issued but unexpired letter of credit of EUR 447 thousand, USD 196 thousand, RMB305 thousand and JPY 5,530 thousand from the Bank of China (Hong Kong) Co., Ltd.

14. Construction in Progress

Item	Closing balance	Opening balance
Construction in progress	667,654,189.06	480,557,457.88
Construction material	–	–
Less: Provision for impairment	251,734.38	251,734.38
Total	<u>667,402,454.68</u>	<u>480,305,723.50</u>

(1) Construction in progress

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Construction in progress	<u>667,654,189.06</u>	<u>251,734.38</u>	<u>667,402,454.68</u>	480,557,457.88	251,734.38	480,305,723.50
Total	<u>667,654,189.06</u>	<u>251,734.38</u>	<u>667,402,454.68</u>	480,557,457.88	251,734.38	480,305,723.50

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current period	Other decrease in the current period	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	72,502,815.24	54,431,051.74	-	-	126,933,866.98	31.96	54.32	Self-raised funds
Ming Xing relocation improvement	475,620,000.00	86,110,360.07	40,473,127.28	-	-	126,583,487.35	26.61	35.00	Self-raised funds, issuing shares
Cai Zhi Lin Meizhou TCM Industrialized production and service base	130,000,000.00	28,462,982.18	41,289,591.73	-	-	69,752,573.91	76.35	75.00	Self-raised funds
Construction of Bio-island R&D Headquarters	1,099,876,600.00	-	63,987,704.96	-	-	63,987,704.96	24.85	24.00	Self-raised funds, issuing shares
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	731,879,100.00	-	62,945,376.68	-	34,917,893.00	28,027,483.68	19.55	10.00	Self-raised funds
Zhongluotan Wulonggang AB08070981 block	159,750,000.00	15,601,555.46	10,570,537.02	-	-	26,172,092.48	28.89	28.89	Self-raised funds
Extension project D of Hospital service	190,000,000.00	7,680,181.09	26,647,444.69	-	8,933,423.74	25,394,202.04	29.18	29.18	Self-raised funds
Baiyun project	527,000,000.00	8,381,430.76	12,058,647.54	-	-	20,440,078.30	13.53	13.53	Self-raised funds
Project of special medical use formula food production line	42,400,000.00	17,223,589.42	1,464,417.62	-	3,171,385.58	15,516,621.46	44.08	41.50	Self-raised funds
New warehouse	17,056,000.00	10,657,824.73	3,335,028.20	-	-	13,992,852.93	82.04	98.00	Self-raised funds
Reconstruction project of collective dormitory of General plant	11,976,000.00	-	10,842,837.01	-	-	10,842,837.01	90.54	90.00	Self-raised funds
Extension project L of Hospital service	90,000,000.00	4,967,586.16	10,740,902.17	6,191,676.24	756,800.67	8,760,011.42	18.73	18.73	Self-raised funds
Reconstruction project of office building of General plant	11,134,000.00	-	7,769,567.31	-	-	7,769,567.31	76.06	95.00	Self-raised funds
Extension project B of Hospital service	67,120,000.00	5,782,917.34	383,484.82	-	195,249.47	5,971,152.69	56.69	56.69	Self-raised funds
Confinement Club House Renovation Project	8,736,300.00	240,452.82	5,727,995.43	-	-	5,968,448.25	65.67	65.00	Self-raised funds
Extension project K of Hospital service	204,000,000.00	50,382,337.86	10,129,405.38	52,685,490.13	2,122,575.99	5,703,677.12	55.35	55.35	Self-raised funds
Extension project M of Hospital service	101,600,000.00	22,169.81	4,731,097.91	-	40,566.04	4,712,701.68	18.09	18.09	Self-raised funds
Toxic piece production equipment	3,902,654.87	-	3,927,052.93	-	-	3,927,052.93	100.63	80.00	Self-raised funds
Monoclonal antibody project	62,650,000.00	-	3,760,732.90	-	-	3,760,732.90	9.06	20.00	Self-raised funds
Guangzhou Pharmaceutical EHR project	4,175,000.00	3,403,628.46	35,849.06	-	-	3,439,477.52	82.38	82.38	Self-raised funds, issuing shares
Guangzhou Pharmaceutical Consolidated Reporting Platform Project	6,000,000.00	2,441,625.69	943,396.23	-	-	3,385,021.92	56.42	56.42	Self-raised funds, issuing shares
Chinese medicine modernization GMP phase III construction project	15,866,235.87	2,686,235.87	606,474.02	-	-	3,292,709.89	20.75	20.75	Self-raised funds, borrowing
Compliance preparation equipment modification project	15,400,000.00	5,841,475.00	7,582,961.56	9,178,150.99	1,099,582.12	3,146,703.45	87.17	87.17	Self-raised funds

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period (Continued)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current period	Other decrease in the current period	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Extension project O of Hospital service	72,900,000.00	-	6,398,230.09	3,302,654.85	-	3,095,575.24	8.78	8.78	Self-raised funds
Extension project P of Hospital service	116,000,000.00	2,372,347.24	4,900,181.16	4,726,748.00	944,929.00	1,600,851.40	10.90	10.90	Self-raised funds
Extension project F of Hospital service	210,000,000.00	26,462,266.51	2,301,374.97	-	27,459,942.37	1,303,699.11	30.55	30.55	Self-raised funds
Extension project G of Hospital service	73,000,000.00	12,753,343.93	2,550,434.47	1,543,697.13	12,485,851.28	1,274,229.99	57.68	57.68	Self-raised funds
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	97,564,100.00	7,358,663.43	10,066,373.99	6,205,540.07	10,044,961.70	1,174,535.65	105.93	98.00	Self-raised funds
State-owned construction land in Longxi County	152,029,500.00	-	28,491,208.82	-	28,491,208.82	-	18.74	18.74	Self-raised funds
VOCs waste gas pollution control project	15,781,360.00	5,958,676.29	3,049,265.88	9,007,942.17	-	-	57.08	100.00	Self-raised funds
Extension project N of Hospital service	24,500,000.00	236,392.00	10,124,185.84	9,887,793.84	472,784.00	-	42.29	42.29	Self-raised funds
Former wealth fishing port renovation project	30,000,000.00	3,855,609.28	4,326,540.74	1,125,321.80	7,056,828.22	-	103.69	100.00	Self-raised funds
Upgrading project of modern pharmaceutical preparation production line	13,000,000.00	-	4,312,955.24	-	4,312,955.24	-	33.18	100.00	Self-raised funds
Reconstruction of Chinese medicine pellet composite film packaging production line	4,404,300.00	3,861,900.00	286,065.60	3,953,586.89	194,378.71	-	94.18	100.00	Self-raised funds
Extension project H of Hospital service	26,000,000.00	2,669,962.26	1,051,000.00	-	3,720,962.26	-	50.70	50.70	Self-raised funds
Other	2,078,092,355.91	92,639,128.97	77,241,825.08	68,764,187.07	29,392,527.49	71,724,239.49	-	-	Self-raised funds
Total	7,289,413,506.65	480,557,457.87	539,484,326.07	176,572,789.18	175,814,805.70	667,654,189.06			

Note: Other reductions in construction in progress this year were mainly due to the amount of projects in progress transferred to intangible assets by the Group.

(3) There is no provision for impairment of construction in progress in this year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(4) Impairment of construction in progress

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Expansion of the Guang Hua sewage station	251,734.38	-	-	251,734.38	Project stopped
Total	251,734.38	-	-	251,734.38	-

15. Capitalized Biological Assets

(1) Cost Measurement Method

Item	Unripe capitalized biological assets-Camellia Citrus	Ripe capitalized biological assets	Total
I. Original cost			
1 Opening balance	-	-	-
2 Increase	-	-	-
(1) Purchases	3,678,000.00	-	3,678,000.00
3 Decrease	-	-	-
(1) Disposal	-	-	-
4 Closing balance	3,678,000.00	-	3,678,000.00
II. Accumulated depreciation			
1 Opening balance	-	-	-
2 Increase	174,705.00	-	174,705.00
(1) Provision	174,705.00	-	174,705.00
3 Decrease	-	-	-
(1) Disposal	-	-	-
4 Closing balance	174,705.00	-	174,705.00
III. Provision for impairment			
1 Opening balance	-	-	-
2 Increase	-	-	-
(1) Provision	-	-	-
3 Decrease	-	-	-
(1) Disposal	-	-	-
4 Closing balance	-	-	-
IV. Book value			
1 Closing balance of book value	3,503,295.00	-	3,503,295.00
2 Opening balance of book value	-	-	-

Note: Capitalized biological assets are measured at cost, the crop production increased by RMB3,678 thousand due to purchase, RMB0.00 due to breeding (education), and RMB0.00 due to sale, decreased RMB0.00 by death, loss, damage and due to depreciation decreased RMB175 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Right-of-use Assets

(1) Right-of-use assets

Item	Buildings	Machinery and equipment	Total
I. Original cost			
1. Opening balance	631,597,534.04	262,233,465.42	893,830,999.46
2. Increase	166,527,630.92	57,221,955.48	223,749,586.40
(1) New lease	166,527,630.92	57,221,955.48	223,749,586.40
3. Decrease	19,323,254.11	441,262.94	19,764,517.05
(1) Disposal	19,323,254.11	441,262.94	19,764,517.05
4. Closing balance	778,801,910.85	319,014,157.96	1,097,816,068.81
II. Accumulated depreciation			
1. Opening balance	–	47,068,309.98	47,068,309.98
2. Increase	184,083,923.46	27,304,120.87	211,388,044.33
(1) Provision	184,083,923.46	27,304,120.87	211,388,044.33
3. Decrease	2,706,357.59	10,980.22	2,717,337.81
(1) Disposal	2,706,357.59	10,980.22	2,717,337.81
4. Closing balance	181,377,565.87	74,361,450.63	255,739,016.50
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
(1) Provision	–	–	–
3. Decrease	–	–	–
(1) Disposal	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	597,424,344.98	244,652,707.33	842,077,052.31
2. Opening balance of book value	631,597,534.04	215,165,155.44	846,762,689.48

Note: For the difference between the beginning balance and the ending balance of the previous year (December 31, 2018), please refer to the differences in accounting policies for details.

The short-term lease expenses and low-value asset lease expenses included in the current profit and loss for the current year, the sub-leasing right-of-use assets and the acquisition of sub-leasing income are detailed in Note XIII. (1) Lease.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible Assets

(1) Intangible assets

Item	Land use right	Industrial property right and know-how	Non-patent technology	Industry and commercial trademark	Non-Industry and commercial trademark	Software and others	Total
I. Original cost							
1. Opening balance	762,176,406.45	16,960,074.83	64,674,260.40	172,487,280.74	127,793,900.00	186,686,866.75	1,330,778,789.17
2. Increase	104,978,124.61	152,815.53	186,451.13	1,389,257,970.81	-	34,751,442.21	1,529,326,804.29
(1) Purchase	104,978,124.61	152,815.53	186,451.13	1,389,257,970.81	-	21,487,476.44	1,516,062,838.52
(2) R&D	-	-	-	-	-	13,263,965.77	13,263,965.77
(3) Increase in business combinations	-	-	-	-	-	-	-
(4) Other	-	-	-	-	-	-	-
3. Decrease	173,197.00	-	-	-	-	44,726.48	217,923.48
(1) Disposal	173,197.00	-	-	-	-	44,726.48	217,923.48
(2) Other	-	-	-	-	-	-	-
4. Closing balance	866,981,334.06	17,112,890.36	64,860,711.53	1,561,745,251.55	127,793,900.00	221,393,582.48	2,859,887,669.98
II. Accumulated amortization							
1. Opening balance	157,293,394.51	9,957,389.28	25,759,859.98	32,791,688.44	-	90,586,116.30	316,388,448.51
2. Increase	18,197,196.51	623,682.52	5,493,928.24	4,611.36	-	32,991,797.04	57,311,215.67
(1) Provision	18,197,196.51	623,682.52	5,493,928.24	4,611.36	-	32,991,797.04	57,311,215.67
(2) Other	-	-	-	-	-	-	-
3. Decrease	92,761.96	-	-	-	-	44,726.48	137,488.44
(1) Disposal	92,761.96	-	-	-	-	44,726.48	137,488.44
(2) Other	-	-	-	-	-	-	-
4. Closing balance	175,397,829.06	10,581,071.80	31,253,788.22	32,796,299.80	-	123,533,186.86	373,562,175.74
III. Provision for impairment							
1. Opening balance	-	453,343.04	-	583,573.00	-	-	1,036,916.04
2. Increase	-	-	-	-	-	-	-
(1) Provision	-	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-	-
(1) Disposal	-	-	-	-	-	-	-
(2) Lapsed and derecognized	-	-	-	-	-	-	-
4. Closing balance	-	453,343.04	-	583,573.00	-	-	1,036,916.04
IV. Book value							
1. Closing balance of book value	691,583,505.00	6,078,475.52	33,606,923.31	1,528,365,378.75	127,793,900.00	97,860,395.62	2,485,288,578.20
2. Opening balance of book value	604,883,011.94	6,549,342.51	38,914,400.42	139,112,019.30	127,793,900.00	96,100,750.45	1,013,353,424.62

Note: The purchase of intangible assets this year includes the amount transferred from construction in progress.

The amortization amount for the year was RMB57,311 thousand (2018: RMB40,308 thousand), which was all included in the current profit and loss. All of the lands and relevant land use right in the intangible assets are located in Mainland China with useful life vary from 10 to 50 years.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible Assets (Continued)

(1) Intangible assets (Continued)

The recoverable amount of a trademark with no useful life is determined by the income method. That is, the estimated recoverable amount is determined by estimating the future expected return of the target trademark asset, converting it to the present value through an appropriate discount rate, and adding up. The expected income is calculated according to the following formula: Expected income $R_i = (\text{base for the use of trademark charges} \times \text{trademark use rate}) - \text{taxes and surcharges} - \text{corporate income tax}$. The key valuation parameters include: (1) the discount rate, which is 12.5%; (2) the growth rate of sales revenue, which is generally 2%, and individual enterprises between 10% and 15%; (3) the rate of use trademarks, the rate is calculated based on the excess profit rate multiplied by the trademark contribution rate. The excess profit rate is averaged based on the historical data of the company over the past four years. The trademark contribution rate is obtained using the analytic hierarchy process. The final calculated trademark use rate is 0.80%-1.96%.

After testing, it was not found that the Group owns the Baiyunshan trademark, the Great God product trademark, and the Star Cluster series, Medium series, Pan Gao Shou series, Chen Liji series, Jingxiutang series, Qixing series, Wanglaoji series, Jianzhiqiao series, Guoying, Jianmin and other product trademarks are impaired.

18. Development expenditure

Item	Opening balance	Increase		Decrease			Closing balance	Provision for impairment
		Internal development expenditure	Others	Confirmed as Intangible assets	Transfer to current P&L	Others		
Capital expenditure	800,000.00	15,275,105.03	-	-	13,263,965.77	-	2,811,139.26	800,000.00
Expense expenditure	-	576,511,023.23	-	576,511,023.23	-	-	-	-
Total	800,000.00	591,786,128.26	-	576,511,023.23	13,263,965.77	-	2,811,139.26	800,000.00

Note: Development expenditure RMB800 thousand was a patent on technology purchased by the Group subsidiary in 2005, recorded as development cost accounting, not to carry out further research after the purchase, as current period ended, it is expected to no longer practical value, Therefore, the full provision for impairment is made.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Goodwill

(1) Book value of goodwill

The investee's name or the event resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Arising from business combination	Purchase	Disposal	Others	
Guangzhou Baiyunshan Hospital	9,216,610.56	-	-	-	-	9,216,610.56
Guangyao Haima	2,282,952.18	-	-	-	-	2,282,952.18
Guangxi Ying Kang GP Corp.	475,756.92	-	-	-	-	475,756.92
	932,349,003.84	-	-	-	-	932,349,003.84
Total	944,324,323.50	-	-	-	-	944,324,323.50

(2) Provision for impairment of goodwill

The investee's name or event resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Provided	Others	Disposal	Others	
Guangxi Ying Kang GP Corp.	475,756.92	-	-	-	-	475,756.92
	118,275,499.68	-	-	-	-	118,275,499.68
Total	118,751,256.60	-	-	-	-	118,751,256.60

(3) Information of impairment of goodwill

Item	Guangzhou Baiyunshan Hospital	Guangyao Haima	GP Corp.
Book balance of goodwill ^①	9,216,610.56	2,282,952.18	932,349,003.84
Balance of Provision for impairment of goodwill ^②	-	-	118,275,499.68
Book value of goodwill ^③ = ^① - ^②	2,282,952.18	2,282,952.18	814,073,504.16
Unrecognized goodwill value attributable to minority shareholders ^④	8,855,174.85	-	307,851,159.16
Book value of adjusted overall goodwill ^⑤ = ^④ + ^③	18,071,785.41	2,282,952.18	1,121,924,663.32
Book value of asset group ^⑥	73,764,747.42	570,874.81	1,548,607,785.69
Book value of asset group including overall goodwill ^⑦ = ^⑤ + ^⑥	91,836,532.83	2,853,826.99	2,670,532,449.01
The present value of the asset group's estimated future cash flows (recoverable amount) ^⑧	107,883,500.00	34,761,700.00	2,847,830,000.00
Goodwill impairment loss (when greater than 0) ^⑨ = ^⑦ - ^⑧	-	-	-

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Goodwill (Continued)

(3) Information of impairment of goodwill (Continued)

① Related information of asset groups or asset group portfolio containing goodwill

- (a) GP Corp.: GP Corp. is engaged in wholesale and retailing of medicine, biological product, healthy food, medical apparatus and instruments, etc., and providing transportation and storage services to domestic customers. The pharmaceutical circulation industry business entity of GP Corp. is comprised of the parent company, multiple wholly-owned subsidiaries and holding subsidiaries. The management of GP Corp. shall regularly evaluate the operating outcome of the above-mentioned activities in whole to allocate resources. Consequently, GP Corp. in whole is recognized as an asset group.
- (b) Guangzhou Baiyunshan Hospital: As a single entity, Guangzhou Baiyunshan Hospital is specializing in medical treatment and is independent from other entities in the Group. Guangzhou Baiyunshan Hospital in whole generate cash flow and consequently is recognized as an asset group.
- (c) Guangyao Haima: As a single entity, Guangyao Haima is specializing in medicine advertisement and is independent from other entities in the Group. Guangyao Haima generates cash flow separately and consequently is recognized as an asset group.

Note: The asset group in this period does not include working capital, and the asset group in the previous period includes working capital

② Procedures of goodwill impairment test, parameter and recognition method of impairment of goodwill

At the end of the year, the company performed impairment tests on various asset groups related to goodwill. First, the goodwill and the goodwill attributed to minority shareholders' equity were included, the book value of each asset group was adjusted, and then the adjusted assets The book value of the group is compared with its recoverable amount to determine whether each asset group (including goodwill) has been impaired.

- (a) Significant hypothesis and supporting
 - A. Assuming the going-concern of the entity under evaluation, and no significant change occur in key aspects of manufacturing and operating activities such as business scope, sales mode, channel, and the management, etc.;
 - B. Assuming no great change occur in social environment and economic environment of the entity under evaluation and no significant change occur in relevant laws and regulations in region and country in which the entity is located;
 - C. Assuming the products provided by the entity under evaluation can adapt to market demand, objectives and measures set can be achieved on schedule and expected benefit can be received;

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Goodwill (Continued)

(3) Information of impairment of goodwill (Continued)

② Procedures of goodwill impairment test, parameter and recognition method of impairment of goodwill (Continued)

(a) Significant hypothesis and supporting (Continued)

D. Assuming no significant change occur in the interest rate, exchange rate, tax base and tax rate within normal range specified by the government.

(b) Key parameter

Company	Predictive period	Forecast growth rate	Key parameter		Discount rate(Weighted average cost of capital before tax) (%)
			Stable growth period	Profit margin	
GP Corp.	2020-2024 (steady period hereafter)	Note 1	Flat	Calculate based on expected revenue, cost, expenses, etc	10.93
Guangzhou Baiyunshan Hospital	2020-2024 (steady period hereafter)	Note 2	Flat	Calculate based on expected revenue, cost, expenses, etc	10.83
Guangyao Haima	2020-2024 (steady period hereafter)	Note 3	Flat	Calculate based on expected revenue, cost, expenses, etc	12.42

Notes:

(a) According to the analysis conducted by the management of GP Corp., medicine sales revenue shall be the main source of operating revenue of GP Corp. subsequent to the valuation base date. The management of GP Corp. analyzed the key influencing indicators of operating revenue of the above-mentioned main businesses and their historical movement trend, such as brand, varieties, price, customer channel, network, etc. with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, to estimate the operating revenue of each business of GP Corp. Estimated revenue growth rate shall be 10.18%、9.93%、9.83%、9.73%、9.75% respectively for the period from 2020 to 2024.

(b) According to the analysis conducted by the management of Guangzhou Baiyunshan Hospital, medical care and medicine sales revenue shall be the main source of operating revenue of Guangzhou Baiyunshan Hospital subsequent to the valuation base date. The management of Guangzhou Baiyunshan Hospital analyzed the key influencing indicators of operating revenue of the above-mentioned main businesses and their historical movement trend, such as service times, average price, etc. with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, to estimate the operating revenue of each business of Guangzhou Baiyunshan Hospital. Estimated revenue growth rate shall be 4.72% for the period from 2020 to 2024.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Goodwill (Continued)

(3) Information of impairment of goodwill (Continued)

② Procedures of goodwill impairment test, parameter and recognition method of impairment of goodwill (Continued)

(b) Key parameter (Continued)

Notes: (Continued)

- (c) Guangyao Haima conducted analysis on development and change in advertising and other services revenue, which are the main influencing factors of operating revenue and their historical movement trend. In consideration of the fact that the businesses of Guangyao Baiyunshan, the main client of Guangyao Haima, increased rapidly in recent years, and the fact that its advertising volume increased correspondingly, and the factors such as revival of advertising industry, etc., business revenue of Guangyao Haima shall have increasing trend. According to forecast of revenue of each business activity for the period from 2019 to 2023 with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, estimated revenue growth rate shall be 9.96% for the period from 2020 to 2024.

③ Effect of goodwill impairment test

The Company conducted goodwill impairment test in the current year and no goodwill impairment of GP Corp., Baiyunshan Hospital and Guangyao Haima were recognized.

20. Long-term prepaid expenses

Item	Opening balance	Increase	Amortization	Other decrease	Closing balance
Decoration expenses	77,730,809.04	39,964,100.47	23,988,912.00	-	93,705,997.51
ABC Buildings certification service	3,177,101.38	959,534.99	2,030,980.65	-	2,105,655.72
GMP reconstruction expenses	2,801,527.81	3,821,121.83	2,234,550.45	-	4,388,099.19
Computer system expenses	1,879,627.62	1,281,003.87	983,985.50	-	2,176,645.99
Others	8,726,074.97	9,335,240.26	4,652,478.89	-	13,408,836.34
Total	94,315,140.82	55,361,001.42	33,890,907.49	-	115,785,234.75

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities

(1) Breakdown of deferred tax assets before offset

Item	Closing balance		Opening balance	
	Deferred tax assets/liabilities	Deductible temporary difference	Deferred tax assets/liabilities	Deductible temporary difference
Deferred tax assets:				
Other payables	291,077,109.49	1,539,239,656.82	263,313,163.91	1,318,565,303.01
Provision for credit impairment	105,675,242.20	436,330,761.10	80,641,616.34	333,782,001.29
Deferred income	55,740,744.18	367,409,369.79	72,167,584.19	340,717,498.52
Provisions	54,767,852.88	361,119,019.19	39,294,182.88	261,961,219.19
Impact on profit arising from elimination	28,096,603.35	167,248,134.82	33,956,188.85	198,755,669.97
Provision for decline in value of inventories	14,086,318.22	73,151,124.41	23,857,168.73	111,955,057.11
Fixed assets depreciation differences between accounting and tax law	12,065,932.28	49,849,331.36	15,830,597.29	67,105,717.89
Employee benefits payable	12,870,897.13	72,018,979.32	15,512,555.91	81,056,699.08
Deductible tax losses	9,735,529.17	38,942,116.59	14,671,874.44	58,687,497.80
Other non-current financial assets	2,104,558.42	14,030,389.44	6,123,043.41	40,820,289.39
Investments in other equity instruments	1,672,112.46	11,147,416.42	1,249,685.90	8,331,239.35
Provision for impairment of fixed assets	1,547,000.97	10,278,623.98	1,397,171.11	8,499,076.09
Long-term prepaid expenses	115,618.49	509,888.81	594,144.54	3,960,963.61
Intangible assets depreciation differences between accounting and tax law	1,024,905.45	6,801,891.30	178,345.81	1,188,972.13
Provision for impairment of construction in progress	37,760.16	251,734.38	37,760.16	251,734.38
Others	4,373,976.91	17,584,438.68	319,745.78	1,278,983.09
Subtotal	594,992,161.76	3,165,912,876.41	569,144,829.25	2,836,917,921.90

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(1) Breakdown of deferred tax assets before offset (Continued)

Item	Closing balance		Opening balance	
	Deferred tax assets/liabilities	Deductible temporary difference	Deferred tax assets/liabilities	Deductible temporary difference
Deferred tax liabilities:				
Book value of the appreciated intangible assets and fixed assets in business combination	158,076,602.31	648,399,048.36	170,974,958.67	683,899,834.68
Other receivables-profit distribution	88,654,707.00	591,031,380.00	63,117,757.00	252,471,028.00
Other non-current financial assets	12,416,646.79	82,777,645.27	11,872,519.56	78,927,745.68
Fixed assets depreciation differences between accounting and tax law	4,637,771.95	30,918,479.67	2,344,432.47	15,629,549.80
Book value of amortization provided for intangible assets appreciation	2,592,358.68	13,436,996.29	1,185,194.40	7,901,296.00
Book value of depreciation provided for fixed assets appreciation	252,646.20	1,684,308.00	266,788.80	1,778,592.00
Other investments in equity instruments	80,480.95	321,923.80	560.06	3,733.73
Others	197,520.00	1,316,800.00	-	-
Subtotal	266,908,733.88	1,369,886,581.39	249,762,210.96	1,040,611,779.89

(2) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	16,319,732.81	5,965,271.14
Deductible losses	166,424,564.61	157,357,832.42
Total	182,744,297.42	163,323,103.56

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

- (3) Deductible losses which are not recognized as deferred tax assets will expire in the following years

Year	Closing balance	Opening balance	Remark
2019	–	10,376,918.20	
2020	31,102,837.77	31,102,837.77	
2021	35,399,376.92	35,399,376.92	
2022	53,565,207.91	53,565,207.91	
2023	26,913,491.62	26,913,491.62	
2024	19,443,650.39	–	
Total	166,424,564.61	157,357,832.42	

22. Other Non-current Assets

Item	Closing balance	Opening balance
Advance payment of land transferring fee	–	2,480,000.00
Advance payment of accounting software	–	100,000.00
Advance payment of project	289,535,847.27	–
Total	289,535,847.27	2,580,000.00

23. Short-term Borrowings

- (1) Category of short-term borrowings

Item	Closing balance	Opening balance
Pledge borrowings	331,492,899.63	205,948,057.69
Guarantee borrowings	729,000,000.00	915,243,860.80
Credit borrowings	4,794,182,563.96	4,784,511,367.61
Bills Discounted	14,333,453.37	–
Total	5,869,008,916.96	5,905,703,286.10

Note:

- ① Please refer to Note. V. 64. Assets with Restricted Ownership or Use Right for details on category and amount of pledge borrowings.
- ② As on 31 December 2019, short-term borrowings of RMB679,000 thousand of the Group's guarantee borrowings are guaranteed by the Group's internal enterprises. Other guarantee loans are guaranteed by minority shareholders of the sub-subsidiaries.
- ③ As on 31 December 2019, the weighted average annual interest rate of short-term borrowings is 4.0414% (31 December 2018: 4.5263%).

