



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
2020



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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 10th meeting of the eighth session of the Board. Mr. Li Chuyuan (chairperson of the Board), Ms. Liu Juyan (executive Director), Mr. Li Hong (executive Director and general manager) and Mr. Wong Hin Wing (independent non-executive Director) attended the meeting by telephone.
- III. The financial reports of the Group and the Company for the year ended 31 December 2020 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 (executive Director and 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 consolidated net profit of the Group attributable to the shareholders of the Company amounted to RMB2,915,244,576.05 in 2020. Based on the net profit of the Company of RMB1,940,615,878.98 in 2020, a 10% statutory surplus reserve in the amount of RMB194,061,587.90 is provided, with the addition of the undistributed profit carried over from 2019 in the amount of RMB5,989,596,679.50, and after deducting the cash dividends of 2019 in the amount of RMB957,590,868.96, the actual distributable profits at the end of 2020 amounted to RMB6,778,560,101.62.

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 2020, a cash dividend of RMB5.38 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB874,675,530.56, be distributed. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2020.

The profit distribution plan will be submitted to the 2020 annual general meeting for approval.



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- 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. The Company does not have more than half of the Directors who cannot guarantee the authenticity, accuracy and completeness of this annual report disclosed by the Company.
- X. 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 of Future Development” set out in the section headed “IV Discussion and Analysis of Operation” in this annual report.
- XI. This annual report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.



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 2020 to 31 December 2020
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 2021 to 18 March 2021
Group	the Company and its subsidiaries
Board	the board of Directors of the Company
Director	the director of the Company
Supervisory Committee	the supervisory committee of the Company
Supervisor	the supervisor 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)
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 Company Limited (廣州醫藥股份有限公司) (formerly known as Guangzhou Pharmaceutical 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)

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 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 Baiyunshan Hua Cheng Pharmaceutical Co., Ltd. (廣州白雲山花城藥業有限公司)
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)
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)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)



Definitions

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)
Chemical & Pharmaceutical Zhuhai Company	Guangzhou Baiyunshan Chemical & Pharmaceutical (Zhuhai) Co., Ltd. (廣藥白雲山化學制藥(珠海)有限公司)
Baiyunshan Yihu Company	Guangzhou Baiyunshan Yihu Health and Technology Company Limited (廣州白雲山壹護健康科技有限公司)
Baiyunshan Jianhu Company	Guangzhou Baiyunshan Jianhu Medical Products Company Limited (廣州白雲山健護醫療用品有限公司)
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 (重藥控股股份有限公司)
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 formulated 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

DTP pharmacy	the English abbreviation of Direct to Patient, and it means pharmacy committed to providing patients with more valuable and professional services directly
DIP payment	the English abbreviation of Big Data Dingnosis-Intervention Packet, and it means payment for diseases based on big data
BE	the English abbreviation of bioequivalency, and it means bioequivalence
CDE	the English abbreviation of Centre for Drug Evaluation, and it means the Centre for Drug Evaluation of the National Medical Products Administration
Drug Registration	the drug supervision and administration department conducts the systematic evaluation of the safety, effectiveness and quality controllability of the drugs proposed for sale in accordance with legal procedures, and approves drug clinical studies, production of drugs or imports of drugs, which include the approval of the content in the evidence documents of applications for changes of drug approval and the appendix
Essential Drug List	the National Essential Drug List (國家基本藥物目錄) (the 2018 version), 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 2020 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))
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)

Definitions

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 GPHL that was completed in 2013
Three-Medicine Linkage	Linkage among medical insurance system reform, health system reform and pharmaceutical circulation system reform (醫保體制改革、衛生體制改革與藥品流通體制改革聯動)
Drug Administration Law	the People's Republic of China Drug Administration Law (《中華人民共和國藥品管理法》)
Vaccine Administration Law	the People's Republic of China Vaccine Administration Law (《中華人民共和國疫苗管理法》)