- (2) The Group had no overdue short-term borrowings as on 31 December 2019.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Financial liabilities held for trading

Category	Closing balance	Opening balance
Financial liabilities held for trading	—	—
Including: Issued transaction bonds	—	—
Others	—	—
Financial liabilities designated as fair value through profit or loss	—	—
Total	<u>—</u>	<u>—</u>

In May 2018, the Group acquired 30% equity of the pharmaceutical company held by Lianhemeihua (the shareholding ratio reached 80% after the acquisition). According to the acquisition agreement, the Group granted Lianhemeihua a sale option, and the group accounted for the sale option as a derivative instrument. According to the acquisition agreement, the expected fair value of the target instrument on the expected exercise date is consistent with the expected exercise price. The value of financial instruments is zero.

25. Notes Payable

Category	Closing balance	Opening balance
Commercial acceptance notes	3,838,313,929.94	196,980,253.91
Bank acceptance notes	144,111,724.43	2,459,196,251.18
Total	<u>3,982,425,654.37</u>	<u>2,656,176,505.09</u>

Note: As on 30 December 2019, amount expected to be matured within a year is RMB3,982,426 thousand (31 December 2018: RMB2,656,177 thousand).

26. Accounts Payable

(1) The aging of accounts payable based on the booking date is as follows:

Item	Closing balance	Opening balance
Within 1 year	9,293,107,363.52	8,973,120,088.71
Over 1 year	405,844,876.94	340,157,569.01
Total	<u>9,698,952,240.46</u>	<u>9,313,277,657.72</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Accounts Payable (Continued)

(2) Significant accounts payable with aging over 1 year:

Item	Closing balance	Reason for outstanding or carrying forward
Supplier 1	47,405,089.60	Litigation is involved. Please refer to Note XIII (11). 1. (2) ③
Supplier 2	32,283,456.25	Payment terms not satisfied.
Supplier 3	22,576,000.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ②
Supplier 4	21,359,931.34	Payment terms not satisfied
Supplier 5	18,440,000.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ①.
Total	<u>142,064,477.19</u>	

27. Contract liabilities

(1) Contract liabilities are as follows:

Item	Closing balance	Opening balance
Product sales payment received in advance	4,673,372,543.66	3,685,541,240.09
Medical payment received in advance	1,989,255.80	1,105,983.15
Total	<u>4,675,361,799.46</u>	<u>3,686,647,223.24</u>

(2) Contract liabilities disclosed by aging;

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	4,628,421,767.16	99.00	3,639,753,808.83	98.73
Over 1 year	46,940,032.30	1.00	46,893,414.41	1.27
Total	<u>4,675,361,799.46</u>	<u>100.00</u>	<u>3,686,647,223.24</u>	<u>100.00</u>

(3) The Group had no significant contract liabilities with aging over 1 year as on 31 December 2019 and 31 December 2018.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Employee Benefits Payable

(1) Presentation of employee benefits payable

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term employee benefits	751,834,592.42	4,455,215,768.51	4,369,084,134.29	837,966,226.64
II. Post-employment benefits-defined contribution plan	1,200,038.44	424,395,224.47	423,921,181.26	1,674,081.65
III. Termination benefits	-	1,641,073.38	1,641,073.38	-
IV. Other benefits due within 1 year	-	-	-	-
Total	753,034,630.86	4,881,252,066.36	4,794,646,388.93	839,640,308.29

(2) Presentation of short-term benefits

Item	Opening balance	Increase	Decrease	Closing balance
1. Wages, bonuses, allowances and subsidies	706,540,958.62	3,776,856,247.84	3,694,260,973.58	789,136,232.88
2. Employee welfare	4,988,203.13	175,816,726.30	175,732,104.74	5,072,824.69
3. Social Insurance premium	44,332.88	173,753,013.15	173,661,961.20	135,384.83
Including: Medical insurance premium	45,908.99	151,733,038.87	151,662,226.36	116,721.50
Industrial injury insurance premium	2,407.49	5,260,993.91	5,251,324.64	12,076.76
Maternity insurance premium	(3,983.60)	16,758,980.37	16,748,410.20	6,586.57
4. Housing funds	98,314.41	232,162,659.74	232,154,348.74	106,625.41
5. Labor-union expenditure and employee education funds	11,159,726.58	72,034,506.37	70,408,872.33	12,785,360.62
6. Non-monetary welfare	-	258,153.27	258,153.27	-
7. Housing allowance	28,323,746.09	21,793,474.15	19,644,414.72	30,472,805.52
8. Staff and workers' bonus and welfare fund	-	3,200.00	3,200.00	-
9. Other short-term benefits	679,310.71	2,537,787.69	2,960,105.71	256,992.69
Total	751,834,592.42	4,455,215,768.51	4,369,084,134.29	837,966,226.64

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Employee Benefits Payable (Continued)

(3) Disclosure of defined contribution plan by categories

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension insurance	197,155.17	300,239,100.60	299,776,514.26	659,741.51
2. Unemployment insurance premiums	29,923.53	10,246,460.21	10,241,395.81	34,987.93
3. Enterprise annuity	131,962.91	89,448,088.41	89,393,165.14	186,886.18
4. Others	840,996.83	24,461,575.25	24,510,106.05	792,466.03
Total	<u>1,200,038.44</u>	<u>424,395,224.47</u>	<u>423,921,181.26</u>	<u>1,674,081.65</u>

Note: The ending balance of employee benefits payable is mainly the wages, bonuses and wages of labor assigned by labor service intermediary agent company provided by the Group at the end of December 2019. There are no overdue employee benefits payable. The balance is expected to be paid and utilized in this year.

29. Tax Payable

Item	Closing balance	Opening balance
Value-added tax	43,777,553.09	592,600,257.89
Enterprise income tax	170,516,110.361	338,480,579.95
Property tax	2,073,057.40	9,433,165.90
Land use tax	228,654.93	2,086,653.07
Individual income tax	13,949,810.26	13,353,590.27
Urban maintenance and construction tax	8,276,042.50	2,632,855.23
Educational surcharge	3,627,073.79	467,711.95
Local education surcharge	2,287,002.79	1,409,977.72
Stamp duty	3,169,010.21	2,843,937.88
Others	110,654.70	234,523.78
Total	<u>248,014,970.03</u>	<u>963,543,253.64</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other payables

Item	Closing balance	Opening balance
Interest payable	34,840,834.22	41,637,538.72
Dividends payable	47,933,025.07	65,917,238.98
Other payables	3,144,611,773.41	3,358,802,575.69
Total	<u>3,227,385,632.70</u>	<u>3,466,357,353.39</u>

(1) Interest payable

Item	Closing balance	Opening balance
Long-term borrowings interest payable	40,027.78	3,588,211.59
Short-term borrowings interest payable	34,800,806.44	38,049,327.13
Total	<u>34,840,834.22</u>	<u>41,637,538.72</u>

(2) Dividends payable

Item	Closing balance	Opening balance
Foreign public shares	158,151.19	—
Domestic public shares	515,026.00	567,388.78
Minority shareholders	47,259,802.87	65,349,805.19
BYS Group	45.01	45.01
Total	<u>47,933,025.07</u>	<u>65,917,238.98</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other payables (Continued)

(3) Other payables

① Disclosures of other payables by nature

Nature of amount	Closing balance	Opening balance
Sales discounts	1,191,315,114.52	1,100,682,395.27
Accrued expenses	754,061,734.99	797,186,017.78
Margin, deposit, and down payment received	524,896,337.00	479,319,837.30
Accounts payable to external entities	454,129,043.02	213,264,061.13
Current accounts to related parties	65,236,915.30	116,971,765.85
Accruals for fixed assets	35,455,839.86	25,201,992.65
Funds received temporarily from employees	11,144,725.60	16,424,381.22
Rental expenses	52,148.19	4,859,777.43
Factoring expense for accounts payable	–	503,835,176.79
Technological development expenditures	–	944,129.25
Others	108,319,914.93	100,113,041.02
Total	3,144,611,773.41	3,358,802,575.69

② Breakdown of accrued expenses

Item	Closing balance	Opening balance
Terminal expenses	308,206,575.70	272,705,084.32
Freight expenses	220,324,070.10	186,406,294.36
Advertisement and promotion expenses	96,534,389.43	96,861,750.25
Research and development expenditures	20,170,653.31	41,310,583.56
Travel expenses	18,693,254.79	24,327,813.81
Conference expenses	12,574,474.78	11,255,646.44
Rental expenses	5,998,139.73	4,470,691.66
Utilities expenses	5,120,987.47	9,721,122.70
Agency fee	4,840,381.18	4,534,858.54
Consulting fee	4,337,132.03	2,060,433.96
Medicine service expenses	1,060,000.00	47,838,105.35
Trademark fee	860,019.48	12,018,735.48
Others	55,341,656.99	83,674,897.35
Total	754,061,734.99	797,186,017.78

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other payables (Continued)

(3) Other payables (Continued)

③ Disclosures of other payables by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	2,740,818,462.50	87.16	3,017,948,976.26	89.85
Over 1 year	403,793,310.91	12.84	340,853,599.43	10.15
Total	3,144,611,773.41	100.00	3,358,802,575.69	100.00

④ The Group had no significant other payables with aging over 1 year as on 31 December 2019 and 31 December 2018.

31. Current portion of non-current liabilities

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note V. 33)	15,500,000.00	153,000,000.00
Lease liabilities due within 1 year (Note V. 34)	213,861,467.97	190,315,704.52
Total	229,361,467.97	343,315,704.52

Note: For the difference between the opening balance and the ending balance of the previous year (December 31, 2018), please refer to the differences in accounting policies for details.

32. Other Current Liabilities

Item	Closing balance	Opening balance
Pending output VAT	606,814,819.73	—
Total	606,814,819.73	—

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Long-term Borrowings

(1) Classification of long-term borrowings

Item	Closing balance	Opening balance	Interest rate range
Mortgage borrowings	20,000,000.00	27,000,000.00	
Credit borrowings	–	539,553,706.06	
Less: Long-term borrowings due within 1 year (Note V. 31)	15,500,000.00	153,000,000.00	
Total	<u>4,500,000.00</u>	<u>413,553,706.06</u>	

Notes:

- ① Mortgage loans are guaranteed by minority shareholders of the Group's sub-subsidiaries with the property. Temporary value of the property is RMB43,190 thousand.
- ② Interest rate for long-term borrowings was 6.6500% as on 31 December 2019 (31 December 2018: 4.5751%).

(2) The Group had no overdue long-term borrowings as on 31 December 2019.

34. Lease Liabilities

Item	Closing balance	Opening balance
Lease liabilities	760,856,022.18	790,806,267.71
Less: Amount due within 1 year (Note V. 31)	213,861,467.97	190,315,704.52
Total	<u>546,994,554.21</u>	<u>600,490,563.19</u>

Note: For the difference between the opening balance and the ending balance of the previous year (December 31, 2018), please refer to the differences in accounting policies for details.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Long-term Payables

Item	Closing balance	Opening balance
Long-term payables	20,464,502.00	20,464,502.00
Special payables	4,764,540.00	7,146,810.00
Total	25,229,042.00	27,611,312.00

(1) Long-term payables

Item	Closing balance	Opening balance
State funds payable	17,486,188.17	17,486,188.17
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Administration of Medicine	305,000.00	305,000.00
Others	408,887.36	408,887.36
Total	20,464,502.00	20,464,502.00

(2) Special payables

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Compensation for relocation due to policies	7,146,810.00	-	2,382,270.00	4,764,540.00	Government compensation for relocation due to policies
Total	7,146,810.00	-	2,382,270.00	4,764,540.00	

36. Long-term Employee Benefits Payable

Item	Closing balance	Opening balance
Post-employment benefits-provision for long service bonus	329,428.98	325,325.54
Total	329,428.98	325,325.54

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Provisions

Item	Opening balance	Increase	Decrease	Closing balance	Cause
Employee benefits for restructuring of Guangyao General Institute	47,491,349.60	–	1,032,740.50	46,458,609.10	Note (1)
Unemployed fee for relocation of Qi Xing	1,609,771.69	31,782.48	1,394,482.14	247,072.03	Note (2)
Pending litigation	–	6,000,000.00	–	6,000,000.00	Note (3)
Estimated loss on return of products	500,191.19	–	–	500,191.19	Estimated based on the disposal assets agreement. It has not been settled yet.
Total	49,601,312.48	6,031,782.48	2,427,222.64	53,205,872.32	

Note:

- (1) The Company obtained 100% of the share of Guangyao General Institute through business combination involving enterprises under common control in year of 2015. According to the employee resettlement scheme, when agreed in the restructuring, Guangyao General Institute should offer pension and medical benefits for the retirees, in-service staff, family members and dependents who were enrolled as on 30 June 2014, and employee benefits are accrued consequently.
- (2) According to the employee resettlement scheme arising from the relocation of Qi Xing, the employee who has provided continuous service for 15 years and within 5 years to the age of mandatory retirement shall be paid salary monthly till retirement if no position is assigned to them. The settlement fee for relocation of Qi Xing were accrued consequently.
- (3) Litigation is involved. Please refer to Note XIII (11). 1. (2) ②.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Deferred income

Item	Opening balance	Current increase in grants	Amount recognized into non-operating income	Amount recognized into other income	Amount offset costs	Appropriation to cooperators	Other decrease	Closing balance	Reason
Government grants related to assets	175,332,823.35	123,964,842.72	3,585,417.52	17,536,481.17	-	1,884,382.13	-	276,291,385.25	
Including:	-	-	-	-	-	-	-	-	
Technology funds granted by the government	78,079,580.22	18,343,855.17	-	14,367,421.46	-	769,600.00	-	81,286,413.93	Government grant
Compensation for relocation	694,665.26	665,482.55	72,997.56	-	-	-	-	1,287,150.25	Government grant
Government subsidies on interests	-	-	-	-	-	-	-	-	Government grant
Special project funds for environmental protection	2,209,919.01	17,141.76	-	415,308.67	-	409,592.15	-	1,402,159.95	Government grant
Construction funds for innovation platform and laboratory	12,316,694.31	653,065.59	-	394,965.78	-	-	-	12,574,794.12	Government grant
Land support funds granted by the government	56,010,977.75	11,876,641.41	-	-	-	-	-	67,887,619.16	Government grant
Support funds for industrial development	16,417,271.04	80,852,776.88	-	965,586.12	-	705,189.98	-	95,599,271.82	Government grant
Others	9,603,715.76	11,555,879.36	3,512,419.96	1,393,199.14	-	-	-	16,253,976.02	Government grant
Other government grants related to income	315,090,781.38	467,778,876.93	38,782,949.56	373,617,028.08	59,854,677.09	11,069,209.58	-	299,545,794.00	
Including:	-	-	-	-	-	-	-	-	
Technology funds granted by the government	98,918,950.63	28,804,713.49	-	40,425,727.68	-	4,781,229.00	-	82,516,707.44	Government grant
Special funds for technology exports	1,700.00	-	-	1,700.00	-	-	-	-	Government grant
Medical industrial research project funds	6,882,062.57	-	-	327,711.77	-	5,617,030.58	-	937,320.22	Government grant
Special funds for energy-saving project	670,950.00	-	-	-	-	670,950.00	-	-	Government grant
Special fund for innovative enterprises	-	8,759,530.58	-	4,793,774.49	-	-	-	3,965,756.09	Government grant
Compensation for relocation	204,286,257.95	92,048,068.69	36,755,283.44	-	59,854,677.09	-	-	199,724,366.11	Government grant
Support funds for industrial development	-	323,709,068.49	-	322,109,068.49	-	-	-	1,600,000.00	Government grant
Others	4,330,860.23	14,457,495.68	2,027,666.12	5,959,045.65	-	-	-	10,801,644.14	Government grant
Total	490,423,604.73	591,743,719.65	42,368,367.08	391,153,509.25	59,854,677.09	12,953,591.71	-	575,837,179.25	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Other non-current liabilities

Item	Closing balance	Opening balance
Commitment to the investment of Guangzhou Baiyunshan in Southern Anti-tumor Biological Products Co., Ltd.	50,225,000.00	50,225,000.00
Pending output VAT	3,976,557.40	-
Total	54,201,557.40	50,225,000.00

Note: Performance obligation according to the agreement and the Article as the subsidiaries of the Group acquired 50% shares of Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd..

40. Share capital

	Opening balance	Changes in the current period				Subtotal	Closing balance
		Issuance	Share dividends	Capitalizing of capital reserves	Others		
Restricted shares							
Shares held by state-owned companies	236,315,006.00	-	-	-	-	-	236,315,006.00
Shares held by other domestic investors	98,396,693.00	-	-	-	-	-	98,396,693.00
Including: Shares held by companies other than state-owned companies	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-
Others	98,396,693.00	-	-	-	-	-	98,396,693.00
Shares held by foreign investors	-	-	-	-	-	-	-
Total restricted shares	334,711,699.00	-	-	-	-	-	334,711,699.00
Unrestricted shares							
Ordinary shares denominated in RMB	1,071,179,250.00	-	-	-	-	-	1,071,179,250.00
Domestically-listed shares held by foreign investors	-	-	-	-	-	-	-
Overseas-listed shares held by foreign investors	219,900,000.00	-	-	-	-	-	219,900,000.00
Others	-	-	-	-	-	-	-
Total Unrestricted shares	1,291,079,250.00	-	-	-	-	-	1,291,079,250.00
Total shares	1,625,790,949.00	-	-	-	-	-	1,625,790,949.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Capital Surplus

Item	Opening balance	Increase	Decrease	Closing balance
Share premium	9,048,269,635.38	-	-	9,048,269,635.38
Other capital reserves	816,814,414.01	-	-	816,814,414.01
Including: Capital reserve transferred under previous accounting system	24,955,836.66	-	-	24,955,836.66
Total	9,865,084,049.39	-	-	9,865,084,049.39

42. Other Comprehensive Income

Item	Opening balance	Current amount before tax	Less: profit or loss transferred from other comprehensive income in previous periods	Current year			Closing balance
				Less: Income tax expense	Attributable to the parent company, net of tax	Attributable to minority shareholders, net of tax	
I. Other comprehensive income that will not be reclassified to profit or loss	(1,004,799.94)	(2,919,910.85)	-	437,986.62	(2,481,924.23)	-	(3,486,724.17)
Including: Other comprehensive income that will not be reclassified to profit or loss under equity method	1,448,181.81	-	-	-	-	-	1,448,181.81
Change in fair value of investments in other equity instruments	(2,452,981.75)	(2,919,910.85)	-	437,986.62	(2,481,924.23)	-	(4,934,905.98)
II. Other comprehensive income that may be reclassified into profit or loss	527,660.84	2,820,102.77	-	-	2,820,102.77	-	3,347,763.61
Including: Other comprehensive income that may be reclassified to profit or loss under equity method	29,136.57	-	-	-	-	-	29,136.57
Difference arising from the translation of foreign currency financial statements	498,524.27	2,820,102.77	-	-	2,820,102.77	-	3,318,627.04
Total other comprehensive income	(477,139.10)	(99,808.08)	-	437,986.62	338,178.54	-	(138,960.56)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Surplus Reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	1,249,809,540.14	157,506,022.86	-	1,407,315,563.00
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
Reserve fund	-	-	-	-
Business development fund	-	-	-	-
Profit return for investment	-	-	-	-
Others	-	-	-	-
Total	1,368,735,157.63	157,506,022.86	-	1,526,241,180.49

Note: In accordance with the Company Law and the Company's Articles of Association, the Group should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Group can cease appropriation when the statutory surplus reserve accumulated reaches 50% of the registered capital.

Discretionary surplus reserve can be drawn after the Group drawing statutory surplus reserve. Discretionary surplus reserve can be utilized to cover losses of the previous years or to increase equity after the approval.

44. Undistributed profits

Item	Current year	Last period
Closing balance of undistributed profits of prior year before adjustments	8,825,776,191.86	6,285,996,409.09
Adjustments to opening balance of undistributed profits at the current year (Add: +; Less:-)	-	(67,801,004.52)
Undistributed profits at the beginning of current year after adjustments	8,825,776,191.86	6,218,195,404.57
Add: Net profit attributable to shareholders of the parent company for the current period	3,188,884,638.91	3,440,980,103.08
Less: Appropriation of statutory surplus reserve	157,506,022.86	213,972,964.22
Appropriation of discretionary surplus reserve	-	-
Ordinary share dividends payable	689,335,362.38	619,426,351.57
Ordinary shares dividends converted to share capital	-	-
Closing balance of undistributed profits	11,167,819,445.53	8,825,776,191.86

Note:

- (1) As on 31 December 2019, surplus reserve of subsidiaries comprised in undistributed profit, attributable to the parent company, was RMB360,003 thousand (31 December 2018: RMB1,040,761 thousand).
- (2) According to the resolution of the 2018 annual general meeting held on 28 June 2019, the Company shall issue cash dividends to all shareholders at RMB0.424 per share (tax included), RMB689,335 thousand in total, based on the 1,625,790,949 outstanding shares at the year end of 2018.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Main businesses	64,682,984,312.29	52,020,470,819.57	41,980,377,512.59	32,106,055,149.15
Other businesses	268,793,329.54	60,664,775.70	253,460,538.53	58,336,565.01
Total	<u>64,951,777,641.83</u>	<u>52,081,135,595.27</u>	<u>42,233,838,051.12</u>	<u>32,164,391,714.16</u>

(2) Disclosure by category

Reporting segment	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	11,649,901,399.38	7,194,744,751.68	9,635,377,047.64	5,479,358,848.94
Great Health	10,478,863,955.00	5,154,767,171.22	9,487,459,761.85	5,367,038,802.23
Great Commerce	42,388,828,859.77	39,552,068,652.80	22,743,867,015.42	21,171,258,480.56
Others	165,390,098.14	118,890,243.87	113,673,687.68	88,399,017.42
Total	<u>64,682,984,312.29</u>	<u>52,020,470,819.57</u>	<u>41,980,377,512.59</u>	<u>32,106,055,149.15</u>

(3) Disclosure by primary operating region

Reporting segment	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	49,204,612,261.34	41,731,391,561.58	28,849,803,996.53	23,915,084,915.66
Eastern China Area	5,951,592,811.13	3,626,635,190.70	4,555,823,978.77	2,450,090,423.20
Northern China Area	2,596,095,619.64	1,643,583,652.20	2,368,824,210.30	1,346,550,783.78
Northeast Area	560,691,170.36	407,219,759.85	1,043,076,134.85	896,880,723.02
Southwest Area	4,301,813,416.33	3,004,039,003.04	3,603,000,081.66	2,331,392,607.64
Northwest Area	2,034,419,081.54	1,575,063,633.21	1,515,840,283.61	1,123,178,208.19
Export	33,759,951.95	32,538,018.99	44,008,826.87	42,877,487.66
Total	<u>64,682,984,312.29</u>	<u>52,020,470,819.57</u>	<u>41,980,377,512.59</u>	<u>32,106,055,149.15</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Operating Income and Operating Costs

- (4) Total sales to the top five customers are RMB4,724,395 thousand (2018: RMB2,578,963 thousand), accounting for 7.30% of the Group's primary operating income for the current period (2018: 6.14%)

Customer	Income	Proportion to total income (%)
Customer 1	1,475,979,033.41	2.28
Customer 2	1,085,976,646.66	1.68
Customer 3	769,242,801.81	1.19
Customer 4	746,848,571.51	1.15
Customer 5	646,347,816.85	1.00
Total	<u>4,724,394,870.24</u>	<u>7.30</u>

- (5) Other business income and other business cost

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Leases of assets	66,366,340.77	20,732,266.59	111,730,449.92	32,711,108.33
Consulting fee	58,438,253.87	-	44,331,870.72	-
License fee for franchise	40,265,255.98	-	39,029,386.78	-
Destruction of goods revenue	35,578,935.10	-	-	-
Property management fee	10,983,123.67	307,061.14	15,434,152.21	778,355.50
Collection of utility on behalf of others	9,631,846.20	14,138,582.77	7,729,458.14	11,360,014.70
Sales of materials	6,520,293.58	610,354.04	3,385,983.36	1,780,582.16
Technical service income	3,968,368.12	2,460,402.31	1,071,486.80	-
Service income	3,306,300.32	4,963,371.28	3,068,234.91	4,945,425.02
Trademark fee income	1,980,306.02	-	15,381,165.83	-
Income from franchise store management fee	1,569,753.03	-	3,059,397.78	-
Others	30,184,552.88	17,452,737.57	9,238,952.08	6,761,079.30
Total	<u>268,793,329.54</u>	<u>60,664,775.70</u>	<u>253,460,538.53</u>	<u>58,336,565.01</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Taxes and Surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	126,426,496.97	109,463,501.98
Education surcharge	54,483,662.32	47,516,309.63
Local education surcharge	36,295,556.83	31,613,407.28
House property tax	31,184,832.19	31,699,058.39
Vehicle and vessel use tax	177,779.49	145,188.95
Stamp duty	41,980,265.83	33,825,378.81
Land use tax	6,650,274.41	6,652,959.61
Others	888,303.21	2,044,069.52
Total	298,087,171.25	262,959,874.17

Note: Please refer to Note IV. Taxes for basic rates of the above taxes and surcharges.

47. Selling and distribution expenses

Item	Current year	Prior year
Employee benefits	2,677,008,492.38	2,084,916,436.36
Advertising and promotion fees	1,327,090,817.04	1,044,694,199.85
Sales and service fees	832,549,327.41	667,086,742.90
Freight and miscellaneous charges	822,528,567.02	691,761,052.60
Depreciation expenses	182,950,824.95	42,398,248.30
Traveling expenses	162,389,099.98	149,181,538.93
Conference expenses	92,093,157.37	88,329,778.61
Office expenses	52,241,434.75	36,316,161.36
Rental expenses	32,080,346.76	81,658,892.82
Consulting fees	15,910,416.63	46,271,334.29
Others	188,057,967.31	124,206,528.11
Total	6,384,900,451.60	5,056,820,914.13

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. General and administrative expenses

Item	Current year	Prior year
Employee benefits	1,227,244,003.48	978,874,628.25
Trademark license fees	118,176,518.02	173,110,774.52
Depreciation expenses	141,854,286.41	76,638,933.34
Amortization	85,625,928.94	67,143,952.45
Office expenses	70,788,472.96	57,056,487.54
Repairing expenses	40,341,258.95	41,953,095.32
Traveling expenses	28,770,480.18	25,372,400.60
Utilities	20,550,541.14	16,250,591.54
Consulting fees	17,673,127.85	9,405,783.09
Professional service fees	17,658,015.25	23,011,971.42
Including: Audit fee	2,518,867.92	2,425,786.50
Freight and miscellaneous charges	16,267,666.80	18,483,358.49
Rental expenses	11,281,183.00	49,014,829.43
Conference expenses	10,629,827.13	11,123,255.48
Insurance premium	4,734,638.70	3,816,739.03
Others	167,274,533.57	147,805,683.72
Total	<u>1,978,870,482.38</u>	<u>1,699,062,484.22</u>

49. Research and development expenditures

Item	Current year	Prior year
Employee benefits	242,266,808.33	195,942,572.79
Special research and development	89,104,548.01	65,898,697.14
Raw materials	87,062,481.08	167,907,992.11
Trial production expenses	39,264,045.04	48,780,880.61
Depreciation expenses	28,860,150.36	22,938,714.09
Clinical trial expenses	23,562,947.30	23,666,935.39
Technique research expenses	4,802,996.42	4,837,987.58
Amortization cost	4,281,427.73	4,197,091.78
Others	57,305,618.96	51,326,833.51
Total	<u>576,511,023.23</u>	<u>585,497,705.00</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Financial expenses

Item	Current year	Prior year
Interest expenses	339,474,858.32	222,800,930.26
Interest expenses of notes	19,426,189.97	4,540,898.58
Interest income	(303,216,899.66)	(262,003,043.18)
Exchange gains/(losses)	3,314,615.72	5,093,953.48
Service change of finance institutions	15,737,457.17	7,871,312.37
Cash discount	4,178,194.10	10,700,313.47
Interest expenses related to lease	34,749,257.59	4,236,933.29
Others	3,453,655.31	104,173.30
Total	117,117,328.52	(6,654,528.43)

51. Other Income

Item	Current year	Prior year	Asset related/ income related
Technology funds granted by the government	17,325,111.44	10,414,003.89	Asset related
Special project fund for environmental protection	415,308.67	280,963.36	Asset related
Construction funds for innovation platform and laboratory	594,965.78	1,718,315.69	Asset related
Land support funds granted by the government	–	1,745,213.50	Asset related
Support funds for industrial development	965,586.12	–	Asset related
Others	1,395,907.81	553,217.89	Asset related
Subtotal	20,696,879.82	14,711,714.33	
Technology funds granted by the government	40,928,762.36	48,452,015.90	Income related
Special fund for Technology export	2,458,136.12	93,262.06	Income related
Medical industrial research project funds	327,711.77	6,525,573.37	Income related
Special funds for energy-saving project	–	12,075.00	Income related
Special fund for innovative enterprises	5,232,074.49	1,057,800.00	Income related
Compensation for relocation	–	7,808,045.39	Income related
Support funds for industrial development	322,109,068.49	92,890,000.00	Income related
Others	38,267,256.03	24,560,610.07	Income related
Subtotal	409,323,009.26	181,399,381.79	
Total	430,019,889.08	196,111,096.12	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52. Investment Income

Item	Current year	Prior year
Long-term equity investment income under equity method	144,486,150.48	317,196,606.84
Investment income from disposal of long-term equity investment	–	1,099,377.08
Investment income from the period in which the Group held the financial assets at FVTPL	11,014,510.00	–
Investment income from available-for-sale financial assets	19,874,391.11	14,096,380.82
Proceed from remeasurement of share to fair value at the acquisition of control	7,286,631.84	–
Investment income from the period in which the Group held the non-current financial assets	–	870,677,046.64
Interest income from finance products and structured deposits	29,270,707.52	68,244,907.23
Others	(13,473,408.71)	–
Total	198,458,982.24	1,271,314,318.61

53. Gains from changes in fair value

Sources of gains from change in fair value	Current year	Prior year
Other non-current financial assets	31,623,136.01	115,575,352.23
Total	31,623,136.01	115,575,352.23

54. Impairment Losses in respect of credit

Item	Current year	Prior year
Loss on bad debts of notes receivable	(1,176,997.42)	–
Loss on bad debts of accounts receivable	(103,420,213.73)	(25,717,696.04)
Loss on bad debts of other receivables	(5,436,566.70)	(13,609,143.19)
Total	(110,033,777.85)	(39,326,839.23)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Impairment loss in respect of assets

Item	Current year	Prior year
Loss on decline in value of inventories	(11,507,400.14)	(60,201,650.41)
Fixed asset impairment loss	21,996.28	(910,238.91)
Goodwill impairment loss	–	(118,275,499.68)
Development expenditure impairment loss	–	(800,000.00)
Total	(11,485,403.86)	(180,187,389.00)

56. Gains from disposal of assets

Item	Current year	Prior year
Gains on damaging and scrapping of non-current assets	1,274,043.27	707,312.22
Including: gains from disposal of fixed assets	1,101,424.84	707,312.22
Gains from disposal of intangible assets	19,304.78	–
Gains from disposal of right-of-use assets	153,313.65	–
Total	1,274,043.27	707,312.22

57. Non-operating income

(1) Non-operating income by item

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current period
Proceed from damage and scrapping of non-current assets	636,707.72	929,680.36	636,707.72
Government grant	52,209,823.46	47,139,280.96	52,209,823.46
Penalty income	767,268.62	119,263.29	767,268.62
Income from sale of scrap	4,496,355.94	4,436,055.06	4,496,355.94
Debt forgiveness	8,963,389.00	5,815,876.61	8,963,389.00
Demolition compensation income	–	610,793.12	–
Compensation	30,012,230.48	580,464.02	30,012,230.48
Remuneration of expatriates	1,817,509.48	3,741,084.51	1,817,509.48
The difference between the business combination cost and the book value of the share of net identifiable assets acquired	–	125,981,938.96	–
Others	10,276,544.79	8,218,446.60	10,276,544.79
Total	109,179,829.49	197,572,883.49	109,179,829.49

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57. Non-operating income (Continued)

(2) Government grant recognized into profit or loss for the current year

Item	Current year	Prior year	Asset related/ income related
Compensation for demolition and relocation	72,997.56	42,127,961.18	Asset related
Others	3,512,419.96	4,670,234.52	Asset related
Subtotal	3,585,417.52	46,798,195.70	
Support funds for industrial development	–	–	Income related
Special funds for energy-saving project	–	313,730.00	Income related
Compensation for demolition and relocation	39,463,418.80	–	Income related
Others	9,160,987.14	27,355.26	Income related
Subtotal	48,624,405.94	341,085.26	–
Total	52,209,823.46	47,139,280.96	–

58. Non-operating expenses

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current period
Losses on damage and scrapping of non-current assets	3,072,297.02	2,072,428.85	3,072,297.02
Public welfare donation expenditure	11,894,269.87	6,998,480.92	11,894,269.87
Penalty and overdue fines	1,017,465.05	3,476,160.83	1,017,465.05
Reward of family planning	624,820.83	854,898.80	624,820.83
Inventory loss	3,453,437.44	145,996.11	3,453,437.44
Expenses accrued based on court decision	6,000,055.41	–	6,000,055.41
Return of compensation received	5,674,307.49	–	5,674,307.49
Others	3,922,162.24	1,248,401.18	3,922,162.24
Total	35,658,815.35	14,796,366.69	35,658,815.35

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

59. Income Tax Expenses

(1) Income tax expenses details

Item	Current year	Prior year
Current tax expenses	695,509,097.36	699,010,875.25
Deferred tax expenses	(8,262,822.98)	(213,996,855.53)
Total	687,246,274.38	485,014,019.72

(2) Adjustment processes of accounting profit and income tax expenses

Item	Current year
Total profit	4,128,533,472.61
Income tax expenses calculated at statutory/applicable rates	619,280,020.89
Tax effect of different rates applicable to subsidiaries	7,371,859.63
Adjustment effect of income tax of prior period	(25,172,431.65)
Tax effect of non-taxable income	(42,567,448.48)
Tax effect of costs, expenses and losses not deductible for tax purposes	27,851,636.25
Tax effect of use of deductible loss of previously unrecognized DTA	27,187,826.96
Tax effect of deductible temporary differences or deductible loss of unrecognized DTA in the current period	124,604,748.23
Tax effect of R&D expenditure deduction	(51,566,636.66)
Tax rate adjustment leads to the change of deferred income tax asset/liability balance at the beginning of the year	256,699.21
Income tax expenses	687,246,274.38

60. Other comprehensive income

Please refer to Note V. 42.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Earnings per share (EPS)

(1) Basic EPS

① Weighted average basic EPS

Item	For the twelve months ended 31 December 2019	For the twelve months ended 31 December 2018
Net consolidated profit attributable to ordinary shareholders of the parent company	3,188,884,638.91	3,440,980,103.08
The number of weighted average outstanding ordinary shares at the year end	1,625,790,949	1,625,790,949
Weighted average basic EPS	1.961	2.116

② EPS based on the number of shares as at the period end

Item	For the twelve months ended 31 December 2019	For the twelve months ended 31 December 2018
Net consolidated profit attributable to ordinary shareholders of the parent company	3,188,884,638.91	3,440,980,103.08
The number of outstanding ordinary shares as at the year end	1,625,790,949	1,625,790,949
EPS based on the number of shares as at the period end	1.961	2.116

(2) Diluted EPS

Diluted EPS is calculated by dividing the portion of net consolidated profit of dilutive potential ordinary shares, which are attributable to the ordinary shareholders of the parent company after adjustment to ordinary shares, by the number of weighted average outstanding ordinary shares. For the period from January to December of year 2019, the Company had no dilutive potential ordinary share (for January to December of year 2018: NIL). The diluted EPS is equal to basic EPS.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62. Items in the Cash Flow Statement

(1) Cash received from or paid for other operating activities

Item	Current year	Prior year
Cash received from other operating activities		
Government grant	640,451,555.86	235,951,130.84
Interest income	303,216,899.66	262,003,043.18
Other operating income	268,793,329.54	253,460,538.53
Non-operating income	56,226,526.87	146,980,773.32
Deposit received and other items	45,618,104.15	10,977,037.62
Total	<u>1,314,306,416.08</u>	<u>909,372,523.49</u>
Cash paid for other operating activities		
Cash paid for selling and distribution expenses	4,518,858,437.24	1,479,632,629.07
Cash paid for general and administrative expenses	282,410,946.72	332,882,219.57
Financial expenses—bank charges	19,682,682.46	7,871,312.37
Others	153,268,036.04	709,221,878.64
Total	<u>4,974,220,102.46</u>	<u>2,529,608,039.65</u>

(2) Cash received from or paid to other investing activities

Item	Current year	Prior year
Cash received from other investing activities		
The difference between consideration paid and cash or cash equivalents of the acquired company	—	928,379,998.71
Repayment of internal borrowings	—	15,618,641.39
Interest received	45,408.50	44,810.67
Total	<u>45,408.50</u>	<u>944,043,450.77</u>
Cash paid to other investing activities		
Book balance of currency assets at the time of the Group's subsidiaries are excluded from consolidation scope	—	161,611.03
Total	<u>—</u>	<u>161,611.03</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62. Items in the Cash Flow Statement (Continued)

(3) Cash received from or paid to other financing activities

Item	Current year	Prior year
Cash received from other financing activities		
Return of deposit for notes	2,323,388,828.59	958,871,915.99
Total	2,323,388,828.59	958,871,915.99
Cash paid to other financing activities		
Deposit for notes paid	2,754,146,331.50	993,041,430.98
Lease payment	252,717,340.47	48,458,481.77
Factoring deposit for accounts receivable paid	-	100,438,849.65
Deposit for borrowings paid	-	3,794,247.96
Total	3,006,863,671.97	1,145,733,010.36

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63. Supplementary Information of Cash Flow Statement

(1) Supplementary information of cash flow statement

Supplementary information	Current year	Prior year
1. Reconciliation from net profit to cash flows from operating activities:		
Net profit	3,441,287,198.23	3,533,716,235.90
Add: Provision for assets impairment	11,485,403.86	180,187,389.00
Impairment loss in respect of credit	110,033,777.85	39,326,839.23
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets ("-" refers to income)	323,192,900.91	260,915,748.59
Depreciation of right-of-use assets	211,388,044.33	-
Amortization of intangible assets ("-" refers to income)	57,311,215.67	40,308,217.44
Amortization of long-term prepaid expenses ("-" refers to income)	33,890,907.49	32,181,960.73
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" refers to income)	(1,274,043.27)	(707,312.22)
Losses on scrapping of fixed assets ("-" refers to income)	2,435,589.30	1,142,748.49
Loss on changes in fair value ("-" refers to income)	(31,623,136.01)	(115,575,352.23)
Financial expenses ("-" refers to income)	370,278,890.62	238,413,961.66
Investment losses ("-" refers to income)	(198,458,982.23)	(1,271,314,318.61)
Decrease in deferred tax assets ("-" refers to income)	(25,847,332.51)	(79,875,823.19)
Increase in deferred tax liabilities ("-" refers to income)	17,146,522.92	(35,549,957.95)
Decrease in inventories ("-" refers to income)	(221,361,482.57)	(2,003,344,782.55)
Decrease of operating receivables ("-" refers to income)	(1,868,309,338.83)	27,962,057.35
Increase of operating payables ("-" refers to income)	2,790,790,746.59	4,369,100,874.23
Others ("-" refers to income)	-	-
Net cash flow from operating activities	<u>5,022,366,882.34</u>	<u>5,216,888,485.87</u>
2. Significant investing and financing activities that do not involve cash receipts and payments:		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
Factoring financing payable	2,295,606,613.96	-
3. Net changes in cash and cash equivalents		
Cash at the end of period	16,833,622,508.23	15,071,612,198.38
Less: Cash at the beginning of year	15,071,612,198.38	11,495,535,159.70
Add: Cash equivalents at the end of the period	-	-
Less: Cash equivalents at the beginning of the year	-	-
Net increase in cash and cash equivalents	<u>1,762,010,309.85</u>	<u>3,576,077,038.68</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

63. Supplementary Information of Cash Flow Statement *(Continued)*

(2) Net cash paid for acquisition of subsidiaries in the current year

Nil

(3) Net cash received for disposal of subsidiaries in the current year

Nil

(4) Breakdown of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	16,833,622,508.23	15,071,612,198.38
Including: Cash on hand	883,955.59	981,910.86
Bank deposits that are readily available for payment	16,829,618,823.88	15,049,107,347.81
Other cash that are readily available for payment	3,119,728.76	21,522,939.71
II. Cash equivalents	–	–
Including: Debt investment maturing within three months	–	–
III. Closing balance of cash and cash equivalents	16,833,622,508.23	15,071,612,198.38
Including: Cash and cash equivalents in the parent or subsidiaries with restriction in use	–	–

Note: Cash and cash equivalents do not include those of the parent company and subsidiaries with restriction in use.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

64. Assets with Restriction on Ownership or Use Right

Item	Closing balance of book value	Reason for restriction
Cash at bank and on hand	1,635,996 thousand	The Group's deposit of notes payable is RMB1,284,103 thousand, frozen account funds of RMB61,036 thousand, margin of credit of RMB108 thousand, term deposit of RMB270,180 thousand, guarantee deposit of credit of RMB19,698 thousand, housing fund is RMB591 thousand, receivables factoring collection of RMB72 thousand.
Fixed assets	5,581 thousand	This group's the original value of the houses and buildings of fixed assets of HKD 8,893 thousand, the net value of HKD 6,231 thousand(Converted to RMB5,581 thousand), the original value of the investment properties of HKD 6,843 thousand, the net value of HKD 3,532 thousand(Converted to RMB3,163 thousand) as collateral, to obtain the overdraft limit of HKD 300 thousand, and 90 days L/C issue credit of HKD 100,000 thousand, which has been issued before maturity of the L/C EUR 447 thousand, USD 196 thousand, RMB305 thousand, JPY 5,530 thousand from the Bank of China (Hong Kong) co., Ltd.
Investment properties	3,163 thousand	
Accounts receivable	982,930 thousand	The Group's short-term borrowings of RMB982,930 thousand is derived from accounts receivable as pledge or factoring.
Notes receivable	551,612 thousand	The Group's notes receivable pledged is RMB19,081 thousand. Notes receivable endorsed but not yet due is RMB518,197 thousand. Notes receivable discounted but not yet due is RMB14,334 thousand.
Total	<u>3,179,282</u> thousand	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

65. Foreign Currency Funds Items

(1) Foreign Currency Funds Item

Item	Closing Balance of Foreign Currency	Exchange rate	Closing balance of RMB in equivalent
Cash at bank and on hand			
Including: USD	8,601,747.86	6.9762	60,007,513.42
HKD	15,808,463.09	0.8958	14,160,905.06
EUR	50,273.95	7.8155	392,916.06
AUD	120,634.01	4.8843	589,212.70
Accounts receivable			
Including: USD	2,505,017.96	6.9762	17,475,506.29
HKD	6,878,785.59	0.8958	6,161,878.56
Other receivables			
Including: USD	15,000.00	6.9762	104,643.00
AUD	222,585.97	4.8843	1,087,176.65
HKD	2,431,338.07	0.8958	2,177,944.02
Accounts payable			
Including: USD	4,295,251.01	6.9762	29,964,530.10
EUR	272,292.08	7.8155	2,128,098.75
HKD	245,912.68	0.8958	220,283.66
AUD	29,531.64	4.8843	144,241.39
Shor-term borrowings			
Including: USD	2,406,711.00	6.9762	16,789,697.28
HKD	28,336,772.54	0.8958	25,383,514.11
Other payables			
Including: HKD	3,307,506.29	0.8958	2,962,797.98

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Business combination not under the common control

Nil

2. Business combination under the common control

Nil

3. Sales of equity in subsidiaries during the year

Nil

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. CHANGE IN THE SCOPE OF CONSOLIDATION *(Continued)*

4. Reasons of changing in the scope of consolidation

The reasons for the addition of 12 companies and decrease of 1 company in scope of consolidation comparing to the prior period are as follows:

- (1) In January of this period, Wang Laoji Great Health Company, a subsidiary of the Group, invested in the establishment of Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd. with a registered capital of RMB50,000 thousand, and the proportion of capital contribution subscribed by Wang Laoji Great Health Company to registered capital is 100.00%.
- (2) In January of this year, Hainan Guangyao Chenfei Pharmaceutical Co., Ltd., a subsidiary of the company, invested to establish Hainan Guangyao Chenfei Pharmacy Chain Co., Ltd. with a registered capital of RMB20,000 thousand. The contribution of Hainan Guangyao Chenfei Pharmaceutical Co., Ltd. to the registered capital is 100.00%.
- (3) In March of this year, Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd., a subsidiary of the Company, invested to establish Guangyao (Qingyuan) Pharmaceutical Co., Ltd. with a registered capital of RMB7,000 thousand. The proportion of registered capital is 100.00% by Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd.
- (4) In April of this period, Caizhilin Pharmaceutical, a subsidiary of the Group, invested in the establishment of Guangyao Baiyunshan Traditional Chinese Medicine Technology (Gansu) Co., Ltd., with a registered capital of RMB50,000 thousand, and the proportion of capital contribution subscribed by Caizhilin Pharmaceutical to registered capital is 100.00%.
- (5) In July of this year, Guangyao Baiyunshan Macau Co., Ltd., a subsidiary of the company, invested to establish Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd. with a registered capital of RMB100,000 thousand. The proportion of the capital contribution paid up to the registered capital is 100.00%.
- (6) In August of this year, the company invested to set up Guangzhou Chuangyingguangyao Baiyunshan Intellectual Property Co., Ltd. with a registered capital of RMB10,000 thousand, and the company's subscribed capital contributed 100.00% of the registered capital.
- (7) In September of this year, the company invested in the establishment of Guangzhou Pharmaceutical (Zhuhai Hengqin) Pharmaceutical Industrial Park Co., Ltd. with a registered capital of RMB9,000 thousand, and the company's subscribed capital accounted for 100.00% of the registered capital.
- (8) In September of this year, Caizhilin Pharmaceutical, a wholly-owned subsidiary of the Company, invested to set up Guangzhou Caizhilin National Medical Museum Co., Ltd. with a registered capital of RMB10,000 thousand. Caizhilin Pharmaceutical's subscribed capital accounted for 51% of the registered capital.
- (9) The acquisition of 100% equity of Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd. by a pharmaceutical company, a subsidiary company of the Company, completed asset delivery and registration of industrial and commercial changes in September 2019. Since then, the company has become a wholly owned subsidiary of a pharmaceutical company and has been included in the scope of consolidation of pharmaceutical company.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

4. Reasons of changing in the scope of consolidation

- (10) In November of this year, Wanglaoji Pharmaceutical, a subsidiary of the company, invested to establish Guangyao Wanglaoji (Bijie) Industry Co., Ltd. with a registered capital of 1,000 thousand. The proportion of the capital contributed by Wanglaoji Pharmaceutical to the registered capital is 100.00%.
- (11) In November of this year, Zhejiang Baiyunshan Anglicang Pharmaceutical Co., Ltd., a holding company established by Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd., a wholly-owned subsidiary of the Company, merged Zhejiang Guangkang Pharmaceutical Co., Ltd. and Zhejiang Guangkang Pharmaceutical Co., Ltd. was cancelled.
- (12) In December of this year, the pharmaceutical company, a subsidiary of the Company, invested to establish Guangyao (Zhuhai Hengqin) Pharmaceutical Import and Export Co., Ltd. with a registered capital of RMB8,000 thousand. The proportion of the capital contributed by the pharmaceutical company as a proportion of the registered capital It is 100.00%

VII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Equity in subsidiaries

① *Composition of Enterprises Group*

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	77,168.90	88.99	–	Establishment or Investment
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	3,000.00	–	88.99	Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	217,410.00	100.00	–	Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	112,845.41	100.00	–	Establishment or Investment
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Guangzhou	Guangzhou	Trading	15,000.00	–	44.00	Establishment or Investment
Guangzhou Han Fang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	246,046.30	99.96	–	Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	82,416.74	100.00	–	Establishment or Investment
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	–	100.00	Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	86,232.35	88.40	–	Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	3,000.00	–	45.08	Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	65,436.20	87.77	–	Establishment or Investment

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	14,000.00	-	87.77	Establishment or Investment
Wang Lao Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	204,756.88	96.093	-	Business combination not under common control
Guangzhou Wang Lao Ji Food Co., Ltd.	Guangzhou	Guangzhou	Trading	1,000.00	-	96.09	Business combination not under common control
Guangyao Wanglaoji (Bijie) Industry Co., Ltd.	Guangzhou	Bijie	Pharmaceutical manufacturing	100.00	-	96.09	Business combination not under common control
GP Corp.	Guangzhou	Guangzhou	Pharmaceutical trading	2,227,000.00	80.00	-	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	86,000.00	-	80.00	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	8,000.00	-	80.00	Business combination not under common control
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	44,880.00	-	80.00	Business combination not under common control
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	10,000.00	-	80.00	Business combination not under common control
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Fuzhou	Fuzhou	Pharmaceutical trading	30,100.00	-	41.60	Business combination not under common control
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	6,000.00	-	40.80	Business combination not under common control
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	552,000.00	-	80.00	Business combination not under common control

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	123,000.00	–	80.00	Business combination not under common control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	13,500.00	–	48.00	Business combination not under common control
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Shenzhen	Shenzhen	Pharmaceutical trading	90,000.00	–	80.00	Business combination not under common control
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Changsha	Changsha	Pharmaceutical trading	85,000.00	–	80.00	Business combination not under common control
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	156,000.00	–	48.00	Business combination not under common control
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Xi'an	Xi'an	Pharmaceutical trading	87,500.00	–	48.00	Business combination not under common control
Guangdong Meixian Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	14,000.00	–	48.00	Business combination not under common control
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Jiangmen	Jiangmen	Pharmaceutical trading	80,000.00	–	80.00	Business combination not under common control
Guangyao Sichuan Pharmaceutical Co., Ltd.	Chengdu	Chengdu	Pharmaceutical trading	50,000.00	–	40.80	Business combination not under common control
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	30,500.00	–	56.00	Business combination not under common control
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Nanning	Nanning	Pharmaceutical trading	50,000.00	–	56.00	Business combination not under common control