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 Xuezhen
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	2020	2019	Year on year increase/ (decrease) (%)	2018	2017	2016
Income from operations (RMB'000)	61,673,702	64,951,778	(5.05)	42,233,838	20,954,225	20,035,681
Net profit attributable to the shareholders of the Company (RMB'000)	2,915,245	3,188,885	(8.58)	3,440,980	2,061,652	1,508,033
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	2,627,691	2,746,248	(4.32)	2,131,485	1,935,560	1,071,111
Net cash flow from operating activities (RMB'000)	585,185	5,022,367	(88.35)	5,216,888	1,833,691	2,544,672
Total profit (RMB'000)	3,739,082	4,128,533	(9.43)	4,018,730	2,492,976	1,945,053
Principal financial data	As at 31 December 2020	As at 31 December 2019	Year on year increase/ (decrease) (%)	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Net assets attributable to the shareholders of the Company (RMB'000)	26,144,843	24,184,797	8.10	21,684,909	18,871,521	17,345,080
Total assets (RMB'000)	59,760,063	56,893,659	5.04	51,482,184	28,314,713	25,897,170
Total liabilities (RMB'000)	31,554,796	30,904,172	2.11	28,338,451	9,051,560	8,243,380
Equity attributable to the shareholders of the Company per share (RMB)	16.08	14.88	8.10	13.34	11.61	10.67
Total equity (RMB'000)	1,625,791	1,625,791	-	1,625,791	1,625,791	1,625,791

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	2020	2019	Year on year increase/ (decrease) (%)	2018	2017	2016
Basic earnings per share (RMB/Share)	1.793	1.961	(8.58)	2.116	1.268	1.075
Diluted earnings per share (RMB/Share)	1.793	1.961	(8.58)	2.116	1.268	1.075
Basic earnings per share after deducting non-recurring items (RMB/Share)	1.616	1.689	(4.32)	1.311	1.191	0.764
Weighted average return on net assets ratio (%)	11.55	13.87	A decrease of 2.32 percentage points	16.93	11.34	12.75
Ratio of weighted average return on net assets after deducting non-operating items (%)	10.41	11.94	A decrease of 1.53 percentage points	10.48	10.64	9.06
Ratio on total equity attributable to shareholders of the Company (%)	11.15	13.19	A decrease of 2.04 percentage points	15.87	10.92	8.69
Ratio on total equity attributable to shareholders of the Company to total assets(%)	43.75	42.51	An increase of 1.24 percentage points	42.12	66.65	66.98
Gearing ratio (%)	52.80	54.32	A decrease of 1.52 percentage points	55.05	31.97	31.83

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 2020 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	16,984,606	13,485,044	16,414,961	14,789,091
Net profit attributable to the shareholders of the Company	1,183,863	580,406	894,798	256,177
Net profit attributable to the shareholders of the Company after deducting non-recurring items	1,195,415	431,967	844,317	155,992
Net cash flow from operating activities	(3,407,041)	1,002,290	2,793,334	196,602

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 2020 (RMB'000) Notes	Amount in 2019 (RMB'000)	Amount in 2018 (RMB'000)
Gain/(Loss) on disposal of non-current assets	(1,451)	1,274	707
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	460,063	479,355	243,250
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	(8,469)	38,910	115,575
Write-off of provision for impairment of accounts receivable and contract assets under individual impairment test	2,603	9,113	7,200
Other non-operating income and expenses excluding the above items	(47,388)	21,312	9,656
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	(50,216)	(13,473)	–
Effect on minority interest	(2,008)	(7,438)	(4,258)
Income tax effect	(65,580)	(86,416)	(59,294)
Total	287,554	442,637	1,309,495

Company Profile and Financial Highlights

5. CHANGES IN SHAREHOLDERS' EQUITY IN 2020 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Other 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	(139)	1,526,241	11,167,820	24,184,797
Additions	–	19,927	(17,534)	194,062	2,915,244	3,111,699
Deductions	–	–	–	–	1,151,653	1,151,653
Closing balance	1,625,791	9,885,011	(17,673)	1,720,303	12,931,411	26,144,843

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)
Financial assets held for trading	–	4,000	4,000	–
Other equity instrument investments	81,978	116,367	34,389	7,670
Other non-current financial assets	262,470	263,528	1,058	19,277
Total	344,448	383,895	39,447	26,947