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	5,000.00	-	80.00	Business combination not under common control
Jian Min International Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	HKD300.00	-	80.00	Business combination not under common control
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	13,210.00	-	80.00	Business combination not under common control
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	5,700.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	60,000.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Guangzhou	Guangzhou	Service	60,000.00	-	80.00	Establishment or Investment
Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	1,500.00	-	52.00	Establishment or Investment
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Zhongshan	Zhongshan	Pharmaceutical trading	6,000.00	-	80.00	Establishment or Investment
Hainan Guangyao Chen Fei Pharmacy Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	2,000.00	-	48.00	Establishment or Investment
Qingyuan Guangyao Zheng Kang Pharmaceutical Co., Ltd.	Qingyuan	Qingyuan	Pharmaceutical trading	645.00	-	80.00	Establishment or Investment
Guangyao (Qingyuan) Pharmaceutical Co., Ltd.	Qingyuan	Qingyuan	Pharmaceutical trading	700.00	-	80.00	Establishment or Investment
Guangyao (Zhuhai Hengqin) Pharmaceutical Import & Export Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	800.00	100.00	-	Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	32,202.00	100.00	-	Establishment or Investment
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Jingyu	Jingyu	Pharmaceutical trading	3,000.00	-	57.50	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	2,940.00	-	100.00	Establishment or Investment

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	2,000.00	–	60.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	20,000.00	–	100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,000.00	–	100.00	Establishment or Investment
Guangzhou Cai Zhi Lin National Medical Museum Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical services	1,000.00	–	51.00	Establishment or Investment
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,680.00	–	100.00	Establishment or Investment
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Ha'erbin	Ha'erbin	Pharmaceutical trading	3,000.00	–	60.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	1,000.00	–	80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linyi	Linyi	Pharmaceutical trading	2,000.00	–	60.00	Establishment or Investment
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical manufacturing	10,000.00	–	100.00	Establishment or Investment
Gansu Guangyao baiyunshan Chinese Medicine Technology Co., Ltd.	Dingxi	Dingxi	Pharmaceutical trading	50,000.00	–	100	Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical trading	24,000.00	100.00	–	Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	131,600.00	100.00	–	Establishment or Investment
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Guangzhou	Guangzhou	Trading	10,000.00	–	51.00	Establishment or Investment
Tibet Linzhi Guangyao Development Co., Ltd.(1)	Linzhi	Linzhi	Pharmaceutical trading	2,000.00	–	54.82	Establishment or Investment
WLJ Great Health	Guangzhou	Guangzhou	Food manufacturing	500,000.00	100.00	–	Establishment or Investment
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Ya'an	Ya'an	Food manufacturing	50,000.00	–	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	10,000.00	–	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Company	Guangzhou	Guangzhou	Food manufacturing	1,000.00	–	100.00	Establishment or Investment

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Trading	5,000.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Food manufacturing	50,000.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Guangzhou	Guangzhou	Trading	3,000.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd.	Lanzhou	Lanzhou	Trading	50,000.00	-	100.00	Establishment or Investment
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (hereinafter referred to as "Guangxi Ying Kang")	Nanning	Nanning	Pharmaceutical manufacturing	31,884.50	51.00	-	Business combination not under common control
Yi Gan	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,000.00	60.00	-	Establishment or Investment
Baiyunshan Medical and Healthcare Industry Company	Guangzhou	Guangzhou	Commercial services	116,000.00	100.00	-	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Health services	50,000.00	-	100.00	Establishment or Investment
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	40,816.00	-	51.00	Business combination not under common control
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Guangzhou	Guangzhou	Service	10,000.00	-	51.00	Establishment or Investment
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	126,480.00	100.00	-	Establishment or Investment
Wang Lao Ji Investment	Guangzhou	Guangzhou	Commercial services	10,000.00	100.00	-	Establishment or Investment
WLJ Catering	Guangzhou	Guangzhou	Commercial services	20,000.00	-	80.00	Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	45,693.14	82.49	-	Business combination under common control
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	800.00	-	100.00	Establishment or Investment
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,285.00	84.48	-	Business combination under common control

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Guang Hua Health	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00	–	63.36	Establishment or Investment
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	46,091.90	100.00	–	Business combination under common control
Guangzhou Xing Ji Industries Co., Ltd.	Guangzhou	Guangzhou	Manufacturing	100.00	–	100.00	Establishment or Investment
Weiling	Jiexi	Jiexi	Pharmaceutical manufacturing	11,790.00	100.00	–	Business combination under common control
Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	2,000.00	51.00	–	Business combination under common control
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Yangquan	Yangquan	Food manufacturing	50,000.00	–	60.00	Establishment or Investment
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	35,000.00	–	60.00	Establishment or Investment
Guangyao Baiyunshan Hong Kong Company	Hong Kong	Hong Kong	Pharmaceutical trading	HKD 132,500.00	100.00	–	Business combination under common control
Guangzhou Baiyunshan Macao Co., Ltd.	Macao	Macao	Pharmaceutical trading	MOP 1,000.00	99.90	–	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	163,470.00	100.00	–	Establishment or Investment
Zhejiang Baiyunshan Anlikang Pharmaceutical Co., Ltd.	Shaoxing	Shaoxing	Pharmaceutical manufacturing	10,000.00	–	51.00	Business combination not under common control
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	–	100.00	Establishment or Investment
Guangyao Haima	Guangzhou	Guangzhou	Advertising	500.00	100.00	–	Business combination not under common control
Baiyunshan Pharmaceutical Marketing	Guangzhou	Guangzhou	Pharmaceutical trading	40,000.00	100.00	–	Establishment or Investment
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Service	1,000.00	–	100.00	Establishment or Investment

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

① Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Acquisition method
					Direct	Indirect	
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	80,000.00	100.00	–	Business combination under common control
Guangzhou Baiyunshan Medical Instruments investment	Guangzhou	Guangzhou	Commercial services	10,000.00	–	100.00	Establishment or Investment
Guangzhou Baiyunshan Chemical and pharmaceutical manufacturing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	100.00	–	Establishment or Investment
Guangzhou Chuangying Guangyao Baiyunshan Intellectual Property Co., Ltd.	Guangzhou	Guangzhou	Service	10,000.00	100.00	–	Establishment or Investment
Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd.	Zhuhai	Zhuhai	Service	9,000.00	100.00	–	Establishment or Investment

② Significant non-wholly owned subsidiaries

Subsidiary	Shareholding of minority shareholders (%)	Profit or loss attributable to minority shareholders in the current period	Dividend paid to minority shareholders in the current period	Closing balance of minority shareholders' equity
GP Corp.	20.00	62,816,677.85	–	893,503,094.39
Wang Lao Ji	3.907	1,564,909.29	–	19,634,849.31

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Equity in subsidiaries (Continued)

③ Primary financial information of significant non-wholly owned subsidiaries

Subsidiary	Current assets	Non-current assets	Closing balance		Non-current liabilities	Total liabilities
			Total assets	Current liabilities		
GP Corp.	21,393,099,691.70	1,867,282,154.29	23,260,381,845.99	17,998,139,506.23	458,593,202.54	18,456,732,708.77
Wang Lao Ji	1,381,680,221.20	217,985,559.70	1,599,665,780.90	1,089,885,836.71	6,931,032.71	1,096,816,869.42

Subsidiary	Current assets	Non-current assets	Opening balance		Non-current liabilities	Total liabilities
			Total assets	Current liabilities		
GP Corp.	19,027,761,085.33	1,405,773,512.96	20,433,534,598.29	15,807,319,952.93	688,872,436.93	16,496,192,389.86
Wang Lao Ji	937,113,928.36	229,335,394.05	1,166,449,322.41	695,189,403.63	5,814,718.79	701,004,122.42

Subsidiary	Operating income	Net profit	Current period		Operating cash flows
			Total comprehensive income		
GP Corp.	41,130,000,349.61	339,780,124.98	339,306,928.73		520,743,360.21
Wang Lao Ji	1,719,944,371.36	37,403,711.49	37,403,711.49		374,613,851.61

Subsidiary	Operating income	Net profit	Previous period		Operating cash flows
			Total comprehensive income		
GP Corp.	20,449,195,492.03	161,328,313.42	161,328,313.42		1,780,119,668.37
Wang Lao Ji	83,616,417.79	(157,921,052.93)	(157,921,052.93)		(172,273,678.15)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(2) Summary for financial information of insignificant associates and joint ventures

① Summary financial information of unimportant joint ventures and associates

Item	Closing balance/ Current year	Opening balance/ Prior year
Joint ventures:		
Total book balance of investments	432,357,047.91	661,295,124.97
Calculated by rate of interests held:		
– Net profit	99,797,151.45	305,162,068.66
– Other comprehensive income	–	(8,821.96)
– Total comprehensive income	99,797,151.45	305,153,246.70
Associates		
Total book balance of investments	1,166,668,144.51	1,098,662,910.42
Calculated by rate of interests held:		
– Net profit	46,296,167.83	70,921,573.37
– Other comprehensive income	–	29,136.57
– Total comprehensive income	46,296,167.83	70,950,709.94

- ② There are no significant restrictions on the ability of joint ventures or associates to transfer funds to the company.
- ③ There are no excessive losses incurred by joint ventures or associates.
- ④ There are unrecognized commitments related to joint venture investment.
- ⑤ There are no contingent liabilities related to joint venture or associate investment.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's operating activities are subject to various financial risks: market risk (mainly foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management plan addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance.

1. Market risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate changes. The Group's foreign exchange risk is mainly related to the US Dollar, the Euro, the Japanese Yen, the Hong Kong Dollar and Australian Dollar. Except that the purchase and sale of several subsidiaries of the Group are in US dollars, Euros, Japanese Yen, Hong Kong dollars and Australian dollars, the Group's other major business activities are settled in Renminbi ("RMB"). As on 31 December 2019, except for the assets or liabilities described in the following table, which are in US dollars, Euros, Japanese Yen, and Hong Kong Dollars, Australian Dollars, the Group's assets and liabilities balances are all in Renminbi. The foreign exchange risk arising from the assets and liabilities of these foreign currency balances may have an impact on the Group's operating results

Item	Closing balance	Opening balance
Cash at bank and on hand	75,150,547.24	50,686,895.28
Accounts receivable	23,637,384.85	25,818,380.94
Other receivables	3,369,763.67	596,411.37
Total financial assets in foreign currency	102,157,695.76	77,101,687.59
Short-term borrowings	42,173,211.38	–
Accounts payable	32,457,153.90	11,311,566.29
Other payables	2,962,797.98	205,308.23
Total financial liabilities in foreign currency	77,593,163.26	11,516,874.52

Note: The financial department of the Group's headquarters is responsible for monitoring the scale of the Group's foreign currency transactions and foreign currency assets and liabilities in order to minimize the foreign exchange risks; for this reason, the Group may sign forward exchange agreements or currency swap agreements to achieve the purpose of avoiding foreign exchange risks.

As on 31 December 2019, for all types of financial assets and financial liabilities of the Group in US dollar and Hong Kong dollar, if the RMB appreciates or depreciates against the US dollar and Hong Kong dollar by 10% and other factors remain unchanged, the Group's net profit will increase or decrease by approximately RMB1,842 thousand (As on 31 December 2018: approximately RMB5,074 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

1. Market risk (Continued)

(2) Interest rate risk

As on 31 December 2019, the Group's long-term interest-bearing debt balance was RMB4,500 thousand. If the annual interest rate decreased by 50 basis points and other factors remained unchanged, the Group's net profit will increase by RMB299 thousand (As on 31 December 2018: RMB16,908 thousand).

(3) Other price risks

The equity investments in listed companies held by the Company are as below:

Item	Closing balance	Opening balance
Other investments in equity instruments	–	–
Other non-current financial assets	174,290,622.96	142,759,160.02
Total	174,290,622.96	142,759,160.02

As on 31 December 2019, if all other variables remain unchanged and the value of equity instruments rises or falls by 10%, the Company's net profit will increase or decrease by RMB17,429 thousand (As on 31 December 2018: net profit and other comprehensive income will increase by RMB14,276 thousand). The management believes that 10% reasonably reflects the reasonable range of possible changes in the value of equity instruments in the next year.

2. Credit risk

The Group manages credit risk by portfolio. Credit risk mainly arises from bank deposits, accounts receivable, other receivables, notes receivable, etc.

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks. The Group believes that it does not have significant credit risk and will not incur any significant losses due to default by the other party.

In addition, for accounts receivable, other receivables and notes receivable, the Group has established relevant policies to control credit risk exposure. The Group assesses the creditworthiness of customers and sets the corresponding credit period based on their financial status, the possibility of obtaining guarantees from third parties, credit history and other factors such as current market conditions. The Group also monitors customers' credit records regularly. For customers with poor credit history, the Group will adopt methods such as sending written reminders, shortening credit terms or cancelling credit terms to ensure that the Group's overall credit risk stays within the controllable range.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk

Each subsidiary of the Group is responsible for its own cash flows forecast. Based on the summary of cash flows forecasts of the subsidiaries, the finance department of the headquarter continuously monitors short-term and long-term capital needs at the group level to ensure that sufficient cash reserves and marketable securities are readily available; meanwhile the finance department of the headquarter continuously monitors compliance with the terms of the loan agreement and obtains commitments from major financial institutions to provide sufficient backup funds to meet short-term and long-term funding needs.

As at the balance sheet date, the Group's financial assets and financial liabilities stated in undiscounted contractual cash flows by the expiration date are as following:

Period	Closing balance					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	No fixed maturity date	
Financial assets:						
Cash at bank and on hand	18,469,618,237.41	-	-	-	-	18,469,618,237.41
Notes receivable	1,526,081,541.94	-	-	-	-	1,526,081,541.94
Accounts receivable	12,555,024,519.58	-	-	-	-	12,555,024,519.58
Accounts receivable financing	1,515,914,114.01	-	-	-	-	1,515,914,114.01
Other receivables	1,173,360,042.04	-	-	-	-	1,173,360,042.04
Subtotal	<u>35,239,998,454.98</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,239,998,454.98</u>
Financial liabilities:						
Short-term borrowings	5,869,008,916.96	-	-	-	-	5,869,008,916.96
Current portion of non-current liabilities	229,361,467.97	-	-	-	-	229,361,467.97
Notes payable	3,982,425,654.37	-	-	-	-	3,982,425,654.37
Accounts payable	9,698,952,240.46	-	-	-	-	9,698,952,240.46
Other payables	3,227,385,632.70	-	-	-	-	3,227,385,632.70
Long-term payables	-	-	-	25,229,042.00	-	25,229,042.00
Subtotal	<u>23,007,133,912.46</u>	<u>-</u>	<u>-</u>	<u>25,229,042.00</u>	<u>-</u>	<u>23,032,362,954.46</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk

(cont.)

Period	Opening balance					No fixed maturity date	Total
	Within 1 year	1-2 years	2-5 years	Over 5 years			
Financial assets:							
Cash at bank and on hand	16,114,883,673.51	-	-	-	-	-	16,114,883,673.51
Notes receivable	1,328,195,500.54	-	-	-	-	-	1,328,195,500.54
Accounts receivable	10,872,458,472.34	-	-	-	-	-	10,872,458,472.34
Accounts receivable financing	1,452,402,183.47	-	-	-	-	-	1,452,402,183.47
Other receivables	1,056,551,186.68	-	-	-	-	-	1,056,551,186.68
Subtotal	<u>30,824,491,016.54</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,824,491,016.54</u>
Financial liabilities:							
Short-term borrowings	5,905,703,286.10	-	-	-	-	-	5,905,703,286.10
Current portion of non-current liabilities	343,315,704.52	-	-	-	-	-	343,315,704.52
Notes payable	2,656,176,505.09	-	-	-	-	-	2,656,176,505.09
Accounts payable	9,313,277,657.72	-	-	-	-	-	9,313,277,657.72
Other payables	3,466,357,353.39	-	-	-	-	-	3,466,357,353.39
Long-term payables	-	-	-	27,611,312.00	-	-	27,611,312.00
Subtotal	<u>21,684,830,506.82</u>	<u>-</u>	<u>-</u>	<u>27,611,312.00</u>	<u>-</u>	<u>-</u>	<u>21,712,441,818.82</u>

IX. DISCLOSURE OF FAIR VALUE

1. Financial instruments not measured at fair value

Financial assets and financial liabilities not measured at fair value comprise: receivables, short-term borrowings, payables and long-term payables.

Difference between book value and fair value of financial assets and financial liabilities not measured at fair value is insignificant.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

IX. DISCLOSURE OF FAIR VALUE (Continued)

2. Financial instruments measured at fair value

According to the lowest hierarchy of input value, which is significant to the overall measurement, in the measurement of fair value, hierarchies of the fair value can be divided into:

The first hierarchy: Quoted price (unadjusted) of the same assets or liabilities in active market;

The second hierarchy: Direct (i.e. price) or indirect (i.e. estimated results based on price) observable input value of assets or liabilities excluding quoted market price in the first hierarchy;

The third hierarchy: Input value of assets or liabilities based on variables excluding observable market data (unobservable input value).

The hierarchy of a fair value measurement result is determined by the bottom level of the input value, which is significant to the overall measurement of fair value.

(1) Closing balance of fair value of assets and liabilities measured at fair value

Item	Closing balance of fair value			Total
	The first hierarchy	The second hierarchy	The third hierarchy	
I. Continuous measurement at fair value				
A. Financial assets held for trading	-	-	-	-
1. Financial assets measured at FVTPL	-	-	-	-
2. Financial assets designated at FVTPL	-	-	-	-
B. Other debt investments	-	-	-	-
C. Other investments in equity instruments	-	-	-	-
(1) Equity instrument investments	-	-	81,977,960.04	81,977,960.04
D. Other non-current financial assets	-	-	-	-
(1) Equity instrument investments	32,996,317.89	-	225,473,601.21	258,469,919.10
(2) Others	-	-	4,000,000.00	4,000,000.00
E. Investment properties	-	-	-	-
F. Biological assets	-	-	-	-
Total assets continuously measured at fair value	<u>32,996,317.89</u>	<u>-</u>	<u>311,451,561.25</u>	<u>344,447,879.14</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

IX. DISCLOSURE OF FAIR VALUE (Continued)

3. The basis for determining the market price of the first-level fair value measurement project: The fair value of the listed company's stock is determined according to the closing price of the exchange on the last trading day of the period.
4. Valuation methods and qualitative and quantitative information of important parameters adopted in valuation techniques for the continuing third hierarchy fair value measurement projects are as follows:

Item	Closing balance of fair value	Valuation method	Significant unobservable input	Influence on fair value
Equity instrument investment	81,977,960.04	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity
Other non-current financial assets	262,469,919.10	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity

5. Adjustment information between the beginning and closing book value of the continuing third hierarchy fair value measurement projects is as follows:

Item	Opening balance	Transferred to the third hierarchy	Transferred from the third hierarchy	Total amount of profit or loss for the current period		Purchase	Closing balance	Gains and losses recognized through profit or loss at the period end of assets held at the period end
				Recognized in profit or loss	Recognized in other comprehensive income			
Other investments in equity instruments	84,897,870.89	-	-	-	(2,919,910.85)	-	81,977,960.04	-
Other non-current financial assets	198,623,524.78	-	-	26,850,076.43	-	4,000,000.00	229,473,601.21	-

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Information of the Parent Company

Parent company	Registration place	Nature of business	Registered capital (RMB in thousand)	Shareholding of the parent company in the Group (%)	Proportion of the voting right held by the parent company (%)
GPHL	No. 45, North Shamian Street, Liwan District, Guangzhou	Manufacturing and trading	1,252,810.98	45.04	45.04

Note: The ultimate control party of the Group is State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government.

2. Subsidiaries of the Group

Please refer to Note VII. 1. Equity in subsidiaries.

3. Associates and joint ventures of the Group

For important joint ventures or associates of this enterprise, please refer to the note "VII. (2) Equity in joint ventures or associates"

Information of associates or joint ventures which have had transactions with the Company in the current year, or had had transactions with the Company in prior years and formed a balance in current year is as follows:

Associates or joint ventures	Relationship with the Company
Nuo Cheng	Joint venture
HWBYS	Joint venture
Baxter Qiao Guang	Joint venture
Chuangmei Medicines	Associates
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	Associates
Yunnan Yi Xin Tang	Associates
Baiyunshan Yi Xin Tang	Associates

4. Other Related Parties without Control Relationship

Other related parties	Relationship with the Company
Guangzhou Yu Fa Medical Instruments Co., Ltd.	Controlled by the same parent company
Guangzhou South China Medical Instruments Co., Ltd.	Controlled by the same parent company
Guangzhou Hua Cheng Pharmaceutical Co., Ltd. (hereinafter referred to as "Hua Cheng")	Controlled by the same parent company

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions

- (1) Related party transaction of purchase and sales of goods, rendering and receiving of services

Related party	Type	Content	Pricing policy and decision-making procedure	Current year		Prior year	
				Amount	% of total (similar category)	Amount	% of total (similar category)
Purchase of goods and acceptance of services:							
HWBYS	Purchase of goods	Medicinal material or medicine	Market price	186,691,863.95	0.30	111,109,170.28	0.27
GP Corp.	Purchase of goods	Medicinal material or medicine	Market price	-	-	41,325,294.07	0.10
Wang Lao Ji	Purchase of goods	Medicinal material or medicine	Market price	-	-	898,962,329.29	2.16
Baxter Qiao Guang	Purchase of goods	Medicinal material or medicine	Market price	36,877,986.23	0.06	12,584,109.35	0.03
Chuang Mei	Purchase of goods	Medicinal material or medicine	Market price	26,668,554.47	0.04	21,994,996.93	0.05
Hua Cheng	Purchase of goods	Medicinal material or medicine	Market price	10,962,599.79	0.02	4,309,981.67	0.01
Yunnan Yi Xin Tang	Purchase of goods	Medicinal material or medicine	Market price	(5,362.18)	-	822,832.72	-
Subtotal				<u>261,195,642.26</u>	<u>0.42</u>	<u>1,091,108,714.31</u>	<u>2.62</u>
HWBYS	Acceptance of service	Publicity fee	Market price	21,754,857.41	1.64	-	-
Subtotal				<u>21,754,857.41</u>	<u>1.64</u>	<u>-</u>	<u>-</u>
Total				<u>282,950,499.67</u>		<u>1,091,108,714.31</u>	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

Related party	Type	Content	Pricing policy and decision-making procedure	Current year		Prior year	
				Amount	% of total (similar category)	Amount	% of total (similar category)
Sales of good and rendering of services:							
HWBYS	Sales of good	Medicinal material or medicine	Market price	166,330,387.49	0.26	182,614,716.16	0.44
GP Corp.	Sales of good	Medicinal material or medicine	Market price	-	-	152,495,945.38	0.36
Wang Lao Ji	Sales of good	Medicinal material or medicine	Market price	-	-	476,599,653.08	1.14
Nuo Cheng	Sales of good	Medicinal material or medicine	Market price	56,324.31	0.00	111,620.68	0.00
Baxter Qiao Guang	Sales of good	Medicinal material or medicine	Market price	8,169,557.15	0.01	2,079,676.82	0.00
Chuang Mei	Sales of good	Medicinal material or medicine	Market price	444,589,522.29	0.69	451,354,161.51	1.08
Hua Cheng	Sales of good	Medicinal material or medicine	Market price	112,698,920.72	0.17	132,044,378.63	0.31
BYS Yi Xin Tang	Sales of good	Medicinal material or medicine	Market price	6,359,076.28	0.01	-	-
Yunnan Yi Xin Tang	Sales of good	Medicinal material or medicine	Market price	75,140,176.39	0.12	46,363,322.52	0.11
Subtotal				813,343,964.63	1.26	1,443,663,474.78	3.44
Rendering of services:							
GPHL	Rendering of services	Advertising agency service	Market price	951,315.76	1.89	1,076,291.49	1.07
HWBYS	Rendering of services	Advertising agency service	Market price	36,911,851.96	73.41	45,805,389.40	45.51
GP Corp.	Rendering of services	Advertising agency service	Market price	-	-	82,696.23	0.08
Wang Lao Ji	Rendering of services	Advertising agency service	Market price	-	-	44,531,828.07	44.25
Baxter Qiao Guang	Rendering of services	Advertising agency service	Market price	35,973.59	0.07	47,490.57	0.05
Nuo Cheng	Rendering of services	Advertising agency service	Market price	20,250.00	0.04	-	-
Hua Cheng	Rendering of services	Advertising agency service	Market price	8,924,519.56	17.75	5,764,818.95	5.73
BYS Yi Xin Tang	Rendering of services	Advertising agency service	Market price	-	-	1,748.58	0.00
Subtotal				46,843,910.87	-	97,310,263.29	-

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

Related party	Type	Content	Pricing policy and decision-making procedure	Current year		Prior year	
				Amount	% of total (similar category)	Amount	% of total (similar category)
Wang Lao Ji	Rendering of services	Consigned processing	Market price	-	-	13,479,531.38	79.95
HWBYS	Rendering of services	Consigned processing	Market price	2,765,338.60	1.82	1,754,945.87	10.41
Hua Cheng	Rendering of services	Consigned processing	Market price	25,037,726.83	16.51	1,626,428.25	9.65
Yunnan Yi Xin Tang	Rendering of services	Consigned processing	Market price	531,711.10	0.35	-	-
Subtotal				28,334,776.53	-	16,860,905.50	-
HWBYS	Rendering of services	Research and development services	Market price	-	-	247,641.50	3.18
Wang Lao Ji	Rendering of services	Research and development services	Market price	-	-	188,679.24	2.42
Subtotal				-	-	436,320.74	-
Total				888,522,652.03	-	1,558,270,964.31	-

Note: Since the completion of the 30% equity acquisition in May 2018, the GP Corp. has been included in the company's consolidation scope. After the completion of the 48.05% equity acquisition in September 2018, Wanglaoji Pharmaceutical has been included in the company's consolidation scope. The related party transactions between the GP Corp. and Wanglaoji Pharmaceutical in the previous year were transactions between the GP Corp. and Wanglaoji Pharmaceutical as a joint venture of the Group and the Group.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(2) The Group had no associated trusteeship/Entrusted management for the current period.