7. OTHERS

Applicable Not applicable

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 26 pharmaceutical manufacturing companies and institutions under the Company (including 3 branches, 20 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 325 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, Ban Lan Gen Granule, Zi Shen Yu Tai Pill, Xiao Chai Hu Granule, Compound Salvia Milltiorrhiz slice, Qing Kai Ling series, Hua Tuo Zai Zao Pill, Xia Sang Ju Granule, Bao Ji series, Xiao Er Qi Xing Cha Granule, An Gong Niu Huang Pill, Zhuang Yao Jian Shen Pill, Shu Jin Jian Yao Pill, Mi Lian Chuan Bei Pi Pa Gao, 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 Cefixime series, Sildenafil Citrate Tablets (Trade name "Jin Ge"), Cefathiamidine, Cefprozil series, Paracetamol Caffeine and Aspirin Powder 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, Ci Ning Ji (刺檸吉) series, 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. As a core enterprise of the Great Commerce segment, GP Corp., a subsidiary of the Company, is responsible for the pharmaceutical distribution business of the Group, including the wholesale and retail. The retail business is carried out principally through Jian Min pharmacy chains, GPC prescription pharmacy chains and Cai Zhi Lin medicine pharmacy chains, etc.. Cai Zhi Lin leverages its advantages in the field of TCM to develop the businesses of production and sale of Chinese herbal medicines and TCM decoction-piece products. GP Corp. is the largest pharmaceutical logistics company in Southern China.

(iv) Great Medical Care

The Great Medical Care segment is at the stage of development and investment expansion. The Group leveraged on Baiyunshan Medical and Healthcare Industry Company and Medical Instrument Investment Company as the main investment vehicles and used various means, including new establishment, joint venture and co-operation to focus on the development of three areas, namely medical services, TCM health maintenance and modern elderly care, as well as the medical device industry.

Currently, we have invested/held equity interest in a number of projects including Guangzhou Baiyunshan Hospital, Runkang Confinement Company, Tibetan-style Health Preservation Castle in Nyingchi of Tibet, and Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. (廣州眾成醫療器械產業發展有限公司), etc. After the outbreak of the COVID-19 coronavirus epidemic (the "epidemic"), Baiyunshan Yihu Company and Biyunshan Jianhu Company were established to develop protective products such as masks and protective gowns.

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.

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)*

(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 monitors 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.

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 depend 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 2020, the Group had 141 retail chain pharmacy outlets, including 27 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 33 "Jian Min" pharmacy outlets which specialized in Western medicine, medical apparatus and instruments and 36 "GPC Prescription Pharmacy" which specialized in the retail of prescription drugs, 24 chain stores of Hainan Guangyao Chenfei Pharmaceutical Chain Co., Ltd and 21 retail stores of branch/subsidiary of GP Corp.,.

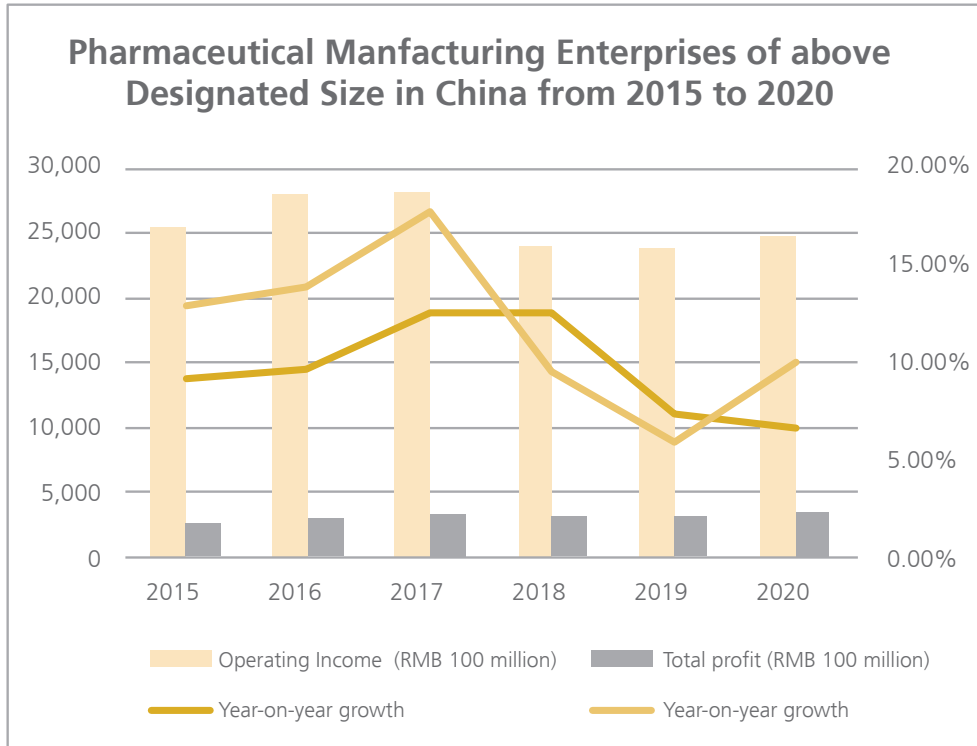
(3) Current circumstances of the development of the industry

In 2020, China constantly deepened its reform of the Three-Medicine Linkage. To facilitate the implementation of the revised Drug Administration Law and the Vaccine Administration Law, the new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production were put into force, further accelerating the transformation of the landscape of the pharmaceutical industry in the PRC. The outbreak of the epidemic slowed down the overall growth rate of the industry, but on the other hand, it became a new driver for certain niche areas of this industry, leading to a remarkable improvement in the profit growth rate of the industry and an increasingly clear trend of high-quality development.

According to the data published on the website of the National Bureau of Statistics, the operating revenue of pharmaceutical manufacturing enterprises of above designated size in the PRC reached RMB2.48573 trillion in 2020, representing a year-on-year increase of 4.5%, and the total profit reached RMB350.67 billion, representing a year-on-year increase of 12.8%. The operating revenue of liquor, beverage and refined tea manufacturing enterprises of above designated size reached RMB1.48296 trillion, representing a year-on-year decrease of 2.6%, and the total profit reached RMB241.40 billion, representing a year-on-year increase of 8.9%.

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.



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 RMB61,673,702,000, representing a year-on-year decrease of 5.05%. For the fluctuation 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

Please refer to the "(v) Assets and liabilities" under "(3) Analysis of 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.

Save for the above, there was no significant change in the material assets of the Company during the Reporting Period. Including: Overseas assets amounting to RMB166,754,000, representing 0.28% of the total assets.

3. ANALYSIS OF 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.
- 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. The Group has expanded its coverage of brand value from traditional medical products to new Great Health products.

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

- (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」涼茶博物館). 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 and the selection of planting bases of medicinal herbs nationwide with adaptations to varying local conditions, the Group and its joint ventures have more than 60 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.
- (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.

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

- (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 5 state level research and development institutions, 1 national level corporate technical center, 2 postdoctoral workstations, 16 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 added two provincial level engineering technology centers, namely Guangdong Male Medicine Engineering Technology Research Center (廣東省男科用藥工程技術研究中心) and Guangdong Plant Beverage Engineering Technology Research Center (廣東省植物飲料工程技術研究中心).

- (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, 12 domestic double invite academicians and Chinese medicine master people, 7 foreign consultants, 3 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.

1. DISCUSSION AND ANALYSIS OF OPERATION

In 2020, the Group proactively adopted the development theme of “Year of Leapfrogging Reform” and promoted each of its operating activities by seeking progress while maintaining stability, rising to the challenges and strictly controlling risks.

During the Reporting Period, as the epidemic broke out, the raw materials and transportation were affected to some extent, the number of outpatient visits in medical institutions nationwide and the end-user demand for pharmaceutical products declined dramatically, and the market of fast-moving consumer goods was hard hit. As a result, the relevant business segments of the Group were affected to varying degrees, thereby leading to a year-on-year decrease in the Group’s operating results. In 2020, the Group’s revenue amounted to RMB61,673,702,000, representing a year-on-year decrease of 5.05%; the total profit was RMB3,739,082,000, representing a year-on-year decrease of 9.43%; the net profit attributable to shareholders of the Company was RMB2,915,245,000, representing a decrease of 8.58% as compared with the corresponding period of 2019.