(3) Leases

① *The Group as the lessor*

A. Office Tenancy Agreement – 5th Floor, Front building, North Shamian Street

According to the tenancy agreement entered into by the Company and GPLH on 27 June 2013, the Company leases 5th Floor of the Front building located at No. 45 North Shamian Street to GPLH for office use. The lease is renewed on 1 July 2016, with a term of three years. According to the renewal of the office lease contract between the Company and GPLH on July 16, 2019, the new lease term is 3 years, which was renewed from July 1, 2019 to June 30, 2022. The company should collect RMB403 thousand from January to December in 2019 (January-December 2018: RMB376,000).

B. Warehouse and Office Building Tenancy Agreement

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases certain buildings to GP Corp. for the use of warehouse and office. Rent is paid at the price specified in the agreement annually. The lease term is from 1 January 2017 to 31 December 2019, Due to the reasons in Note 1 above, the venue lease between the company and GP Corp. from January to December 2019 is not a related party transaction. (for the year ended 31 December 2018: RMB545 thousand).

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases the first floor of the building located in No.74 of Duobao Road to GP Corp. as a shop. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2015 to 31 October 2021. Due to the reasons in Note 1 above, the venue lease between the company and GP Corp. from January to December 2019 is not a related party transaction (for the year ended 31 December 2018: RMB259 thousand).

According to the tenancy agreement entered into by the Company and Baxter Qiao Guang, the Company leases the building located on No. 25 of Fangcun Dadao Road, Guangzhou to Baxter Qiao Guang as workshop. The lease agreement started on 10 May 2007 to the relocation date. The rent is RMB5,087 thousand for the year January-December 2019 (for the year ended 31 December 2018: RMB3,031 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(3) Leases *(Continued)*

① *The Group as the lessor (Continued)*

B. Warehouse and Office Building Tenancy Agreement *(Continued)*

According to the tenancy agreement entered into by the Company's subsidiaries, Guangzhou Bai Di and Nuo Cheng, Guangzhou Bai Di leases the building located in No.1 of North Wanbao Street, Panyu District, Guangzhou to Nuo Cheng for the use as a plant. Rent is paid at the price specified in the agreement annually with a lease term from 15 March 2011 to 14 March 2019. According to the plant lease agreement signed by Guangzhou Baiyunshan Bai Di bio-pharmaceutical co., Ltd. and Nuo Cheng biological on March 11, 2019, the new lease term is from 15 March 2019 to 14 March 2022. And Nuo Cheng should pay Guangzhou Bai Di the rent of RMB3,049 thousand for the year January-December 2019 (for the year ended 31 December 2018: RMB2,298 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and HWBYS, Guang Hua leases part of No.355 of North Shatai Road in Guangzhou to HWBYS for the use of parking lot. Rent is paid at the price specified in the agreement monthly with a lease term from 10 September 2017 to 9 March 2018. The rental agreement has been terminated in 2018, and Guanghua Pharmaceutical will no longer charge HWBYS for the above-mentioned venue lease rent from January to December 2019 (for the year ended 31 December 2018: RMB12 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and GP Corp., Guang Hua leases part of No.355 of North Shatai Road, Guangzhou to GP Corp. Rent is paid at the price specified in the agreement monthly with a lease term from 15 July 2015 to 14 July 2020. Due to the reasons in Note 1 above, the venue lease between the company and GP Corp. from January to December 2019 is not a related party transaction (for the year ended 31 December 2018: RMB174 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(3) Leases *(Continued)*

② *The Group as the lessee*

According to the tenancy agreement entered into by the Company and GPLH, GPLH leases certain premises to the Company for the use of warehouse and office. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2017 to 31 December 2019. The Group should pay GPLH the rent of RMB6,106 thousand for the current year (for the year ended 31 December 2018: RMB7,564 thousand).

According to the tenancy agreement entered into by HWBYS and Baiyunshan Pharmaceutical Marketing, a subsidiary of the Company, Baiyunshan Pharmaceutical Marketing is authorized by HWBYS to use 704 room on the 7 floor and the 8 to 11 floor of Shennong Building on No. 389 of North Sha Tai Road, Baiyun District, Guangzhou as office place. Rent is paid at the price specified in the agreement annually. Thereinto, the lease term for 704 room on the 7 floor started from 1 April 2018 to 31 December 2023; the lease term for the 8 to 11 floor started from 1 January 2018 to 31 December 2023. The original lease contract has been cancelled through negotiations. According to the lease contract signed on January 1, 2019, the new lease period is from January 1, 2019 to December 31, 2021. According to the new Accountant standard, operating lease is processed by "Right-of-use assets", and the right-of-use assets of RMB13,235 thousand were confirmed in 2019. From January to December 2018, HWBYS had paid RMB3,783 thousand.

According to the lease agreement between GPLH and Jingxiutang Pharmaceutical, a subsidiary of the Company, GPLH granted Jingxiutang Pharmaceutical to use the second and third floors of No. 83 Guangfu Road, Liwan District, Guangzhou as the office location. The lease contract signed on January 1st, the lease period is from January 1, 2019 to December 31, 2021; according to the new standard, operating leases must be processed through the "right-of-use asset" account, and the right-of-use asset recognized in 2019 is RMB217 thousand.

- (4) **The Group had no guarantee for related parties for the current year.**
- (5) **The Group had no borrowing or lending between related parties for the current year.**
- (6) **The Group had no transfer of asset and debt restructuring for the current year.**
- (7) **Employee benefits of key management personnel**

Employee benefits of the Group's key management personnel amounted to RMB6,129 thousand for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB4,185 thousand). The Group's key management personnel of current year include 9 persons, such as director, general manager, vice general manager, and secretary to the Board of Director (for the 12 months ended 31 December 2017: 9 persons). Among them, 6 received their salaries from the Group (for the year ended 31 December 2018: 4 persons).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(8) Other related party transactions

① License Agreement

- (a) Pursuant to the Trademark License Agreements entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013 respectively, and the Confirmation letter signed based on the Trademark License Agreements. GPLH authorized the use of 5 trademarks by Wang Lao Ji Great Health. Wang Lao Ji Great Health agreed to pay license fees to GPLH at 2.1% of net sales. The payment is made to GPLH and the Company at 53% and 47% respectively. The Trademark License Agreement has expired on 24 May 2018. The two parties entered into the Trademark License Agreement on 28 May 2018, the trademark license fee is agreed to be paid to the Company by Wang Lao Ji Great Health at $2.5\% \times (1 + \text{VAT rate})$ of net sales of the audited annual financial statements prepared in accordance with China Accounting Standards. According to the Trademark License Agreement signed by the Company and GPLH in 2012 and the Supplemental Agreement to the Trademark License Agreement signed on 28 May 2018, the Company should pay 80% of the trademark license fee which collects during the trademark custody period to GPLH. The term of the license use right is three years, which is from 25 May 2018 to 24 May 2021 (after the expiration of the contract, the two parties may give priority to renewal if there is no objection).

According to the supplemental agreement signed by the Company and Guangzhou Pharmaceutical Group and Wang Laoji Pharmaceuticals on July 28, 2005, after Wang Laoji Pharmaceutical was changed to Foreign Investment Co., Ltd., on or before January 1, 2019, The trademark usage fee is paid at 2.1% of the net sales, and is paid directly to GPLH and the company at 53% and 47% respectively; according to the Supplementary Agreement of the Trademark Escrow Agreement signed on January 17, 2019, from January 1st to December 31st, 2021, the trademark usage fee will be paid at 2.1% of the net sales, and will be paid directly to GPLH and the company at 80% and 20% respectively.

Pursuant to the Confirmation of Asset Delivery for the Transfer of Wang Lao Ji series of trademarks signed by the Company and GPLH on April 30, 2019, the exclusive rights of the "Wang Lao Ji" series of trademarks involved in this transaction (excluding rejected 2 applications for registration of defensive trademarks) has been completed in accordance with the agreement. Since May 1, 2019, the Company has obtained the exclusive right to use the "Wang Lao Ji" series of trademarks.

The Company should receive license fee amounted to RMB270,231 thousand for January to December 2019 (for the year ended 31 December 2018: RMB76,469 thousand) and GPLH should receive RMB96,348 thousand (for the year ended 31 December 2018: RMB155,094 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(8) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (b) The arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, (GPLH is consignor and the Company is consignee), include: (1) during the period of validity of Trusteeship Agreement, consignor shall authorize all the use rights of “Wang Lao Ji” trademark to consignee; (2) during the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee); (4) during the period of validity of Trusteeship Agreement, consignor should pay the company RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) on the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement takes effect, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March (or the lower portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that) as the authorized income for consignor (the basic trusteeship fee of previous year of consignor shall directly deducted from these expenses by consignee). As the confirmed trademark “Wang Lao Ji”, the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement took effect on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties’ negotiation. According to the new license contract, the trademark license fee shall be calculated according to the net sales $\times 2.1\% \times (1 + \text{VAT rate})$ shown in the audited annual financial statements prepared by the trademark licensee using Chinese Accounting Standards; Within the term of this agreement, that is, within the three years from January 1, 2019 to December 31, 2021, the annual limit of the trademark license fee received by the trustee from wanglaoji pharmaceutical shall be RMB50,000, among which the consignor shall receive 80% of the royalty and the consignee shall receive 20% of the royalty.

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark “Wang Lao Ji” and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulation.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(8) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

(b) (Continued)

Pursuant to Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the first Extraordinary General Meeting 2015 of the Company adopted Solution of Guangzhou Pharmaceutical Group Co., Ltd. Revise Trademark of "Wang Lao Ji", GPLH revised the term of contract, which will expire within 2 years from the date of "Red jar decoration" dispute coming into force.

The Company's 18th meeting of the 7th Board of Directors held on 27 December 2018 and 28 March 2019, and the 1st Extraordinary General Meeting of Shareholders in 2019, reviewed and approved the Proposal on the Company's Cash Purchase Trademark Transaction Scheme and Related Agreements and Related Transactions, the proposed agreement to transfer the 420 trademark exclusive rights of the "Wang Lao Ji" series held by the controlling shareholder GPLH (including some trademarks still pending registration); according to the Agreement on the Delivery of Assets for the Transfer of Wang Lao Ji Series of Trademarks signed between the Company and GPLH on April 30th 2019, the above-mentioned "Wang Lao Ji" series trademark exclusive right (excluding the rejected two defensive trademark registration applications) involved in this transaction has been completed in accordance with the agreement. Upon the completion of the agreement, the company obtained the exclusive right to use the "Wang Lao Ji" series of trademarks according to law. Since May 1, 2019, the Company has collected trademark usage fees at a rate of 100%.

- (c) Pursuant to Trademark License Agreement entered into by Xing Qun and the Company on 25 December 2018, Xing Qun is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of designated plant beverage and coke products from 1 January 2019 to 31 December 2019 (both parties otherwise agreed to extend the term if need to). $2.1\% \times (1 + \text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. The Company entered into License Agreement for Chamomile with Xing Qun. License fee (in weak endorsement form) is 0.8% of net sale volume, as audited in annual financial statements according prepared under ASBE. Xing Qun should pay the Company license fee amounted to RMB177 thousand from January to December of 2019. (for the year ended 31 December 2018: RMB664 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(8) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

(c) (Continued)

Based on the arrangement of the Trademark Trusteeship Agreement, Trademark Trusteeship Supplementary Agreement and Confirmation of the delivery of the assets of the "Wang Lao Ji" series of trademarks entered into by GPLH and the Company, Xing Qun should pay the Company the above license fee amounted to RMB177 thousand for the year January to December of 2019 (for the year January to December of 2018: RMB664 thousand), and should totally pay GPLH RMB8 thousand (for the year ended 31 December 2018: RMB531 thousand).

- (d) Pursuant to multiple Trademark License Contracts entered into by Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. and the Company for the period from 2014 to 2017, Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of plant beverages and non-alcoholic beverages. $2.1\% * (1 + \text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. In December 2018, as the License Contract has expired, the Company and He Huang Great Health entered into the contract again, license fee of which is 2.1% prior to 19 June 2018 and 0.8% after 19 June 2018. On 18 December 2018, the Company and He Huang Great Health signed the Confirmation Letter that, for authorized products of which license contract not mature yet, trademark license fee is calculated at $0.8\% * (1 + \text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE. In addition, the Company and He Huang Great Health entered into license Contract for new products (retro style tea product series and lemon tea products) with trademark fee of 0.8%. Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. should pay the Company license fee amounted to RMB1,056 thousand for the year January to December of 2019 (for the year ended 31 December 2018: RMB1,279 thousand).

Based on The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. should pay the Company the above license fee amounted to RMB1,056 thousand for the year January to December of 2019 (For the year January to December of 2018: RMB1,279 thousand), and should totally pay GPLH RMB356 thousand (for the year ended 31 December 2018: RMB1,023 thousand).

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(8) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (e) Pursuant to Trademark License Agreement entered into by Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. and the Company on 6 September 2017, Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of herbal beverages and non-alcoholic beverages from 6 September 2017 to 5 September 2020 (both parties otherwise agreed to extend the term if need to), 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. Trademark License Agreement will expire on 5 September 2020. Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. should pay the Company license fee amounted to RMB1,053 thousand for the year January to December of 2019. (for the year ended 31 December 2018: RMB588 thousand).

Based on the Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. should pay the Company the above license fee amounted to RMB1,053 thousand for the year January to December of 2019 (For the year January to December of 2018: RMB558 thousand), and should totally pay GPLH RMB554 thousand (for the year ended 31 December 2018: RMB446 thousand).

- (f) According to the "Trademark License Agreement" signed by Huacheng Pharmaceutical and the company on April 24, 2019, Huacheng Pharmaceutical can use 5 categories of human drug products from February 01, 2019 to January 31, 2022 No. 13174244 "Baiyunshan" pattern trademark and No. 13637810 "Baiyunshan" text trademark, and the net sales shown in Huacheng Pharmaceutical's audited annual financial statements prepared using Chinese accounting standards $\times 1.2\% \times (1 + \text{VAT rate})$ paid to the company's trademark use fee, when the use period is less than one year, the license fee is paid according to the actual use date. Huacheng Pharmaceutical shall pay the company a license fee of RMB382 thousand from January to December 2019.
- (g) According to the "Trademark License Agreement" signed by Wanglaoji Catering and the company on December 18, 2018, Wanglaoji Catering can use the registered trademark "Wanglaoji" of 32 types 958049, based on the "Trademark Custody Agreement", "Supplementary Agreement of Trademark Custody Agreement" and "Confirmation of Asset Delivery Confirmation of "Wanglaoji" Series of Trademarks" signed by Guangzhou Pharmaceutical Group, from January to December 2019, the Company shall charge Wanglaoji Catering a total of RMB283,000 for the above-mentioned trademark license fees. A total of RMB176 thousand should be paid to Guangzhou Pharmaceutical Group.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties

(1) Receivables

Item	Closing balance		Opening balance	
	Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable:				
Chuangmei Medicines	14,429,259.30	-	4,899,197.22	-
Hua Cheng	106,760.73	-	967,279.69	-
Yi Xin Tang	250,559.98	-	-	-
Total	14,786,580.01	-	5,866,476.91	-
Accounts receivable financing:				
Chuangmei Medicines	70,282,749.32	-	62,879,540.23	-
Yi Xin Tang	3,177,623.26	-	424,149.97	-
Total	73,460,372.58	-	63,303,690.20	-
Accounts receivable:				
GPHL	98,894.00	988.94	3,120.00	31.20
HWBYS	29,844,457.94	298,444.58	45,851,564.23	458,515.64
Baxter Qiao Guang	137,980.00	1,379.80	231,360.00	2,313.60
Chuangmei Medicines	68,141,619.08	681,416.19	106,497,509.92	1,065,173.77
Hua Cheng	38,283,096.08	382,830.96	10,730,644.45	107,306.44
Yi Xin Tang	13,205,593.86	144,509.59	13,405,525.06	137,258.97
Baiyunshan Yi Xin Tang	986,106.19	9,378.02	-	-
Total	150,697,747.15	1,518,948.08	176,719,723.66	1,770,599.62
Advances to suppliers:				
HWBYS	27,069,261.96	-	27,610,685.72	-
Chuangmei Medicines	665.60	-	-	-
Hua Cheng	1,011,904.17	-	8,302.97	-
Total	28,081,831.73	-	27,618,988.69	-
Dividends receivable:				
Nuo Cheng	37,938,523.45	-	37,938,523.45	-
HWBYS	278,767,530.00	-	-	-
Chuangmei Medicines	-	-	2,097,521.02	-
Total	316,706,053.45	-	40,036,044.47	-
Other receivables:				
GPHL	1,724,900.04	-	2,032,085.00	-
Guangzhou South China Medical Instruments Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
HWBYS	2,519,287.00	-	3,950,767.44	-
Baxter Qiao Guang	363,947.16	-	1,279,120.80	-
Hua Cheng	2,345,655.31	-	1,816,800.00	-
Total	7,053,789.51	100,000.00	9,178,773.24	100,000.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties (Continued)

(2) Payables

Item	Closing balance	Opening balance
Notes payable:		
HWBYS	42,351,939.87	37,612,860.00
Baxter Qiao Guang	4,573,709.80	–
Chuangmei Medicines	–	5,000,000.00
Hua Cheng	–	168,218.00
Total	46,925,649.67	42,781,078.00
Accounts payable:		
HWBYS	9,817,750.54	3,285,233.23
Baxter Qiao Guang	4,029,898.92	3,682,927.03
Chuangmei Medicines	1,959,157.13	8,704,951.71
Hua Cheng	16,133,712.70	1,471,492.91
Yi Xin Tang	–	511,970.00
Total	31,940,519.29	17,656,574.88
Contract liabilities:		
HWBYS	4,114,818.73	5,738,465.12
Chuangmei Medicines	35,535,869.27	30,791,568.30
Hua Cheng	19,911.51	141,400.00
Yi Xin Tang	28,471.90	33,801.25
Nuo Cheng	–	150.00
Total	39,699,071.41	36,705,384.67
Other payables:		
GPHL	53,696,080.30	116,611,943.50
HWBYS	11,370,835.00	339,822.35
Chuangmei Medicines	170,000.00	–
Total	65,236,915.30	116,951,765.85
Other current liabilities:		
HWBYS	318,477.83	–
Chuangmei Medicines	4,619,662.99	–
Hua Cheng	2,588.50	–
Yi Xin Tang	1,304.60	–
Total	4,942,033.92	–

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. COMMITMENTS OR CONTINGENCY

1. Significant Commitments

(1) Capital commitments

Item	Closing balance	Opening balance
Signed but not recognized in the financial statement		
– Commitment on purchasing long-term assets	3,631,474,882.45	1,064,737,221.31
– Large amount contract	–	–
– Commitments on external investment	–	–
Total	<u>3,631,474,882.45</u>	<u>1,064,737,221.31</u>

(2) As on 31 December 2019, the Group has no unrecognized commitment related to investment in joint ventures.

(3) Other commitments

① *The Group's share of the capital expenditures commitments of the joint ventures is as follows:*

Item	Closing balance	Opening balance
Buildings, machineries and equipments	–	–
Total	<u>–</u>	<u>–</u>

② *Capital expenditures commitments authorized by the management but are not yet contracted for:*

Item	Closing balance	Opening balance
Buildings, machineries and equipments	1,986,647,470.17	877,784,270.00
Commitments on external investments	320,000,000.00	320,000,000.00
Total	<u>2,306,647,470.17</u>	<u>1,197,784,270.00</u>

③ *Fulfillment of commitments for the prior year*

The Group has fulfilled the capital expenditures and operating lease commitments as on 31 December 2019.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. COMMITMENTS OR CONTINGENCY *(Continued)*

2. Contingencies

(1) Jin Ge income distribution did not reach an agreement

In December 2001, Baiyunshan Pharmaceutical General Factory, Pharmaceutical Science and Technology Company and other units signed the "Agreement", stipulating that the new drug declaration (sildenafil citrate) change reporting unit is Baiyunshan Pharmaceutical General Factory, Baiyunshan Technology Company, It is determined that Baiyunshan Pharmaceutical General Factory is a production unit, and Baiyunshan Science and Technology Company owns all the property rights and benefits of applying for new drugs. In 2003, Baiyunshan Pharmaceutical General Factory and Baiyunshan Science and Technology Company obtained the new drug certificate. Due to the influence of the patent protection period of the original research drug, Baiyunshan Pharmaceutical General Factory failed to obtain the production approval and was not actually put into production.

In 2012, Baiyunshan Pharmaceutical Factory restarted the registration of the production of sildenafil citrate tablets. After investing a lot of manpower and resources, Baiyunshan Pharmaceutical Factory and Guangzhou Baiyunshan Pharmaceutical Group Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (" Baiyunshan Chemical Pharmaceutical Factory" obtained the production batch of sildenafil citrate tablets and the production batch of raw materials in July 2014 and August 2014 respectively.

After obtaining the production approval of sildenafil citrate tablet, Baiyunshan Pharmaceutical Factory obtained several patents such as Jin Ge pink tablets (BYS) and sildenafil citrate raw materials. The trademark "Jin Ge" registered by Baiyunshan Pharmaceutical General Factory was approved as the drug product name, and the "Jin Ge" trademark was exclusively owned by the company. At the first shareholder meeting and the fifth board meeting of Baiyunshan Technology Co., Ltd. in 2015, Beijing Kangyeyuan proposed to sell the Baiyunshan Pharmaceutical General Factory in order not to affect the marketing of the products. Regarding the issue of Jin Ge's rights and interests, between the shareholders of the two sides, Baiyunshan Technology Co., Ltd. and Baiyunshan Pharmaceutical General Factory need to discuss and finalize. Baiyunshan Pharmaceutical Factory has carried out a large amount of market research, marketing planning, channel investment and brand building work for Jin Ge's sales. Jin Ge has achieved good sales performance since its listing.

Affected by changes in the patent protection period of the original research drug and the actual cooperation mode between the two parties, in view of the different contributions of the parties in the process of research and development, production and operation of King Ge, in order to safeguard the interests of all parties, avoid the impact of income distribution disputes on Jin Ge's good development trend, the representatives of the two shareholders have conducted many consultations on Jin Ge's property rights and benefits, but the two sides have not been able to reach an agreement.

In terms of related income distribution, Baiyunshan Pharmaceutical General Factory has reasonably estimated the company's due income based on the contribution of Baiyunshan Technology Co., Ltd. to Jin Ge, and made corresponding provisions, but the shareholders of both parties have not yet reached the income distribution. Consensus, the company is temporarily unable to calculate the specific impact of the company's current or future profits.

(2) Please refer to Note XIII (11) ① for contingencies related to litigation.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XII. EVENTS AFTER THE BALANCE SHEET DATE

At the beginning of 2020, the outbreak of new coronavirus pneumonia (“outbreak”) was widely spread across the country, which brought more uncertainty to the Group’s production and operation. The degree of impact depends on the progress and duration of the epidemic prevention and control. And the implementation of local prevention and control policies. The Group will continue to pay attention to the development of the epidemic situation, evaluate and actively respond to its impact on the financial status and operating results of the Group.

XIII. OTHER SIGNIFICANT MATTERS

1. Lease

(1) Rental information

① Operating lease

Item	Amount
	Amount
① Income situation	
Rental income	66,366,340.77
Revenue related to variable lease payments not included in lease receipts	—
② Undiscounted lease receipts to be received each year for five consecutive fiscal years after the balance sheet date	—
The First year	56,848,664.90
The Second year	46,928,838.58
The Third year	32,477,734.09
The Fourth year	23,566,685.22
The Fifth year	19,567,960.56
③ Total undiscounted lease payments to be received for the remaining years	<u>28,495,423.52</u>

(2) Lease situation

① Tenant Information Disclosure

Item	Amount
Short-term lease expenses included in the current profit and loss	42,819,378.96
Lease fees for low-value assets	3,560,051.00
Variable lease payments not included in lease liability measurement	216,996.94
Income from sublease of right-of-use assets	893,707.50
Total lease-related cash outflows	238,332,952.67
Related profit or loss from sale and leaseback transactions	—
Others	<u>—</u>

Information about the right-of-use asset can be found in Note V. (16), and interest expenses on lease liabilities can be found in Note V. (50)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

2. Debt restructuring

no

3. Asset replacement

(1) Non-monetary asset exchange

no

(2) Other asset replacement

no

4. Annuity plan

no

5. Termination of operations

no

6. Information of Segments

(1) Recognition Basis and Accounting Policies for Reporting Segments

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, including "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care". According to the requirements of regulatory laws, regulations and company management, four major sectors are identified as operating segments. As the business scale of "Great Medical Care" is lower than 10%, this segment is temporarily listed in "Others" column. Segment information is as follows:

- Great Southern TCM segment: research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- Great Health segment: research, development, manufacturing and sales for the products of Great Health;
- Great Commerce segment: wholesale, retail, import and export for Western medicine, Chinese medicine and Medical Instruments.