Facing the unexpected outbreak of the epidemic in 2020, on the one hand, the Group actively deployed various epidemic prevention and control measures, implemented tasks for ensuring provision of anti-epidemic and epidemic prevention materials, and strove for supporting the epidemic prevention at the frontline. On the other hand, the Group solidly promoted safe production and construction for epidemic prevention and control, organized resumption of work and production in an orderly manner, and at the same time took effective measures to strengthen market expansion and sales of the products, thereby alleviating the impact of the epidemic on the Group’s production and operations. During the Reporting Period, the Group proactively worked on the following:

Firstly, during the outbreak of the epidemic, the Group initiated the emergency response mechanism and swiftly carried out production and storage of epidemic prevention and anti-epidemic materials to implement effectively the tasks assigned by the governments at provincial and municipal levels for reserving drugs, medical and sanitary equipment, and epidemic prevention and anti-epidemic materials. Efforts were made to ensure the anti-epidemic supplies for supporting the frontline of the fight against the epidemic.

Secondly, during the stage of normalized epidemic prevention and control, we organized resumption of work and production in an orderly manner and strengthened efforts in market expansion, in an effort to minimize the impact of the epidemic. At the same time, with focus on the Group’s principal businesses, we actively explored new opportunities and new models to promote the development of the Group’s principal businesses.

- 1) Further speeding up the creation of Diva brands and epidemic prevention related products for the Great Southern TCM segment, and constantly strengthening the market expansion efforts.
 1. Significant focus was directed to the promising products by deploying resources to create Diva brands and enhance the momentum to drive the development of business segments. During the Year, we selected a series of promising products to be included in the project of nurturing Diva brands, such as Xia Sang Ju Granule. As at the end of the Reporting Period, more than 10 products were selected for the project of Diva brands, and in the future we will speed up the market expansion and strengthen the efforts for the development of the promising products.
 2. Active efforts were made to develop and strengthen the market expansion of anti-epidemic and epidemic prevention related products, and to constantly strengthen cooperations with top 100 domestic drugstore chains to increase product sales at the terminals.

Discussion and Analysis of Operation

1. DISCUSSION AND ANALYSIS OF OPERATION *(Continued)*

- 2) Strengthening the efforts to explore an innovation-based development mode for the Great Health segment, with focus on core channels, and attempting to seek opportunities amid adversities.
 1. Facing the challenges brought by the epidemic, in terms of the Great Health segment, we enhanced the exploration of new sales models and new development paths, further strengthened the development of e-commerce channels and cooperations with e-commerce platforms, actively engaged in community e-commerce and takeaway platforms, and vigorously expanded the live streaming marketing model to promote product sales.
 2. During the normalized epidemic prevention and control stage, WLJ Great Health quickly focused on the core channels of catering and ready-to-drink, seizing the sales opportunities in the summer, Mid-Autumn Festival and National Day peak seasons to increase the market share in the catering industry and to vigorously promote product sales.
 3. With the help of Wang Lao Ji's brand advantages, we focused on creating the new beverage brand of Ci Ning Ji series by increasing investment in advertising and distribution in all pipelines, and giving out consumption coupons of Ci Ning Ji for poverty alleviation purpose to increase product sales volume.
 4. We launched public welfare activities, such as "Healthy China Care Action", "Auspicious China" and "Be with You in the Fight Against the Epidemic", and deepened the connections between our brand and certain consumption scenes, such as wedding banquet, beginning of a school semester, commencement of business operations, and start of market trading and driving. We explored the connotation of "Ji Culture", extended the core connotation of the brand and enhanced the brand influence.