Price transfer between segments is carried out in accordance with the price policy of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

6. Information of Segments (Continued)

(2) Reporting financial Information of Segments

① The segment information for the twelve months ended 31 December 2019 and as of 31 December 2019 is as follows:

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	11,788,694,609.13	10,488,887,951.58	42,503,885,023.52	170,310,057.60	-	64,951,777,641.83
Inter-segment revenue	293,521,980.08	74,311,673.93	7,916,739,714.81	367,150,887.49	(8,651,724,256.31)	-
Interest income	(89,480,004.08)	(113,187,581.37)	(26,078,489.89)	(75,250,541.30)	779,716.98	(303,216,899.66)
Interest expenses	24,874,956.90	2,254,461.93	453,983,134.78	32,783,381.65	(120,012,660.57)	393,883,274.69
Income from investments in associates and joint ventures	24,807,697.71	2,550.77	2,260,246.44	117,645,446.69	(229,791.13)	144,486,150.48
Impairment losses in respect of assets	1,637,288.43	1,239.82	(108,769,262.92)	(3,269,260.57)	366,217.39	(110,033,777.85)
Impairment losses in respect of credit	1,374,644.02	-	(10,322,709.47)	(500,000.00)	(2,037,338.41)	(11,485,403.86)
Depreciation and amortization expenses	276,648,040.66	42,128,443.56	333,027,739.02	33,422,733.18	(59,618,593.03)	625,608,363.39
Total profit	1,476,440,835.43	1,652,377,164.10	507,820,823.35	1,091,716,838.73	(599,822,189.00)	4,128,533,472.61
Total assets	13,617,263,984.14	11,559,245,317.93	27,909,137,809.70	20,859,483,056.03	(17,051,471,041.60)	56,893,659,126.20
Total liabilities	7,357,860,154.04	6,434,061,417.99	22,593,101,212.71	2,796,378,305.26	(8,277,228,911.99)	30,904,172,178.01
Long-term equity investment in associates and joint ventures	301,068,028.49	-	65,423,790.37	1,232,533,373.55	-	1,599,025,192.41
Increase in other non-current assets excluding long-term equity investment	355,011,321.12	128,949,114.99	503,350,933.97	1,592,142,742.37	-	2,579,454,112.45

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

6. Information of Segments (Continued)

(2) Reporting financial Information of Segments

② The segment information for the twelve months ended 31 December 2018 and as of 31 December 2018 is as follows:

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	9,796,024,948.68	9,492,904,408.94	22,811,449,928.90	133,458,764.60	-	42,233,838,051.12
Inter-segment revenue	144,351,843.81	33,647,788.65	7,310,785,592.07	242,413,790.42	(7,731,199,014.95)	-
Interest income	(54,532,656.59)	(96,941,364.91)	(18,459,600.71)	(94,846,307.77)	2,776,886.80	(262,003,043.18)
Interest expenses	17,455,028.42	-	264,232,320.54	24,294,787.91	(83,181,206.61)	222,800,930.26
Income from investments in associates and joint ventures	85,838,488.29	755,108.60	2,166,026.75	240,749,192.94	(12,312,209.74)	317,196,606.84
Impairment losses in respect of assets	(2,958,625.66)	292,637.27	(31,274,555.15)	(8,423,529.03)	3,037,233.34	(39,326,839.23)
Impairment losses in respect of credit	(35,358,983.53)	-	(26,552,905.79)	-	(118,275,499.68)	(180,187,389.00)
Depreciation and amortization expenses	222,464,191.81	42,282,814.77	147,687,704.53	27,985,379.02	(144,105.00)	440,275,985.13
Total profit	1,384,538,275.78	852,020,464.44	254,159,649.94	1,398,199,922.59	129,811,942.87	4,018,730,255.62
Total assets	11,583,817,470.30	9,419,956,280.11	24,868,693,118.24	20,624,199,398.47	(15,014,482,397.64)	51,482,183,869.48
Total liabilities	6,887,053,492.19	5,896,869,489.81	20,476,717,007.50	2,871,177,504.92	(7,793,366,378.94)	28,338,451,115.48
Long-term equity investment in associates and joint ventures	276,421,358.40	-	62,991,964.68	1,420,544,712.31	-	1,759,958,035.39
Increase in other non-current assets excluding long-term equity investment	413,426,962.68	488,603,396.02	1,852,610,818.57	78,551,367.54	-	2,833,192,544.81

③ The Group's total revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

Item	Current period	Previous period
External revenue:		
PRC	64,918,017,689.88	42,189,829,224.25
Other countries/regions	33,759,951.95	44,008,826.87
Total	64,951,777,641.83	42,233,838,051.12

(cont.)

Item	Closing balance	Opening balance
Total non-current assets:		
PRC	10,135,780,517.31	8,120,762,664.12
Other countries/regions	16,697,391.35	18,298,592.95
Total	10,152,477,908.66	8,139,061,257.07

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

7. Auditor's remuneration

Auditor's remuneration

Total

Current year

2,518,867.92

Previous year

2,425,786.50

8. Remuneration of directors, supervisors and employees

The remuneration of each director and supervisor during the year is as follows:

Name	Director/ Supervisor remuneration	Wages and subsidies	Contributions to pension plans	Bonus	Onboarding bonus	Termination Compensation	Others	Total
Director name								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao (note:1)	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Chen Ning	-	-	-	-	-	-	-	-
Ni Yidong (note:2)	-	-	-	-	-	-	-	-
Li Hong	-	428,050.00	83,967.00	832,877.00	-	-	-	1,344,894.00
Wu Changhai	-	413,050.00	83,967.00	812,165.00	-	-	-	1,309,182.00
Zhang Chunbo (note:3)	-	209,737.00	37,068.00	537,496.00	-	-	-	784,301.00
Huang Xianrong	100,000.00	-	-	-	-	-	-	100,000.00
Wang Weihong	100,000.00	-	-	-	-	-	-	100,000.00
Chu Xiaoping	100,000.00	-	-	-	-	-	-	100,000.00
Jiang Wenqi	100,000.00	-	-	-	-	-	-	100,000.00
Supervisor name								
Xian Jiaxiong (note:6)	-	-	-	-	-	-	-	-
Li Jinyun (note:4)	-	-	-	-	-	-	-	-
Gao Yanzhu	-	252,763.00	67,743.00	645,652.00	-	-	-	966,158.00
Cai Ruiyu (note:5)	-	81,123.00	18,534.00	298,868.00	-	-	-	398,525.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

8. Remuneration of directors, supervisors and employees

The remuneration of each director and supervisor during the previous year is as follows:

Name	Director/ Supervisor remuneration	Wages and subsidies	Contributions to pension plans	Bonus	Onboarding bonus	Termination Compensation	Others	Total
Director name								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Chen Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Li Hong	-	382,038.00	107,030.00	579,606.50	-	-	25,778.00	1,094,452.50
Wu Changhai	-	370,098.00	82,046.00	678,244.00	-	-	25,778.00	1,156,166.00
Huang Xianrong	100,000.00	-	-	-	-	-	-	100,000.00
Wang Weihong	100,000.00	-	-	-	-	-	-	100,000.00
Chu Xiaoping	100,000.00	-	-	-	-	-	-	100,000.00
Jiang Wenqi	100,000.00	-	-	-	-	-	-	100,000.00
Supervisor name								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Li Jinyun	-	-	-	-	-	-	-	-
Gao Yanzhu	-	236,664.00	65,414.00	236,429.00	-	-	17,750.00	556,257.00

Note:

- (1) Chen Mao applied for resignation of the company's vice chairperson on May 31, 2019 for personal reasons.
- (2) Ni Yidong resigned as director of the Company on October 22, 2019 due to work reasons.
- (3) On June 22, 2019, Mr. Zhang Chunbo was elected as the executive director of the seventh session of the board of directors of the company. Term of office begins from June 22 2019 to the date of election of new members of the board of directors.
- (4) Li Jinyun resigned as a supervisor of the Company on September 23, 2019 due to work reasons.
- (5) On June 22, 2019, Mr. Cai Ruiyu was elected as the supervisor of the seventh session of the board of directors of the company. Term of office begins from June 22 2019 to the date of election of new members of the board of directors.
- (6) The board of supervisors of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") received a written resignation submitted by the chairperson of the board of supervisors of the company, Mr. Xian Jiaxiong. Mr. Xian Jiaxiong applied to the Board of Supervisors for resignation of the company's Supervisor and Chairperson of the Board of Supervisors due to reaching the legal retirement age

In view of the resignation of Mr. Xian Jiaxiong, the number of members of the Supervisory Committee of the Company is less than three. According to the Company Law, the Articles of Association and other relevant regulations, his resignation will take effect from the date of election of new supervisors at the shareholders meeting of the Company. Until new by-elections are generated in the by-election, Mr. Xian Jiaxiong will continue to perform the duties of supervisor and chairperson of the board of supervisors. The Company will elect new supervisors in accordance with relevant procedures as soon as possible. Mr. Xian Jiaxiong has confirmed that he has no disagreement with the Supervisory Committee of the Company, and there are no matters that need to be brought to the attention of the shareholders of the Company. (Announcement time: November 18, 2019)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

8. Remuneration of directors, supervisors and employees (Continued)

In addition to the remuneration of directors and supervisors disclosed above, Chairperson Li Chuyuan, Vice Chairperson Chen Mao, Director Liu Juyan, Cheng Ning, Ni Yidong, Chairperson of the Board of Supervisors, Xian Jiexiong, and Supervisor Li Jinyun received remuneration of RMB1,411,031.00, RMB876,740.00, 1,278,393.00, RMB1,270,249.00, RMB1,166,753.00, RMB1,299,252.00, RMB897,798.00 from the holding shareholders of the Company respectively (2018: Chairperson Li Chuyuan, Vice Chairperson Chen Mao, Director Liu Juyan, Cheng Ning, Ni Yidong and Chairperson of the Supervisory Board Xian Jiexiong, Supervisor Li Jinyun received respectively remuneration of RMB1,014,199.00, RMB968,743.00, RMB990,249.00, RMB970,539.00, RMB953,100.00, RMB998,469.00, and RMB968,313.00 from the company's holding shareholders). Part of this is as compensation for the labor services provided to the Group. In the opinion of the directors, it is difficult to allocate the amount to the services provided to the Group and the services provided to the company's holding company and jointly controlled entities, and therefore they did not apportion the remuneration.

9. Top 5 highest paid

The top five highest paid of the Group in 2019 included one director (2018: one director). The total amount of salary paid to the other 4 (2018: 1) this year is shown below:

Item	2019	2018
Salary and subsidies	1,564,440.00	1,416,781.00
Contributions to pension plans	204,472.00	206,904.00
Bonus	3,895,605.00	3,233,455.00
Others	800.00	23,367.00
Total	5,665,317.00	4,880,507.00

Range of remuneration	Number of persons	
	2019	2018
0-1,000,000	0	0
Above 1,000,000	4	4

10. Other significant transactions and events that affect investor decisions

No

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters

(1) Litigations

① *litigations of the Group*

On October 22, 2019, the Group filed a litigation against Guangzhou Kangyeyuan Investment Consulting Co., Ltd. with the Guangzhou Internet Court for infringement of reputational rights on the Internet, involving an amount of RMB10,135,700.00. On November 11, 2019, Beijing Kangyeyuan Investment Consulting Co., Ltd. filed a jurisdiction objection to the Guangzhou Internet Court, and was rejected on November 19, 2019. Beijing Kangyeyuan Investment Consulting Co., Ltd. appealed to Guangzhou Intermediate People's Court within the time limit. On January 21, 2020, Guangzhou Intermediate People's Court ruled that Beijing Kangyeyuan Investment Consulting Co., Ltd.'s jurisdictional objection was rejected. Currently scheduled for trial on April 3, 2020.

② *Litigations of the Group's Subsidiary A*

- (a) Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. filed a claim with the Court on the unreceived payment of RMB36,880 thousand against the Group's Subsidiary A on 5 February 2015, and claimed compensation for the due payment and the overdue interest.

Pursuant to the Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District on 14 March 2016, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed.

On 23 March 2016, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.10682 issued by the Intermediate People's Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District was quashed, and the case was referred to the People's Court of Guangzhou Yuexiu District.

On 5 February, 2018, the People's Court of Guangzhou Yuexiu District rendered a judgment of the first instance that: lacking sufficient fact and without merit, the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd., which seeks for compensation from Subsidiary A, were dismissed by the Court because Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. failed to present evidence to prove that the goods involved had been delivered to Subsidiary A. Hence, Subsidiary A had no need to pay the due payment and the overdue interest mentioned in the above case.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

② *Litigations of the Group's Subsidiary A (Continued)*

(a) (Continued)

On 12 March 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal against the case. On August 30, 2018, the second trial was held in the Intermediate People's Court of Guangzhou. On November 6, 2018, the Intermediate People's Court of Guangzhou made a Paper of Civil Judgment numbered 2018 Yue01MinZhong No.12715, and decided that the appeal of Guangdong Guangsheng Nonferrous Metals Group Co., Ltd. was not established. The appeal was dismissed, and the original judgment was upheld.

On January 4, 2019, Guangdong Guang Sheng Nonferrous Metals Group co., LTD. filed a claim against Subsidiary A to Guangzhou Tianhe district people's court, the request for informal lending dispute case ordered Subsidiary A together with five other defendants to repay the principal and RMB36 million from the date of payments to the actual repayment date, according to the annual interest rate to pay capital takes up 6% of the interest during the period of RMB9,060,000.00.

On February 18, 2019, Subsidiary A submitted the Application for Extension of Evidence and Application for Jurisdiction Objection to the Tianhe District People's Court of Guangzhou City. On March 8, 2019, Subsidiary A submitted to the court the "Report on Requesting Public Security Authorities to File and Investigate Cases Related to (2018) Yue 0106 Minchu No. 23672 and (2018) Yue 0106 Minchu No. 29792", and asked the court to transfer it to the Public Security Authorities. On April 30, 2019, the people's court of Tianhe district of Guangzhou issued a civil order (2018) no. 29792 of the early days of the People's Republic of Guangdong 0106, and ruled to dismiss the objection to the jurisdiction of Subsidiary A.

On May 5, 2019, Subsidiary A submitted the petition of objection to jurisdiction to the people's court of Tianhe district, Guangzhou. In view of the jurisdiction objection raised by Subsidiary A, the court date of this case has been rescheduled and has not been determined.

On February 11, 2020, Subsidiary A received a "subpoena" from the Guangzhou Tianhe District People's Court. The case will be heard on April 27, 2020 in the Twelfth Court of the Tianhe District Court.

As of the reporting date, the above cases are still under trial. Based on full reference to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case and considered that it was unlikely that Subsidiary A would lose the case in this case and cause direct economic losses.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

② Litigations of the Group's Subsidiary A (Continued)

- (b) Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. filed a claim against Subsidiary A for the unreceived payment of RMB18,440 thousand on 4 February 2015, and required Subsidiary A to pay the due payment and the overdue interest.

Pursuant to Paper of Civil Judgment numbered (2015) SuiLiFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. has lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.3446 issued by the Intermediate Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

On 27 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. were dismissed.

On 10 January 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. On 9 May 2018, the meeting was held at the Intermediate People's Court of Guangzhou. The judgment made by the Intermediate People's Court of Guangzhou on 27 August on the second trial of the re-examination of the Guangsheng case, case number: (2018) Yue01MinZhong No.6503, dismissed the appeal of Guangsheng and upheld the original judgment. On 21 September 2018, the Intermediate People's Court of Guangzhou issued a Proof for the effectuation of the judgment.

On September 6, 2018, Guangdong Guangsheng Nonferrous Metals Group Co., Ltd. sued Subsidiary A to the People's Court of Tianhe District, Guangzhou City in a private loan dispute, and requested that Subsidiary A and the other five defendants jointly repay the principal of RMB18 million to it from the date of overdue repayment to the date of actual repayment, the interest during the capital occupation period was paid at the rate of 6% per annum of RMB4,216,500.00.

On December 18, 2018, the first trial of this case was held in the People's Court of Tianhe District, Guangzhou. On March 5, 2019, the case was heard in the first instance at the Tianhe District People's Court in Guangzhou. On June 24, 2019, the case was held for the second time in the first instance at the Tianhe District People's Court in Guangzhou.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

② *Litigations of the Group's Subsidiary A (Continued)*

(b) (Continued)

On October 22, 2019, the Tianhe District People's Court of Guangzhou issued the "(2018) Yue 0106 Min Chu 23672 Civil Judgment", deciding the defendants Chen Xijiang, Guangzhou Tengtai Fuel Chemical Co., Ltd., and Dongguan Hualian Road Asphalt Limited The company, Subsidiary A, Liu Xianghong repaid the borrower's principal of RMB18,800,000 and its interest to the plaintiff Guangsheng Metal Company, and at the same time they shared the total case acceptance fee and security fee of RMB157,780.00.

On November 7, 2019, Subsidiary A submitted the Civil Appeal to Tianhe Court. On March 3, 2020, Subsidiary A received the "Notice of Accepting Appeal Cases" and "Subpoena" from the Guangzhou Intermediate People's Court. The second trial of this case will be held in the 82nd court of the Guangzhou Intermediate People's Court on May 7, 2020 for court inquiry.

As of the reporting date, the above cases are still under trial. On the basis of full reference to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case and believed that Subsidiary A lost the case in this case and caused direct economic losses of approximately RMB6 million, with a provision of RMB6 million.

(c) Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a claim with the Court on the unreceived payment of RMB47,400 thousand against the Group's Subsidiary A on 25 December 2014, and seek for freezing the bank accounts of Subsidiary A, and required Subsidiary A to pay the due payment and the overdue interest.

Pursuant to Paper of Civil Judgment numbered (2015) SuiLiFaMinErChuZi No.454-1 to No.468-1 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was dismissed, and the case was transferred to public security organization to handle as criminal case. Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal to the Intermediate People's Court of Guangzhou.

Pursuant to a total of 15 Paper of Civil Judgments numbered (2016) Yue01MinZhong No.3437 to No. 3445, No.5158 to No. 5163 issued by the Intermediate Court of Guangzhou on 16 December 2016, a total of 15 Paper of Civil Judgments numbered (2015) SuiLiFaMinErChuZi No.454-1 to No. 468-1 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

On 22 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Investment Group Energy Co., Ltd. were dismissed.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

② Litigations of the Group's Subsidiary A (Continued)

(c) (Continued)

On 4 January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. The second instance review of the case was tried at the Intermediate People's Court of Guangzhou on 9 May 2018 and a court order was to be made.

On 27 August 2018, the Intermediate People's Court of Guangzhou finalized the judgment, Guangdong Guangsheng Investment Group Energy Co., Ltd. could not prove that it had delivered the goods involved to Subsidiary A. The appeal was finally dismissed, and the original judgment was upheld considering the fact that a sales contract between the two parties existed and the goods had been delivered so that Subsidiary A had to pay in lack of evidence.

On October 15, 2019, Guangdong Guangsheng Investment Group Energy Co., Ltd. filed two lawsuits in Haizhu Court on the basis of a dispute over a loan contract, suing Chen Xijiang, Guangzhou Suntech Fuel Chemical Co., Ltd., Subsidiary A, Ni Li He and Peng Beizhan a total of five defendants, and the total amount involved was RMB49,654,400.00.

On February 24, 2020, Subsidiary A received the "subpoena" and "Notice of Response" from the Haizhu District People's Court of Guangzhou City. The case will be heard on May 12, 2020, in the A603 of 30th court of the Haizhu District Court.

As of the reporting date, the above cases are still under trial. With full reference to the professional opinions of outside lawyers, the management of Subsidiary A evaluated the case. For the account receivables of Guangzhou Defengxing Petrochemical Co., Ltd. and accounts receivable Guangzhou Tengtai Fuel Chemical Co., Ltd., the provision for bad debts is made at a rate of 10.00%. For the actual funds paid, including other accounts receivable of Guangzhou Defenghang Petrochemical Co., Ltd. of RMB10,315.70 thousand, and accounts receivable of Zhongyou Jieneng (Zhuhai) Petrochemical Co., Ltd. of RMB10,541.8 thousand, a single provision for bad debts was made and accrued. The ratio is 100.00%.

(d) On November 11, 2014, Guangzhou Linhai trading industry co., Ltd. sued to the court on the grounds that Subsidiary A of the group did not pay RMB8,364.9 thousand in accordance with the contract, requiring Subsidiary A to pay the due payment and overdue interest.

On December 30, 2015, Guangzhou Liwan district people's court issued (2014) civil judgment no. 2424, 2425-4 of Guangzhou Liwan district people's court, and ordered Subsidiary A to pay due goods payment and overdue interest to Guangzhou Linhai trading industry co., Ltd.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

② Litigations of the Group's Subsidiary A (Continued)

(d) (Continued)

On January 25, 2016, Subsidiary A appealed to Guangzhou Intermediate People's Court.

On December 21, 2016, the intermediate people's court of Guangzhou issued the civil judgment on (2016) no. 7733 and 7734 of Guangdong 01 minzhong district, and decided to revoke the civil judgment no. 2424 and 2425 of Guangzhou liwan district people's court (2014). And rejected the appellee Guangzhou Linhai trade industrial co., LTD.

On August 28, 2017, Guangzhou Linhai Trade Industrial Co., Ltd. submitted an application for retrial to the Guangdong Higher People's Court.

On November, 2017, the higher people's court of Guangdong province issued (2017) yuemin shen 6100 civil order, rejecting the retrial application of Guangzhou Linhai trade industry co., LTD.

On March 15, 2018, Subsidiary A received from Guangzhou city people's procuratorate issued check KongShen accused people are subject to supervision by (2018) no. 357 of the civil case acceptance notice, content at Guangzhou Linhai trade industrial co., LTD. With Subsidiary A business contract dispute case, leads to the Guangzhou intermediate people's court (2016), Guangdong people throughout 7733, 01 civil referee no. 7734 as a result, apply to the Guangzhou municipal people's procuratorate for supervision. The procuratorate has accepted the case.

On July 13, 2018, Subsidiary A received Guangzhou municipal people's procuratorate of Guangzhou check people (rows) (2018) 44010000 573, Guangzhou check people(rows) supervisor (2018) 44010000 574 which shows not support supervision application decision, decision according to the rules of the people's procuratorate civil litigation supervision (try out), the provisions of article ninety of the people's procuratorate decides not to support the supervision application of Guangzhou Linhai trade industrial co., Ltd.

On May 17, 2019, Guangzhou Linhai trading industry co., ltd. filed two lawsuits respectively with the people's court of Nansha district, Guangzhou regarding the above matters on the basis of two contracts, requesting to order subsidiary A and another defendant Hainan Lanhui new energy development co., ltd. to pay off the loan, interest, overdue interest and overdue repayment loss.

In one case, the loan amount was RMB4,031,300, the loss of overdue repayment was RMB228,900.00, the interest was RMB121,000.00, and the overdue interest was RMB3,764,000.00.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

② *Litigations of the Group's Subsidiary A (Continued)*

(d) (Continued)

In the other case, the loan amount is RMB4,031,300.00, the loss of overdue repayment is RMB228,900.00, the interest is RMB181,500.00, and the overdue interest is RMB3,756,000.00.

On June 17, 2019, Subsidiary A filed two jurisdictional objections to the people's court of Nansha district, Guangzhou. On July 9, 2019, the people's court of Nansha district of Guangzhou issued A civil order {(2019) no. 3946 of Guangdong 0115 People's Republic of China and (2019) no. 3947 of Guangdong 0115 People's Republic of China}, and ruled to reject the objection of jurisdiction raised by Subsidiary A.

On July 18, 2019, Subsidiary A submitted the petition of objection to jurisdiction to the people's court of Nansha district, Guangzhou. In view of the jurisdiction objection raised by subsidiary A, the court date of this case has been rescheduled and has not been determined.

On December 24, 2019, Subsidiary A submitted the Evidence One and Evidence Two Lists to the Nansha District People's Court in Guangzhou. On December 26, 2019, Subsidiary A sent the "Additional Defendant Application" to the Nansha District People's Court of Guangzhou City, asking the court to add Guangzhou Yongzheng Energy Technology Development Co., Ltd. as the defendant in this case.

The case has been heard for the first time on January 20, 2020, in the eighth court of the Nansha District People's Court, Guangzhou. On February 18, 2020, Subsidiary A received the "Subpoena", "Application for Change of Litigation Request" and "Notification of Re-appointment of Evidence Period" of the Nansha District People's Court of Guangzhou City. The second trial of the case will be held on May 8, 2020 in the eighth court of the Nansha District Court.

As of the reporting date, the above cases are still under trial. On the basis of full reference to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case and considered that it was unlikely that Subsidiary A would lose the case in this case and cause direct economic losses.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

③ Other litigation of the Group's Subsidiary A

On March 26, 2019, subsidiary A filed a lawsuit against Fujian Boswell medical polymer co., Ltd. in Liwan district people's court of Guangzhou for contract dispute, requiring the defendant to return the payment of RMB11,185.5 thousand and the overdue liquidated damages of about RMB1,657 thousand to Subsidiary A, totaling about RMB13,512 thousand.

On April 1, 2019, Subsidiary A applied for property preservation to the Liwan District People's Court in Guangzhou. On June 3, 2019, Subsidiary A received the "(2019) Yue 0103 Minchu No. 2801 Civil Ruling Letter" and "(2019) Yue 0103 Licence No. 250 Property Security Notice" issued by the Guangzhou Liwan District People's Court., ruled that the bank account of Fujian Bestway Medical Polymer Co., Ltd. (funds: RMB650 thousand) and its 100.00% equity interest in Fuzhou Kanglite Medical Devices Co., Ltd. were frozen.

On May 22, 2019, Fujian Bestwell Medical Polymer Co., Ltd. filed a jurisdiction objection to the Liwan District People's Court in Guangzhou. On June 5, 2019, Subsidiary A received the "Civil Ruling of (2019) Yue 0103 Minchu No. 2801" issued by the Liwan District People's Court of Guangzhou City, which rejected the Fujian Bestway Medical Polymer Co., Ltd. Jurisdiction raised. On July 25, 2019, Fujian Bestway Medical Polymer Co., Ltd. filed an appeal of jurisdictional objection to Guangzhou Intermediate People's Court.

On August 26, 2019, Guangzhou Intermediate People's Court issued a (2019) Yue 01 Min Juan No. 1796 civil ruling, which ruled that the case was transferred to the People's Court of Taijiang District, Fuzhou City, Fujian Province for trial.