Discussion and Analysis of Operation

1. DISCUSSION AND ANALYSIS OF OPERATION (Continued)

- 3) Optimizing the allocation of resources in the Great Commerce segment and accelerating the transformation and development.
 1. GP Corp. seized the market opportunities to increase retail outlets and regional coverage and accelerate its deployment of retail outlets actively with 12 new retail outlets opened; the integration of retail resources was completed. Guangzhou Cai Zhi Lin medicine pharmacy chains of Cai Zhi Lin completed the transfer of its 100% shareholding to GP Corp.. As at the end of the Reporting Period, the number of the retail outlets of GP Corp. had increased to 137.
 2. We broadened financing channels and optimized capital structure. During this Year, GP Corp. solidly pushed the spin-off and overseas listing exercise by completing resources integration, ownership reform and share enlargement through capital increase. Additionally, we constantly carried out the asset-backed securitization of accounts receivable. As at the end of the Reporting Period, the accumulated sum of assets sold under the asset-backed securitization of accounts receivable amounted to RMB4.280 billion.
 3. Cai Zhi Lin deepened cooperations with various major hospitals to increase the sales of TCM decoction-pieces and continuously develop the TCM industry further; completed the construction related work of the characteristic “TCM Medical Center” to create a pivot for the inheritance of TCM culture and “fashionable Chinese medicine”
- 4) Accelerating the development of the Great Medical Care segment and new models of business. During the Reporting Period, Guangzhou Baiyunshan Hospital further improved the building of medical disciplines with set-up of the TCM Department of Oncology to improve the market competitiveness of medical services; Baiyunshan Yihu Company and Biyunshan Jianhu Company were established to engage in the businesses of research and development and production of masks, protective gowns and other protective products, and to constantly explore new business models.

Thirdly, we continued to promote and increase investment in scientific research and innovation together with investment in product research and development, and strengthened construction of scientific research platforms. During this Year, the Group and its joint ventures added two provincial-level engineering technology centers, namely Guangdong Male Medicine Engineering Technology Research Center (廣東省男科用藥工程技術研究中心) and the Guangdong Plant Beverage Engineering Technology Research Center (廣東省植物飲料工程技術研究中心), and completed the construction of the Guangdong Academician Workstation (廣東省院士工作站) and Guangdong Provincial Industrialization Base for Breeding of Seed and Seedling of Characteristic Chinese Herbal Medicines (廣東省特色中藥材種子種苗繁育產業化基地). The National Canine Experimental Animal Resource Database (國家犬類實驗動物資源庫) under Guangyao General Institute successfully genetically engineered a canine model of human haemophilia A; the joint venture HWBYS was recognized as a “National Technological Innovation Demonstration Enterprise”; the Company’s wholly-owned subsidiary, namely Zhongyi, was recognized by the China Industry-University-Research Collaboration Association as “2020 Demonstration Enterprise for Innovation in China Industry-University-Research Collaboration”. As at the end of the Reporting Period, the Group and its joint ventures had accumulatively 8 state-level scientific research platforms and 39 provincial-level scientific research platforms.

Discussion and Analysis of Operation

1. DISCUSSION AND ANALYSIS OF OPERATION *(Continued)*

During the Reporting Period, the Group and its joint ventures received 11 production approval documents and had 6 kinds of products passing the consistency evaluation in total. The Group submitted 85 patent applications, including 71 applications for invention patent and 14 applications for utility model patent; the Group received 60 licensed patents, 40 licensed invention patents and 20 licensed utility model patents.

Fourthly, we strengthened the formation of quality system and comprehensively implemented quality control. During the Reporting Period, the Group further strengthened product quality management and organized implementation of more than 20 standardized technical transformation projects to improve the quality level; conducted GMP and GSP quality diagnosis for more than 10 subordinate enterprises to effectively identify hidden quality problems; gradually established a “big data of production safety” intelligent system, a grid management system, a risk control system and a safe production information platform, and carried out preliminary tests in 6 pilot enterprises to guarantee the safe production through scientific and technological innovation.

Fifthly, we accelerated the construction of industrial bases. During the Year, the construction of WLJ Great Health’s raw liquid extraction base in Meizhou (王老吉大健康公司梅州原液提取基地) and Cai Zhi Lin’s traditional Chinese medicine industrialized production and service base in Meizhou (采芝林藥業梅州中藥產業化生產服務基地) were completed and they were put into operation in the second half of the Year.

Sixthly, we continued to strengthen the implementation of work related to party building, strategy, appraisal, regulation, cost, risk, safety and environmental protection, etc., established and improved the risk monitoring mechanism, and strengthened the internal audit mechanism to further enhance the management efficiency.