On November 7, 2019, Subsidiary A received a "subpoena" from the Taijiang District People's Court of Fuzhou City, and the case will be heard on November 28, 2019 in the seventh court of the Taijiang District People's Court of Fuzhou City. On November 12, 2019, Subsidiary A submitted the "Application for Withdrawal" to the Taijiang People's Court in Fuzhou. On November 18, 2019, Subsidiary A received the (2019) Min 0103 Minchu No. 4329 Civil Ruling Letter issued by the People's Court of Taijiang District, Fuzhou City, and ruled that Subsidiary A was allowed to withdraw its lawsuit.

On January 14, 2020, Subsidiary A sued Fujian Bestway Medical Polymer Co., Ltd. to the Liwan District People's Court of Guangzhou City for a dispute over the sales contract.

On February 26, 2020, Subsidiary A received the "(2020) Yue 0103 Minchu 1684 Civil Ruling Letter" issued by the Liwan District People's Court of Guangzhou. The Liwan District People's Court of Guangzhou concluded that it had no jurisdiction over the case. The ruling was rejected. On March 2, 2020, Subsidiary A submitted the "Civil Appeal" to the Liwan District People's Court in Guangzhou.

According to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case with the principle of prudence, Subsidiary A made a provision for the inventory price of the Bestway project inventory of RMB5,680 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

④ Litigation against the Group's Subsidiary G

- (a) On 27 December 2016, Guangzhou Keyun branch of Ping'an Bank Co., Ltd. filed a claim for the unreceived repayment from Guangdong Huaqiang Pharmaceutical Co., Ltd. (hereinafter referred to as "Huaqiang") of the loan obtained from a transfer of accounts receivable to the Group's Subsidiary G, against Huaqiang, and several guarantors, and Subsidiary G which is the debtor of the accounts receivable.

During the period from April to June of 2014, Huaqiang obtained the loan through transferring the accounts receivable due from Subsidiary G to Ping'an Bank without notifying Subsidiary G. Subsidiary G was the debtor of the accounts receivable but was not aware of the transfer and has paid the involved payments for goods of RMB66,340 thousand to Huaqiang. Ping'an Bank alleged that Subsidiary G should repay payments for goods because Huaqiang did not repay the loan in time. On 10 August 2018, the case is tried at the Intermediate People's Court of Guangzhou.

On 29 December 2018, the first-instance judgment was received. The court of first instance dismissed all the claims of Ping'an Bank Co., Ltd. Guangzhou Branch Yun Branch to the Subsidiary G. After preliminary confirmation with the Intermediate People's Court of Guangzhou, no appeal was received from Ping'an Bank as of 28 February 2019.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G considered that the Subsidiary G was not responsible for the liabilities of the supplier to the bank. Therefore, no provision had been recognized.

⑤ Litigation of the Group's Subsidiary G

- (a) On July 24, 2015, the subsidiary G of the group filed a complaint against Hubei Hongqiao pharmaceutical co., LTD. (hereinafter referred to as "Hubei Hongqiao") to Wuhan intermediate people's court for payment of RMB27,725.1 thousand in arrears, requiring it to pay a total of RMB37,124.8 thousand in payment for goods, interest owed and liquidated damages, and implementing property preservation before the lawsuit.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

⑤ *Litigation of the Group's Subsidiary G (Continued)*

(a) (Continued)

On January 24, 2017, Wuhan intermediate people's court made a first-instance judgment on the case, ordering Hubei Hongqiao to pay a total of RMB27,725.1 thousand in arrears to Subsidiary G as of the effective date of the judgment, as well as liquidated damages and interest loss of part of the payment (counting to the date of actual repayment of the arrears). The judgment has taken effect, and the defendant has not fulfilled the court's judgment. Subsidiary G has entrusted local lawyers to submit materials to the court for enforcement. In this case, pre-litigation property preservation measures have been taken before the prosecution to seal up and freeze the land use right and bank account under the name of Hubei Hongqiao. Up to now, the preserved property is still in the effective sealing and freezing state. The court has commissioned an appraisal agency to evaluate the property. In March 2018, the court informed that the evaluation report had been sent to Hongqiao, Hubei, and the court organized an auction. The auction was successful in October 2018. Next, the court will verify the rights and interests in accordance with relevant laws and draw up the distribution plan of auction money. In May 2019, Subsidiary G received the first execution payment of RMB4 million distributed by the court. In July 2019, the remaining execution funds deducted by the court were RMB7,342.1 thousand.

The management of Subsidiary G evaluated the case and combined with the opinions of external lawyers, reviewed the above-mentioned recovery of the execution money, and after deducting the costs related to the lawsuit, written off the relevant accounts receivable and its bad debt provisions, and for the remaining uncollected, the management has made a full provision for bad debts.

- (b) On 5 April 2017, the Group's Subsidiary G filed a claim against Guangxi Liuzhou Baicaotang Pharmaceutical Co., Ltd. (hereinafter referred to as "Liuzhou Baicaotang") for defaults on the payment for goods with an amount of RMB14,443.5 thousand with the People's Court of Guangzhou Liwan District, requesting Liuzhou Baicaotang to pay the due payment and the overdue interest.

On 24 July 2018, the People's Court of Guangzhou Liwan District made a first-instance judgment and sentenced Liuzhou Baicaotang to pay the Subsidiary G a payment of RMB14,443.5 thousand and the overdue interest which is charged on the payment at a rate of five ten thousandth per day since 1 January 2018 (calculated to the date of actual settlement of the arrears), and compensate Subsidiary G's lawyer fee of RMB416 thousand and return the appraisal fee of RMB44.8 thousand which Subsidiary G had paid within 10 days from the effective date of the judgment.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑤ Litigation of the Group's Subsidiary G (Continued)

(b) (Continued)

In this case, the pre-litigation property preservation measures were taken before the prosecution, and the property rights and bank accounts of Liuzhou Baicaotang were sealed up and frozen. Up to now, the preserved property in the previous period is still in a valid state of sealing up and freezing.

Baicaotang appealed in August 2018. The dispute was transferred to the Intermediate People's Court of Guangzhou. In January 2019, the second trial was held. In March 2019, the court issued the Second Judgment, which ruled that Subsidiary G won the case. In May 2019, Subsidiary G filed an application for enforcement. In July 2019, Subsidiary G has received a case payment of RMB18,651,000.00 after submitting an application for collection to the court.

- (c) On 7 February 2018, the Group's Subsidiary G filed a claim with the court against Guangdong Zirui pharmacy Co., Ltd. for the arrears from its 2015-2017 replenishment of a total of RMB2,341.9 thousand (a total of 39 cases). The court supported Subsidiary G's claim request that the Zirui pay for the replenishment, but dismissed the Subsidiary G's request of the interest of the overdue payment.

As at the reporting date, the total of 39 cases were all closed. The court finally decided that the total amount of these 39 cases was RMB1,189.8 thousand which has been received by Subsidiary G.

- (d) On 18 August 2016, the Group's Subsidiary G filed a claim against Guilin Pharmaceutical Group Co., Ltd. (hereinafter referred to as "Guilin Medicine") for a total overdue payment of RMB4,130.8 thousand and applied for property preservation. The People's Court of Guangzhou made the final the judgment that Guilin Medicine is required to pay Subsidiary G the due payment of RMB4,130.8 thousand, the liquidated damages (from 22 August 2014 to the date of the actual payment is made, at the rate of five ten thousandth per day), the legal fees, and the litigation fees and litigation preservation fees for this case within 10 days from the effective date of the judgment. Both the first and second trials succeeded, and the relevant assets were seized in full, including 3 sets of real estate. The Subsidiary G applied to the court for enforcement, and is waiting for the court to auction the seized property.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 100% to the above accounts receivable of RMB4,130.8 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑤ Litigation of the Group's Subsidiary G (Continued)

- (e) On 29 March 2018, the Group's Subsidiary G filed a claim against Weihai Qينو Medical Instruments Co., Ltd. (hereinafter referred to as "Qينو Medical") to refund the Subsidiary G's prepayments of RMB1,521.39 thousand in total. The case was judged on the first instance on 6 July 2018. According to the judgment of the first trial, Qينو Medical was sentenced to pay RMB951.39 thousand and the interest to Subsidiary G, and the insurance premium of RMB5,000.00 and the case acceptance fee of RMB5,555.00 were borne by Qينو Medical. The Subsidiary G was dissatisfied with the judgment and has filed an appeal.

As of the date of this report, Subsidiary G has received the results of the second instance of the court. The second instance court ruled that Qينو Medical paid a total of RMB1,521,390.00 in advance and related interest. Subsidiary G has applied to the People's Court of Huancui District, Weihai City for execution. Because Weihai Qينو has gone through bankruptcy and liquidation procedures, and no other assets have been found, the court suspended the execution of the case and resumed execution of new property leads. On September 4, 2019, Subsidiary G applied to the People's Court of Huancui District to collect an execution amount of RMB7,540.00. The court reported that because the receipt of the execution money was not found, it applied to Huancui District People's Court to collect the execution money of RMB7,540.00 again on January 8, 2020.

The management of G subsidiary evaluated the case and combined with the opinions of external lawyers, based on the principle of prudence, reclassified the relevant prepayments to other receivables and made full provision for bad debts.

- (f) Sub-subsidiary J (whose parent company is Subsidiary G) filed a claim against Hebei Xinglin Pharmaceutical Co., Ltd. for arrear of RMB2,797,654.40 together with relevant interest.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑤ Litigation of the Group's Subsidiary G (Continued)

(f) (Continued)

After the second trial of the case on 26 February 2018, the defendant, Hebei Xinglin Pharmaceutical Co., Ltd., applied for judicial identification on the authenticity of the "Contract seal of Hebei Xinglin Pharmaceutical Co., Ltd." on the "Purchase and Sales Contract" and on whether the signatures of "Su Xueliang" on the three documents were signed by Su Xueliang himself. On 8 May 2018, the third trial were opened for the sample discussion. On the morning of 18 May 2018, the Intermediate People's Court of Nanning chose Guangxi Guigongming Forensic Center as the judicial appraisal institution through plate lottery. On 18 December 2018, Sub-subsidiary J sent the original contract and receipt to the Guangxi Guigongming Forensic Center for appraisal. On 8 April 2018, the People's Court of Nanning Qingxiu District, Guangxi Zhuang Autonomous Region, continued to freeze the bank deposit of Hebei Xinglin Pharmaceutical Co., Ltd., the defendant, for RMB2,842,153.00, and the freezing period was till 7 April 2019. On April 19 2019, the court went to Shijiazhuang to complete the freezing of the account amount RMB2,842,153 of Hebei Xinglin Company, the basic bank account in Huainan branch of Hebei Bank. On July 18, 2019, the judgment was received and the court supported Subsidiary J all the claims. But the defendant Hebei Xinglin Pharmaceutical Co., Ltd. has appealed against the verdict, and the second trial will begin on February 26, 2020.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary J decided to make a provision for bad debts at the ratio of 50% to the above accounts receivable.

- (g) On May 31, 2019, Sub-subsidiary K (whose parent company is Subsidiary G) filed a lawsuit against Guangzhou Laitai pharmaceutical co., ltd. for a dispute over sales contract, demanding the refund of the undelivered part of the payment and the disposal of the inventory of goods, involving an amount of RMB4,163,263.36. On December 20, 2019, the trial of the first instance judged Sub-subsidiary K to win the case, and the court has seized the other party's land.

The management of Sub-subsidiary K evaluated the case situation, and combined with the opinions of external lawyers, Sub-subsidiary K lost the case and it was not likely to cause direct economic losses.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

⑥ *Litigation against the Group's Sub-subsidiary H*

On 7 September 2016, Huarun Guokang (Beijing) Pharmaceutical Co., Ltd. filed a claim for the unreceived medicine goods from Sub-subsidiary H to Huaqiang, a third party in the transaction against Sub-subsidiary H and required Sub-subsidiary H to repay the payment for medicine goods of RMB15,297.1 thousand.

Huarun Guokang purchased medicine from Sub-subsidiary H in 2014 and paid RMB15,297.1 thousand. The plaintiff sold the above-mentioned medicine to Huaqiang, the third party on 30 May 2014. As Sub-subsidiary H and the third party are located in the same city and the two companies are close to each other, Huarun Guokang and Sub-subsidiary H agreed to transport medicine directly to the third party to save the transportation expenses. Huarun Guokang filed a claim for the unreceived payment for goods against the third party to the People's Court of Beijing Fengtai District. The first instance was tried on 21 July 2016. As the third party claimed that it has no obligation for paying the payment for goods because no medicine has been received, Huarun Guokang required Sub-subsidiary H to return the payment for medicine of RMB15,297.1 thousand. Sub-subsidiary H raised an objection to jurisdiction during the period of submitting statement of defense. On 19 December 2016, the Court overruled the objection to jurisdiction lodged by Sub-subsidiary H and Huaqiang.

On 12 September 2017, the Second People's Court of Beijing made the final judgment and Paper of Civil Judgment numbered (2017) Jing02MinXiaZhong No. 827. The Court overruled the objection to jurisdiction lodged by Sub-subsidiary H and affirmed the original judgment.

On 12 June 2018, the first session was tried by the People's Court of Beijing Fengtai District and the case is currently under trial.

On March 22, 2019, civil judgment of Beijing Fengtai district people's court (2016) Beijing 0106 min chu no. 19433 rejected the lawsuit request of China resources Guokang (Beijing) pharmaceutical co., LTD.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary H believed that the company had fulfilled the purchase and sales contract, made the payment to the supplier, and obtained the receipt confirmation form of Huarun Guokang which proved that it had fulfilled its supply obligation to Huarun Guokang. The management of Sub-subsidiary H expects no compensation and thus does not recognize any provisions.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

⑦ *Respond to prosecution of other subsidiaries of the Group*

- (a) For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Company, and Wuhan Jiaduobao Beverage Co., Ltd. in Changsha City arising from the slogan of “The red cans herbal tea – national top sales-JDB”, “7 of 10 cans of herbal tea sold in China are JDB. Many more people drink JDB to avoid suffering from excessive internal heat. Many more people drink JDB as its formula is more authentic.” or “JDB is approved as a national intangible cultural heritage masterpiece” which constitute false propaganda, under both the 1st trial ((2013) ChangZhongMinWuChuZi No.00308) and the 2nd trial((2016) XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement was sentenced to stop. And according to the judgment of the first trial, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss of RMB9,022,978.20 and reasonable rights protection fee of RMB239,779.00. The court of the second trial upheld the judgment of the lower court except for the compensation of to RMB6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the high court. The Supreme Court decided to arraign this case on 23 December 2016 as there are some applicable issues of this case, with reference of (2017) ZuiGaoFaMinZai No. 155. The Supreme People’s Court started the trial on 30 November 2017. The case was tried on 8 March 2019, and is at a retrial stage at present.

On August 16, 2019, received the judgment from the Supreme People’s Court: (1) the cancellation of the Hunan Provincial Higher People’s Court (2016) Xiangmin No. 94 civil judgment; (2) the abolition of the Changsha Intermediate People’s Court (2013) in Hunan Province. Minwu Chuzi No. 00308 civil judgment; (3) Wuhan Jiaduobao Beverage Co., Ltd. immediately ceased to publish in the “Xiaoxiang Morning News” on the effective date of this judgment, including “China can sell 10 cans of herbal tea 7 is Jiaduobao” Advertisements for advertising words and the immediate cessation of use and destruction of product packaging bearing the advertisement of “National Sales Leading Red Canned Herbal Tea – Jiaduobao”; (4) Hunan Fengcai Haorunjia Trading Co., Ltd. on the effective date of this judgment Immediately stop selling the Jiaduobao herbal tea with the slogan “National Leading Red Canned Herbal Tea – Jiaduobao” printed on the package; (5) Wuhan Jiaduobao Beverage Co., Ltd. will compensate within 10 days from the effective date of this judgment to Guangzhou Pharmaceutical Group, Guangzhou Wang Lao Ji Da Great Health economic losses and reasonable expenses totaled RMB1,000,000.00; (6) Rejected Guangzhou Pharmaceutical Group, Guangzhou Wang Lao Ji Great Health other litigation requests; The case acceptance fees for the first and second instance cases totaled RMB165,200.00, one part RMB99,120.00 was paid by Wuhan Jiaduobao Beverage Co., Ltd., and Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wanglaoji Health Industry Co., Ltd. jointly paid one other part RMB66,080.00.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(a) (Continued)

For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and JDB (China) Beverage Co., Ltd. in Chongqing City arising from the slogan of “The red cans herbal tea – national top sales-renamed JDB”, both the first trial (case number: (2013) YuWuZhongMinFaChuZi No.00345), and the second trial (case number: (2014) YuGaoFaMinZhongZi No.318) made the judicial decision that the slogan involved in the case constitutes false propaganda and JDB (China) Beverage Co., Ltd. was sentenced to stop the infringement. And according to the judgment of the first trial, JDB (China) Beverage Co., Ltd. were required to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB400,000.00. The court of the second trial upheld the judgment of the first trial. JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court. The Supreme Court decided to arraign this case on 23 December 2016 as there are some applicable issues of this case, with reference of (2017) ZuiGaoFaMinZai No. 151. The Supreme People’s Court started the first trial and second trial on 30 November 2017 and 8 March 2019 respectively.

On August 16, 2019, received the judgment from the Supreme People’s Court: (1) to revoke the civil judgment of Chongqing Higher People’s Court (2014) Gao Famin Zhong Zi Zi No. 00318; (2) to revoke the Fifth Intermediate People’s Court of Chongqing (2013) (5) Dismissed the claim of Guangzhou Wang Lao Ji Great Health; (4) The total acceptance fee for the first and second instance cases was RMB93,600.00, which was borne by Guangzhou Wang Lao Ji Great Health.

- (b) For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and Guangdong Jiaduobao Beverage Co., Ltd. in Guangzhou City arising from the slogan of “I, Wang Jianyi, am the great-great grandson of Wang Lao Ji”, “I gave the exclusive formula to the JDB Group.”, “The herbal tea produced by Jiaduobao is prepared by my ancestral exclusive formula” and so on which constitute false propaganda and commercial slander, under both the first trial (case number: (2014) SuiZhongFaZhiMinChuZi No.2) and the second trial (case number: (2016) YueMinZhong No.293), the slogan of JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement was sentenced to stop and make an apology. According to the judgment of the first trial, Guangdong JDB Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB5,000,000.00. The court of the second trial upheld the judgment. Guangdong JDB Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court, numbered (2017) ZuiGaoFaMinShen No. 509. The Supreme People’s Court started the trial on 27 December 2017, and the decision of whether to accept its retrial application or not is under trial.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(b) (Continued)

As at the reporting date, the case is currently at the review stage. The management of the Group considered that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the professional opinions provided by external lawyers into consideration.

(c) In 2015, Guangzhou Hao Cheng Estate Management Development Co., Ltd. filed a claim to the dispute of lease contract by the Group's Subsidiary B and applied for termination to contract and compensation for the loss. Subsidiary B also filed a claim for the unreceived rental and penalty of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

Pursuant to Paper of Civil Judgment numbered (2015) SuiYueFaMinSanChuZi No.186, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Lease Contract and Lease Supplementary Contract entered into by Guangzhou Hao Cheng Estate Management Development Co., Ltd. and Subsidiary B on 28 February 2014 was terminated on 9 September 2016. Subsidiary B shall fully pay Guangzhou Hao Cheng Estate Management Development Co., Ltd. the compensation of RMB1,955,325.00 within 10 days from the date when this Paper of Civil Judgment takes effect, and other claims of Guangzhou Hao Cheng Estate Management Development Co., Ltd. were dismissed.

Pursuant to Paper of Civil Judgment numbered (2015) SuiYueFaMinSanChuZi No.639, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay Subsidiary B penalty and rental of to RMB9,800 thousand for the period from 1 October 2014 to 31 January 2015, its guarantor shall undertake joint liability for the debts, and other claims of Subsidiary B were dismissed.

Pursuant to Paper of Civil Judgment numbered (2016) Yue0104MinChu No.100 issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay Subsidiary B rental and the penalty of RMB33,205 thousand for the period from 1 February 2015 to 31 December 2015. Its guarantor shall undertake joint liability for the debts. Other claims of Subsidiary B were dismissed. Guangzhou Hao Cheng Estate Management Development Co., Ltd. refused to accept the above-mentioned civil judgment and lodged an appeal. Subsidiary B filed a claim against Guangzhou Hao Cheng Estate Management Development Co., Ltd. and its guarantor on delays in paying rental and breach of contract damages for the period from 1 January 2016 to 9 September 2016 numbered (2018) Yue0104Minchu No. 813.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(c) (Continued)

The final judgment on 28 May 2018 included three cases in which Subsidiary B recovered the rent arrears from October 2014 to December 2015. The final judgment announced that rental shall be halved based on the contracted rental, and the interest on the rental payable was calculated based by the bank benchmark interest rate of similar loans. The estimated residual value of the renovation investment was 50% of the other leases except for the RMB1,955,325.00 which was agreed by Subsidiary B.

On 28 June 2018, Subsidiary B and Guangzhou Hao Cheng Estate Management Development Co., Ltd. signed the Settlement Agreement after Guangzhou Hao Cheng Estate Management Development Co., Ltd. paid the principal and interest of RMB27,966,723.12 to Subsidiary B and provided invoice of valuation fee of RMB128,000.00, assets of RMB230,000.00, invoice of RMB1,725,325.00, and cash voucher of RMB2,278,382.50 to Subsidiary B, and received the receipt from Subsidiary B for receiving refund of the deposit of RMB5,800,000.00. On 29 June, Subsidiary B handed in the written application of unblocking the assets of Haocheng and Cai Song, and the written application of withdrawal of the appealed but not judged case which was numbered as (2018) Yue0104Minchu No. 813.

Both parties of the case had settled and had fulfilled the main part of the settlement agreement. Some legal settlement documents for the case are still being processed. Cai Song, one of the defendants in the latter two cases, filed a retrial application (case number: (2018) YueMinShen No. 12750 & No. 12751). Subsidiary B has filed a reply to the High Court, and the retrial application is still under review.

As at the reporting date, the management of Subsidiary B considered that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the professional opinions provided by external lawyers into consideration. The management of Subsidiary B does not recognize any provisions.

- (d) On June 23, 2015, the Land and Resources Planning Commission of Guangzhou Municipality issued an Administrative Decision (Sui Guofang Zi [2015] No. 56) to the Real Estate Development Company of Guangdong Provincial Construction Engineering Corporation and the Subsidiary E of the Group. The unit paid the unpaid land transfer fee of RMB13,160,051.26 and the liquidated damages calculated to June 23, 2015 of RMB13,216,059.26, which totaled RMB26,376,110.52.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(d) (Continued)

Subsidiary E and Guangdong Provincial Construction Engineering Corporation Real Estate Development Company respectively applied for administrative reconsideration to the Guangzhou Municipal People's Government. The Guangzhou Municipal People's Government issued the "Administrative Review Decision" (Suifu Xingfu [2015] No. 872, 879) on January 5, 2017, maintaining the "Land and Resources and Planning Commission of Guangzhou Municipality" Administrative Decision "(Sui Guofang Zi [2015] No. 56).

Subsidiary E filed a lawsuit with the Guangzhou Railway First Court on January 15, 2017, requesting the revocation of the aforementioned administrative decision and administrative reconsideration decision.

The Guangzhou Railway First Court issued an Administrative Judgment ((2017) Yue 7101 Xingchu No. 558) on June 19, 2017, dismissing the lawsuit of Subsidiary E.

Subsidiary E filed an appeal to Guangzhou Railway First Court on June 30, 2017, requesting the revocation of the above-mentioned administrative decision and administrative reconsideration decision.

The Guangzhou Railway Intermediate Court issued the "Administrative Judgment" ((2017) Yue 71 Line End No. 1288) on October 17, 2017, rejected the E subsidiary's appeal, and maintained the original judgment of the first instance. The verdict is final. Subsidiary E provided a total of RMB26,376,110.52 in land transfer fees and liquidated damages based on the principle of accounting prudence in non-operating expenses. Subsidiary E applied for retrial to Guangdong Higher People's Court, and Guangdong Higher People's Court accepted the retrial application for Subsidiary E on March 22, 2018. However, no notice of retrial filing has been received.

On March 5, 2019, the Guangzhou Railway Transport Court issued (2019) Yue 7101 execution No. 254 to the Subsidiary E, requiring the Subsidiary E and the Guangdong Provincial Construction Engineering Corporation Real Estate Development Company to immediately pay the unpaid land for sale. Gold of RMB13,160,051.26 and liquidated damages of RMB13,216,059.26, totaling RMB26,376,110.52.

On March 12, 2019, Subsidiary E reached a settlement with the Guangzhou Municipal Land Resources and Planning Commission. Subsidiary E paid the advance payment of RMB13,160,051.26 and liquidated damages 13,216,059.26 to Guangzhou Land and Resources and Planning Commission. No more land transfer fees, liquidated damages, and interest in the delayed performance period will be paid to the E subsidiary. As of the date of this report, the implementation case has now been closed.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(d) (Continued)

On March 27, 2019, the Guangdong Provincial Higher People's Court issued (2018) Yuexing Shen No. 516 "Administrative Ruling", which ruled to reject the retrial application of Subsidiary E.

On May 9, 2019, Subsidiary E filed a lawsuit with the Yuexiu District People's Court of Guangzhou City, asking Guangdong Construction Engineering Corporation Real Estate Development Company to return the advance land transfer fee of RMB13,160,051.26 and the penalty fee of RMB13,216,059.26 to Subsidiary E. Interest is paid on March 12, 2019 at the interest rate of the People's Bank of China for the same period until the date when the above amounts are fully settled. On November 11, 2019, the court issued the "Civil Judgment" (2019) Yue 0104 Minchu 19826, in support of the Subsidiary E's litigation request, and ruled that the Guangdong Provincial Construction Engineering Corporation Real Estate Development Company returned the land transfer fee to the Subsidiary E RMB13,160,051.26 and liquidated damages RMB13,216,059.26 totaling RMB26,376,110.52 and interest paid (since March 12, 2019, based on RMB26,376,110.52 as the base, and referring to the financial institution's standard for the calculation of interest on loans received by the People's Bank of China for the same period, the loan interest is calculated to pay off the above amount Until the date).

On November 21, 2019, the Guangdong Provincial Construction Engineering Corporation Real Estate Development Company filed an appeal to the Guangzhou Intermediate People's Court, demanding that it be changed without paying interest to Subsidiary E. The second trial of the case has not yet started.

(e) On June 1, 2015, Guangzhou Ruiju enterprise management information consulting co., ltd. sued Subsidiary F of the group over a legal service contract dispute, requiring Subsidiary F to pay RMB22,421,800.00 of legal service fee and overdue interest.

On January 8, 2016, Guangzhou Nansha district people's court made a civil judgment of first instance (2015), which ordered F subsidiary to pay RMB13,192,825.00 of service fee to Guangzhou Ruiju enterprise management information consulting co., ltd. within 10 days after the judgment took legal effect.

Subsidiary F and Guangzhou Ruiju enterprise management information consulting co., ltd. both refused the first-instance judgment and filed an appeal to the intermediate people's court of Guangzhou. On May 17, 2016, the intermediate people's court of Guangzhou made the second instance civil judgment (2016) Guangdong01 minzhong 5137, ordering F subsidiary to pay RMB4,352,350.00 of service fee to Guangzhou Ruiju enterprise management information consulting co., ltd. within 10 days after the judgment takes legal effect. Subsidiary F has paid the above service fee.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS *(Continued)*

11. Other significant matters *(Continued)*

(1) Litigations *(Continued)*

⑦ Respond to prosecution of other subsidiaries of the Group

(e) (Continued)

Guangzhou Ruiju enterprise management information consulting co., ltd. still refuses to accept the judgment of the second instance and applies to the higher people's court of Guangdong province for retrial on September 1, 2016. On October 24, 2016, the higher people's court of Guangdong province issued the "notice of response to civil application for retrial" to F subsidiary [case No.:(2016) yuemin shen 6609], informing Subsidiary F about the response. On December 13, 2017, the higher people's court of Guangdong province held a hearing to decide whether to accept the retrial application of Guangzhou Ruiju enterprise management information consulting co., LTD.

On March 12, 2018, the higher people's court of Guangdong province issued a ruling rejecting the retrial application of Guangzhou Ruiju enterprise management information consulting co., LTD. On September 12, 2018, Guangzhou Ruiju enterprise management information consulting co., ltd. once again filed a lawsuit with the people's court of Nansha district, Guangzhou for legal service contract dispute, requiring F subsidiary to pay RMB18,069,450.00 legal service fee and overdue interest. The trial began on October 23, 2018.

On November 15, 2018, Guangzhou Ruiju enterprise management information consulting co., ltd. applied to the court to withdraw the lawsuit. On November 19, 2018, the people's court of Nansha district, Guangzhou issued a ruling to allow Guangzhou Ruiju enterprise management information consulting co., ltd. to withdraw the lawsuit.

On March 17, 2019, Guangzhou Ruiju enterprise management information consulting co., LTD in Fujian province to the subsidiary filed suit. On March 28 Subsidiary F is put forward to the jurisdiction of the court, on April 17, 2019 in Longyan civil ruling, the second instance, the court ruled that the case transferred to the city of Guangzhou Nansha district people's court trial, on May 31, 2019, Longyan city intermediate people's court ruled make a second instance of civil ruling will be the case transferred to the city of Guangzhou Nansha district people's court for trial.

On March 24, 2019, Guangzhou Ruiju enterprise management information consulting co., LTD in Yueyang city of Hunan province to the subsidiary filed a lawsuit. On March 28 Subsidiary F sued is put forward to the jurisdiction of the court, on April 22, 2019, Yueyang LouQu first-instance civil ruling, the people's court ruled that the case transferred to the city of Guangzhou Nansha district people's court for trial. On August 21, 2019, the company received the written ruling of dropping the lawsuit from Guangzhou People's Court of Nansha District.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(e) (Continued)

The above cases are all multiple lawsuits filed by Guangzhou Ruiju enterprise management information consulting co., Ltd. for the same incident with different reasons. The management of Subsidiary F has assessed the case situation, and it is expected that compensation will not be required, so it is not handled in accounting.

- (f) Yinghui Food Store filed a claim for the advance payment of expenses on behalf of Subsidiary F with a total amount of RMB2,130,444.00 in 2017. On 4 August 2017, the People's Court of Guangzhou Nan Sha District made a judgment of first instance and dismissed the appeal lodged by Yinghui Food Store. Yinghui Food Store was dissatisfied with the judgment of the first instance and lodged an appeal to the Intermediate People's Court of Guangzhou on 21 August 2017, which was numbered (2017) Yue01minzhong No. 19018. The Intermediate People's Court of Guangzhou had held three inquiries on 7 November 2017, 21 November 2017 and 19 December 2017 respectively.

On 9 April 2018, the Intermediate People's Court of Guangzhou rendered a judgment of the second instance which dismissed the appeal lodged by Yinghui Food Store in Kunming Pan Long District and affirmed the original judgment.

On 4 September 2018, Yinghui Food Store filed a retrial application with the Higher People's Court of Guangdong Province.

On December 24, 2019, the Guangdong Higher People's Court ruled to reject the retrial application. The management of Subsidiary F evaluated the case and considered that it is unlikely to cause direct economic losses, so it did not accrue the estimated liabilities.

- (g) In 2018, Dali Baoxunfeng Trading Co., Ltd. filed a claim against the Group's Subsidiary F and requested Subsidiary F to pay a total of RMB2,792,936.42 for the prepayments Baoxunfeng paid on behalf of Subsidiary F. On 7 September 2018, the People's Court of Guangzhou Nansha District made a first-instance judgment that sentenced Subsidiary F to pay Dali Baoxunfeng Trading Co., Ltd. RMB39,244 for goods received and RMB4,551.43 to the prepayment Baoxunfeng paid on behalf of Subsidiary F, and dismissed all other claims of Dali Baoxunfeng Trading Co., Ltd. Dali Baoxunfeng Trading Co., Ltd. was dissatisfied with the judgment of the first instance and filed an appeal with the Intermediate People's Court of Guangzhou on 10 September 2018. The case number of the second instance is (2018) Yue01MinZhong No. 21300.

On 26 December 2018, the Intermediate People's Court of Guangzhou made a second-instance judgment which dismissed the appeal of Dali Baoxunfeng Trading Co., Ltd. and affirmed the original judgment.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIII. OTHER SIGNIFICANT MATTERS (Continued)

11. Other significant matters (Continued)

(1) Litigations (Continued)

⑦ Respond to prosecution of other subsidiaries of the Group

(g) (Continued)

On May 7, 2019, Dali Baoxunfeng trading co., ltd. filed a retrial application with the higher people's court of Guangdong province.

On September 6, 2019, the Guangdong Higher People's Court rejected Dali Baoxunfeng Trade Co., Ltd.'s application for retrial and upheld the original judgment.

Subsidiary F's management evaluated the case and found that it is unlikely to cause direct economic losses.

(h) In January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. requested the subsidiary I of the Group to pay the purchase price of RMB81,408,500.00 on the ground that the purchase contract did not receive the payment. The plaintiff in this case has filed a lawsuit on the same grounds on March 11, 2015, and was dismissed by the Tianhe District Court on August 17, 2016 on the grounds that it involved criminal proceedings. This time, Guangdong Guangsheng Investment Group Energy Co., Ltd. re-prosecuted on the grounds that "there is no evidence to reflect the suspected economic crime in this dispute." At present, the first instance of the case has been rejected, and Guangdong Guangsheng Investment Group Energy Co., Ltd. has appealed it; the second instance has been returned to the first instance court for retrial. Four of the five retrial cases have been applied for by the plaintiff. The District Court ruled that Subsidiary I won the case and rejected all the plaintiff's claims. The other party did not appeal, the judgment has taken effect, and the case has all been concluded.

(i) In January 2018, Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch requested the Group's Subsidiary I to pay an amount of RMB38,549,941.94 due to Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. to a specific bank account, as the right to accounts receivable due from Subsidiary I had been transferred to Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch from Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. The court of the first instance dismissed the claim. Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch filed an appeal, the second instance of this case has been heard in the municipal intermediate people's court on March 21, 2019. The municipal intermediate people's court made a final judgment on June 12, 2019, still rejecting all the plaintiff's claims against our company, and the case has been concluded.

(2) No other significant matters

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

① The aging analysis of accounts receivable disclosed by booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	131,315,589.08	263,355,485.52
1 to 2 years	5,170.86	-
2 to 3 years	-	-
3 to 4 years	-	1,467,557.00
4 to 5 years	1,447,557.00	-
Over 5 years	2,940,186.52	3,288,606.52
Total closing balance of accounts receivable	135,708,503.46	268,111,649.04
Less: Provision for bad debts	5,728,705.10	6,655,939.88
Total net amount of accounts receivable	129,979,798.36	261,455,709.16

② Accounts receivable disclosed by category

Category	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)
Accounts receivable with single item provision for bad debts	2,674,626.24	1.97	2,674,626.24	100.00
Accounts receivable for bad debt provision based on portfolio Including: portfolio 1	133,033,877.22	98.03	3,054,078.86	2.30
	133,033,877.22	98.03	3,054,078.86	2.30
Total	135,708,503.46	100.00	5,728,705.10	4.22

(Cont.)

Category	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)
Accounts receivable with single item provision for bad debts	2,354,626.24	0.88	2,354,626.24	100.00
Accounts receivable for bad debt provision based on portfolio Including: portfolio 1	265,757,022.80	99.12	4,301,313.64	1.62
	265,757,022.80	99.12	4,301,313.64	1.62
Total	268,111,649.04	100.00	6,655,939.88	2.48

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

1. Accounts receivable (Continued)

② Accounts receivable disclosed by category (Continued)

A. Accounts receivable subject to separate provision at the year end

Accounts receivable (by company)	Accounts receivable	Provision for bad debts	Closing balance Expected credit loss ratio (%)	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00	Customer bankruptcy. Amount is expected to be unrecoverable.
Customer 2	470,000.00	470,000.00	100.00	Full amount is expected to be unrecoverable.
Customer 3	320,000.00	320,000.00	100.00	Amount is expected to be unrecoverable.
Customer 4	315,508.74	315,508.74	100.00	Amount is expected to be unrecoverable.
Customer 5	69,117.50	69,117.50	100.00	Amount is expected to be unrecoverable.
Total	<u>2,674,626.24</u>	<u>2,674,626.24</u>	<u>100.00</u>	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

1. Accounts receivable (Continued)

② Accounts receivable disclosed by category (Continued)

B. Accounts receivable subject to provision by aging portfolio

Aging	Closing balance		Expected credit loss ratio (%)
	Book balance	Provision for bad debts	
Within 1 year	130,995,589.08	1,309,955.89	1.00
1 to 2 years	5,170.86	517.09	10.00
2 to 3 years	—	—	—
3 to 4 years	—	—	—
4 to 5 years	1,447,557.00	1,158,045.60	80.00
Over 5 years	585,560.28	585,560.28	100.00
Total	<u>133,033,877.22</u>	<u>3,054,078.86</u>	—

Cont.

Aging	Book balance	Opening balance		Expected credit loss ratio (%)
		Book balance	Provision for bad debts	
Within 1 year	263,355,485.52	2,633,554.86	1.00	
1 to 2 years	—	—	—	
2 to 3 years	—	—	—	
3 to 4 years	1,467,557.00	733,778.50	50.00	
4 to 5 years	—	—	—	
Over 5 years	933,980.28	933,980.28	100.00	
Total	<u>265,757,022.80</u>	<u>4,301,313.64</u>	—	

C. Provision for bad debts

Category	Opening balance	Provision	Current change amount		Closing balance
			Amount recovered or reversed	Amount resold or written-off	
Provision for accounts receivable bad debts	6,655,939.88	(927,234.78)	—	—	<u>5,728,705.10</u>
Total	<u>6,655,939.88</u>	<u>(927,234.78)</u>	<u>—</u>	<u>—</u>	<u>5,728,705.10</u>

③ There is no accounts receivables written off in the current year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

1. Accounts receivable (Continued)

④ The top five customers by closing balance of accounts receivable:

Company	Closing balance	Proportion of total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	90,760,777.59	66.88	907,607.78
Customer 2	5,109,211.00	3.76	51,092.11
Customer 3	4,195,495.98	3.09	41,954.96
Customer 4	4,194,127.50	3.09	41,941.28
Customer 5	4,006,548.00	2.95	40,065.48
Total	<u>108,266,160.07</u>	<u>79.77</u>	<u>1,082,661.60</u>

⑤ The Group had no accounts receivable derecognized due to transfer of financial assets for the current year.

⑥ The Group had no assets or liabilities arising from the transfer of and the continuing involvement of accounts receivable for the current year.

2. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	463,226,705.58	382,928,791.41
Other receivables	1,481,230,655.20	1,504,120,220.47
Less: provision for bad debts	10,058,692.42	9,156,213.08
Total	<u>1,934,398,668.36</u>	<u>1,877,892,798.80</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

2. Other receivables

(1) Dividends receivable

① Dividends receivable are as follows:

Item (or investee)	Closing balance	Opening balance
Tian Xin	104,502,080.90	104,502,080.90
Guang Hua	43,882,205.44	102,009,719.65
Ming Xing	36,074,889.24	43,385,945.08
HWBYS	278,767,530.00	—
Xing Qun	—	7,550,441.54
Wang Lao Ji	—	41,665,953.14
Chen Li Ji	—	28,461,301.81
Pan Gao Shou	—	21,128,116.20
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	—	17,653,846.37
Zhong Yi	—	14,022,774.24
Guangzhou Pharmaceutical Import & Export Co., Ltd.	—	2,548,612.48
Total	463,226,705.58	382,928,791.41

② The Group had no significant dividends receivable with aging over one year for the current year.

(2) Other receivables

① Other receivables disclosed by aging are as follows:

Aging	Closing balance		Opening balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	1,468,890,589.44	99.16	1,493,036,443.65	90.75
1 to 2 years	2,044,140.00	0.14	556,846.55	8.59
2 to 3 years	296,940.52	0.02	2,549,613.86	0.01
3 to 4 years	2,478,497.34	0.17	403,590.42	0.17
4 to 5 years	403,590.42	0.03	48,885.81	0.02
Over 5 years	7,116,897.48	0.48	7,524,842.18	0.46
Total	1,481,230,655.20	100.00	1,504,120,222.47	100.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from related parties	1,444,294,507.40	1,451,241,604.25
Including: Entrusted loans	1,102,233,486.36	1,271,733,486.36
Other receivables due from related parties	342,061,021.04	179,508,117.89
Rental, margins, deposit, advances to employees	3,925,945.88	30,635,244.06
Others	33,010,201.92	22,243,372.16
Less: provision for bad debts	10,058,692.42	9,156,213.08
Total	1,471,171,962.78	1,494,964,007.39

③ Provision for bad debts

Provision for bad debts	First stage Expected credit losses in the next 12 months	Second stage Expected credit losses throughout life (no credit impairment)	Third stage Lifetime expected credit losses (credit impairment has occurred)	Total
Opening balance	9,156,213.08	-	-	9,156,213.08
Provision at current period	902,479.34	-	-	902,479.34
Reversal of bad debt provision at current period	-	-	-	-
Charge off at current period	-	-	-	-
Written off at current period	-	-	-	-
Other changes	-	-	-	-
Ending balance	10,058,692.42	-	-	10,058,692.42

④ The provision for bad debts was RMB902,000.00 this year, and there was no provision for recovering or reversing bad debts this year.

⑤ There is no other receivables that have fully or partially recorded bad debt provisions in previous years fully or partially recovered in the current year.

⑥ There is no other receivables written off for this year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

⑦ The top five amount of the closing balance of other receivables by customers.

Company	Nature	Closing balance	Aging	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Other receivables 1	Receivables due from related parties	565,166,233.84	Within 1 year	38.16	–
Other receivables 2	Receivables due from related parties	353,285,455.60	Within 1 year	23.85	–
Other receivables 3	Receivables due from related parties	204,546,268.24	Within 1 year	13.81	–
Other receivables 4	Receivables due from related parties	76,157,027.79	Within 1 year	5.14	–
Other receivables 5	Receivables due from related parties	64,945,929.05	Within 1 year	4.38	–
Total		<u>1,264,100,914.52</u>		<u>85.34</u>	<u>–</u>

⑧ There is no receivables related to government grants for the current year.

⑨ There is no other receivables that had been derecognized due to transfer of financial asset for the current year.

⑩ There is no assets or liabilities arising from the transfer of and the continuing involvement of other receivables for the current year.

3. Long-term Equity Investment

(1) Category of long-term equity investment

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	<u>9,035,716,281.83</u>	<u>171,500,000.00</u>	<u>8,864,216,281.83</u>	7,198,539,281.83	171,000,000.00	7,027,539,281.83
Investment in joint ventures and associates	<u>1,225,204,503.41</u>	<u>–</u>	<u>1,225,204,503.41</u>	1,413,116,817.35	–	1,413,116,817.35
Total	<u>10,260,920,785.24</u>	<u>171,500,000.00</u>	<u>10,089,420,785.24</u>	<u>8,611,656,099.18</u>	<u>171,000,000.00</u>	<u>8,440,656,099.18</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

3. Long-term Equity Investment (Continued)

(2) Investment in subsidiaries

Investee	Opening balance	Increase for the current year	Decrease for the current year	Closing balance	Provision for impairment provided in the current year	Closing balance of provision for impairment
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	6,500,000.00	-	255,517,109.58	-	55,000,000.00
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	165,458,900.00	4,227,000.00	-	169,685,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	61,650,000.00	-	190,795,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
GP Corp.	2,891,825,159.88	421,600,000.00	-	3,313,425,159.88	-	-
Wang Lao Ji	854,431,508.17	-	-	854,431,508.17	-	-
Wang Lao Ji Great Health	900,000,000.00	1,200,000,000.00	-	2,100,000,000.00	-	-
Yi Gan	25,800,000.00	7,200,000.00	-	33,000,000.00	-	-
Xing Zhu	126,480,000.00	-	-	126,480,000.00	-	-
Guangyao Baiyunshan Hong Kong Company	140,500,756.87	-	-	140,500,756.87	-	-
Wang Lao Ji Investment	24,000,000.00	-	-	24,000,000.00	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	95,381,794.18	-	-	95,381,794.18	-	-
Weiling	10,444,783.48	-	-	10,444,783.48	-	-
Pharmaceutical Technological	1,020,000.00	-	-	1,020,000.00	-	-
Baiyunshan Great Health Hotel	500,000.00	-	-	500,000.00	-	500,000.00
Baiyunshan Medical and Healthcare Industry Company	111,600,000.00	-	-	111,600,000.00	-	-
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	163,470,000.00	100,000,000.00	-	263,470,000.00	-	-
Guangyao Haima	7,000,000.00	19,500,000.00	-	26,500,000.00	-	-
Baiyunshan Pharmaceutical Marketing	40,000,000.00	-	-	40,000,000.00	-	-
Guangyao General Institute	98,000,000.00	-	-	98,000,000.00	-	-
Guangzhou Baiyunshan Medical Instruments investment	10,000,000.00	-	-	10,000,000.00	-	-
Guangzhou Chuangying Guangyao Baiyunshan Intellectual Property Co., Ltd.	-	10,000,000.00	-	10,000,000.00	-	-
Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd.	-	6,500,000.00	-	6,500,000.00	-	-
Total	7,198,539,281.83	1,837,177,000.00	-	9,035,716,281.83	-	171,500,000.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

3. Long-term Equity Investment (Continued)

(3) Investments in joint ventures and associates

Investee	Opening balance	Increase	Decrease	Current year						Closing balance	Closing balance of provision for impairment
				Investment gains or losses recognized under equity method	Adjustment to other comprehensive income	Changes in other equity	Declaration of the payment of cash dividends or profits	Provision for impairment	Others		
I. Joint ventures											
HWBYS	385,065,942.31	-	-	67,960,299.58	-	-	328,767,530.00	-	-	124,258,711.89	-
Baxter Qiao Guang	42,701,110.59	-	-	4,817,706.01	-	-	-	-	-	47,518,816.60	-
Subtotal	427,767,052.90	-	-	72,778,005.59	-	-	328,767,530.00	-	-	171,777,528.49	-
II. Associates											
Golden Eagle Asset Management Co., Ltd.	60,823,876.62	-	-	2,973,004.48	-	-	-	-	-	63,796,881.10	-
Guangzhou Baiyunshan Weiyi Medical Investment Management Co., Ltd.	2,032,056.21	-	-	1,311.61	-	-	-	-	-	2,033,367.82	-
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd.	44,962,519.01	27,000,000.00	-	(189,967.54)	-	-	-	-	-	71,772,551.47	-
Guangdong Guangyao Jinshen Equity Investment Fund Management Co., Ltd.	3,070,247.16	8,000,000.00	-	(1,687,016.48)	-	-	-	-	-	9,383,230.68	-
Yi Xin Tang	874,461,065.45	-	-	44,558,494.70	-	-	12,578,616.30	-	-	906,440,943.85	-
Subtotal	985,349,764.45	35,000,000.00	-	45,655,826.77	-	-	12,578,616.30	-	-	1,053,426,974.92	-
Total	1,413,116,817.35	35,000,000.00	-	118,433,832.36	-	-	341,346,146.30	-	-	1,225,204,503.41	-

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

4. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Main businesses	4,594,492,684.81	3,137,392,597.10	3,822,126,064.48	1,897,829,832.96
Other businesses	432,586,221.77	37,912,949.63	509,918,388.57	217,989,937.30
Total	<u>5,027,078,906.58</u>	<u>3,175,305,546.73</u>	<u>4,332,044,453.05</u>	<u>2,115,819,770.26</u>

(2) Category by business

Reporting segments	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	4,594,485,035.92	3,137,387,888.58	3,822,101,089.04	1,897,814,213.61
Great Commerce	7,648.89	4,708.52	24,975.44	15,619.35
Great Health	-	-	-	-
Others	-	-	-	-
Total	<u>4,594,492,684.81</u>	<u>3,137,392,597.10</u>	<u>3,822,126,064.48</u>	<u>1,897,829,832.96</u>

(3) Category by major operating region

Reporting segments	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	2,599,026,685.74	1,952,019,345.30	2,008,595,375.80	1,043,706,446.43
Eastern China Area	1,053,043,141.56	612,813,566.39	828,066,454.70	331,244,020.10
Northern China Area	356,589,623.22	196,132,074.36	405,626,386.77	195,550,066.90
Northeast Area	70,419,259.48	45,898,195.80	115,180,891.90	73,157,215.39
Southwest Area	363,530,356.93	232,649,911.24	363,310,208.51	204,164,804.70
Northwest Area	151,883,617.88	97,879,504.01	101,346,746.80	50,007,279.44
Total	<u>4,594,492,684.81</u>	<u>3,137,392,597.10</u>	<u>3,822,126,064.48</u>	<u>1,897,829,832.96</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. NOTE TO THE MAIN ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

4. Operating Income and Operating Costs (Continued)

- (4) Information of the top five customers as per sales: the total sales to the top five customers are RMB1,827,743 thousand, which account for 39.79% of the Company's main business income for the year.

Customer	Income	Proportion of total income (%)
Customer 1	1,491,017,397.49	32.45
Customer 2	95,001,747.71	2.07
Customer 3	92,596,184.15	2.02
Customer 4	79,897,678.88	1.74
Customer 5	69,230,099.38	1.51
Total	<u>1,827,743,107.61</u>	<u>39.79</u>

5. Investment income

Item	Current year	Prior year
Investment Income from long-term equity investments under cost method	683,321,081.34	865,519,930.33
Investment Income from long-term equity investments under equity method	118,433,832.36	241,342,102.95
Interest income from financial products and structured deposits	28,388,931.95	63,036,249.68
Investment income from the holding period of other non-current financial assets	19,751,424.92	13,808,915.55
Investment income of other equity instruments during the investment holding period	11,014,510.00	—
Investment income generated by the disposal of transactional financial assets	7,286,621.84	—
Total	<u>868,196,412.41</u>	<u>1,183,707,198.51</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

XV. SUPPLEMENTARY INFORMATION

1. Breakdown of Non-Recurring Profit and Loss for the Current Year

Item	Amount	Note
1. Profit or loss from disposal of non-current assets, including the write-off portion of provision for asset impairment	1,274,043.27	
2. Government grants included in the profit or loss for the current year except for the government grants that are closely related to enterprise's normal business and is enjoyed by the Company continuously in quota or by the quantity of unified national standards in accordance with the national policy	479,355,390.95	
3. Except for effective hedging business related to normal business of the Company, profit or loss from change of fair value from financial assets and liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	38,909,767.85	
4. Reverse of provision for impairment of receivables under individual impairment test	9,113,152.84	
5. Other non-operating income and expenses except for the above-mentioned items	21,311,190.68	
6. Other profit and loss items that meet the definition of non-recurring gains and losses	(13,473,408.71)	
7. Amount of income tax influence	(86,415,877.29)	
8. Amount of minority equity impact	(7,437,586.55)	
Total	<u>442,636,673.04</u>	

2. Return on Equity and Earnings per Share

	Weighted Average Return on Equity (%)		Earnings per share			
	2019	2018	Basic EPS		Diluted EPS	
Profits for the current year	2019	2018	2019	2018	2019	2018
Net profit attributable to the ordinary shareholders of the Company	13.87	16.93	1.961	2.116	1.961	2.116
Net profit attributable to the ordinary shareholders after subtracting the non-recurring profit or loss	11.94	10.48	1.689	1.311	1.689	1.311

Documents Available for Inspection

- 1 The financial statements signed by the legal representative and the financial Controller of the Company;
- 2 The auditor's reports signed by WUYIGE Certified Public Accountants LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
- 3 The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), china Securities Journal (中國證券報) and Securities Daily (證券日報) during the Reporting Period;
- 4 The documents listed above are kept at the Secretariat to the Board.