Discussion and Analysis of Operation

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 2019 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2019 (%)
Revenue	61,673,702	64,951,778	(5.05)
Include: income from principal operations	61,450,355	64,682,984	(5.00)
Cost of sales	51,233,326	52,729,242	(2.84)
Include: cost from principal operations	51,176,776	52,668,577	(2.83)
Selling and distribution expenses	4,575,996	5,736,794	(20.23)
General and administrative expenses	1,844,424	1,978,870	(6.79)
Research and development expenses	611,935	576,511	6.14
Financial expenses	5,152	117,117	(95.60)
Profit before tax	3,739,082	4,128,533	(9.43)
Net profit attributable to shareholders of the Company	2,915,245	3,188,885	(8.58)
Net cash flow from operating activities	585,185	5,022,367	(88.35)
Net cash flow from investing activities	(1,088,056)	(1,028,395)	(5.80)
Net cash flow from financing activities	1,439,376	(2,231,813)	164.49
Investment income	344,171	198,459	73.42
Gains from changes in fair value	(8,469)	31,623	(126.78)
Impairment losses in respect of assets	(23,950)	(11,485)	(108.53)
Gains on disposal of assets	2,954	1,274	131.87
Non-operating income	157,616	109,180	44.36
Non-operating expenses	90,950	35,659	155.06
Minority interest	176,383	252,403	(30.12)

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. The year-on-year decrease in financial expenses was attributable to: (i) a year-on-year increase in interest income of subsidiaries of the Company; and (ii) a decrease in average bank loan interest rate of GP Corp., a subsidiary of the Company.
2. The year-on-year decrease in net cash flow from operating activities was attributable to: (i) a year-on-year decrease in net cash flow from operating activities of WLJ Great Health, a wholly-owned subsidiary of the Company, as affected by the epidemic and the delay in receipt of payments for the sale of goods during the 2021 Spring Festival; and (ii) a year-on-year decrease in net cash flow from operating activities resulting from the year-on-year decrease in the sales proceeds received by subsidiaries of the Company due to the impact of the epidemic.
3. The year-on-year increase in cash flow from financing activities was attributable to an increase in bank borrowings of the Company and its subsidiaries.
4. The year-on-year increase in investment income was attributable to: (i) a year-on-year increase in investment income from long-term equity investments of the Company and its subsidiaries under the equity method of RMB209 million; (ii) a year-on-year decrease in investment income of RMB37 million arising from investment losses recognized for the difference between the carrying amount and selling price of trade receivables sold during the Report Period due to the issuance of asset-backed securities (ABS) on trade receivables by GP Corp., a subsidiary of the Company in December 2019; and (iii) no income from wealth management was generated during the Reporting Period while income from wealth management of RMB28 million was recognized in the corresponding period of last year.
5. The year-on-year decrease in gains from changes in fair value was attributable to the fluctuations in market prices of shares of C.Q. Pharmaceutical Holding (重藥控股股份有限公司), China Everbright Bank Company Limited (中國光大銀行股份有限公司) and other companies held by the Company.
6. The year-on-year decrease in impairment losses in respect of assets was attributable to a year-on-year increase in the provision for the price decline of inventory made by subsidiaries of the Company.
7. The year-on-year increase in gains from disposal of assets was attributable to a year-on-year increase in gains from disposal of assets of the subsidiaries of the Company.
8. The year-on-year increase in non-operating income was attributable to a year-on-year increase in income from government compensations for land requisition and resettlement recognized by the subsidiaries of the Company.
9. The year-on-year increase in non-operating expenses was attributable to: (i) the provision for taxes to be refunded and litigation losses made by the subsidiaries of the Company; and (ii) a year-on-year increase in expenditures on charitable donation and losses from suspension of work due to the impact of the epidemic on the subsidiaries of the Company.
10. The year-on-year decrease in minority interest was attributable to a corresponding decrease in equity of minority shareholders as a result of the decrease in profit of the subsidiaries of the Company.

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 results

Operations	Results of principal operations by industry					
	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 2019 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2019 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2019 (percentage point)
Great Southern TCM	10,199,689	(12.45)	6,510,322	(10.74)	36.17	A decrease of 1.22 percentage points
Great Health	7,858,917	(25.00)	4,096,517	(26.11)	47.87	An increase of 0.78 percentage point
Great Commerce	43,177,117	1.86	40,407,599	1.75	6.41	An increase of 0.10 percentage point
Other	214,632	29.77	162,338	36.54	24.36	A decrease of 3.76 percentage points
Total	61,450,355	(5.00)	51,176,776	(2.83)	16.72	A decrease of 1.85 percentage points

Types of products	Results of principal operations by products					
	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 2019 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2019 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2019 (percentage point)
Chinese patent medicine	4,392,132	(5.89)	2,649,635	(9.31)	39.67	An increase of 2.28 percentage points
Chemical medicine	5,807,557	(16.83)	3,860,687	(11.69)	33.52	A decrease of 3.87 percentage points
Total of Great Southern TCM	10,199,689	(12.45)	6,510,322	(10.74)	36.17	A decrease of 1.22 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 results (Continued)

Regions	Results of principal operations by region					
	Income from principal operations	Increase/ (Decrease) over the same period	Cost of principal operations	Increase/ (Decrease) over the same period	Profit margin of principal operations	Increase/ (Decrease) over the same period
	Income from principal operations (RMB'000)	of 2019 (%)	Cost of principal operations (RMB'000)	of 2019 (%)	Profit margin of principal operations (%)	of 2019 (percentage point)
Southern China	47,863,676	(2.73)	41,445,632	(2.20)	13.41	A decrease of 0.46 percentage point
Eastern China	4,762,569	(19.98)	3,131,893	(13.64)	34.24	A decrease of 4.82 percentage points
Northern China	2,385,185	(8.12)	1,617,774	(1.57)	32.17	A decrease of 4.52 percentage points
North-Eastern China	534,273	(4.71)	426,995	4.86	20.08	A decrease of 7.29 percentage points
South-Western China	3,937,559	(8.47)	2,922,092	(2.73)	25.79	A decrease of 4.38 percentage points
North-Western China	1,927,070	(5.28)	1,595,183	1.28	17.22	A decrease of 5.36 percentage points
Exports	40,023	18.55	37,207	14.35	7.03	A increase of 3.41 percentage points

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

Notes:

- ① The higher increase in cost of principal operations of the other business segments was mainly attributable to the expansion of operational scale of Guangzhou Baiyunshan Hospital, a subsidiary of the Company, during the Year, and the establishment of Baiyunshan Yihu Company and Baiyunshan Jianhu Company to expand the business of face masks, protective gowns and other protective articles.
- ② In 2020, affected by the decrease in the number of patients attending hospitals, the restriction on logistics and delivery and the decline of end demand for drugs during the epidemic, the types of products and the sales volume of the products sold in hospitals in the Great Southern TCM segment declined to varying degrees, resulting in the year-on-year decrease in the annual revenue from the principal operations of the Great Southern TCM segment.
- ③ Since various epidemic prevention and control measures have been taken across the country since the outbreak of the epidemic in early 2020, the market demand for Wang Lao Ji herbal tea and related products was under pressure and its sales during the 2020 Spring Festival holiday were significantly affected, resulting in the year-on-year decrease in the annual revenue from the principal operations of the Great Health segment.

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 of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over the same period of 2019 (%)	Sales increase/ (decrease) over the same period of 2019 (%)	Inventory increase/ (decrease) over the same period of 2019 (%)
Cefixime series (thousand tablets/ thousand packs/thousand grains)	271,075.40	280,396.46	28,567.69	(27.43)	(21.99)	0.80
Sildenafil Citrate Tablet (thousand tablets)	81,125.36	78,345.18	12,007.45	29.28	26.86	28.81
Xiao Ke Pill (thousand bottles)	42,768.16	42,408.54	3,466.23	47.81	22.61	(7.77)
Cephathiamidine for Injection (thousand ampoules)	11,167.68	15,221.63	1,511.72	(68.31)	(52.72)	(66.37)
Zi Shen Yu Tai Pill (thousand boxes/thousand bottles)	5,879.72	5,670.82	917.89	25.11	8.70	35.71
Xiao Chai Hu Granule (thousand packs)	34,471.10	34,186.16	5,130.91	1.50	(3.99)	3.59
Qing Kai Ling series (thousand packs/thousand bottles/ thousand grains)	564,409.60	461,485.46	80,776.49	(10.92)	(27.05)	35.29
Cephalopropylene series (thousand tablets/thousand packs)	67,363.02	68,235.99	7,225.77	(28.94)	(23.84)	(5.45)
Paracetamol Caffeine and Aspirin Powder series (thousand boxes)	20,909.67	23,659.89	1,242.31	(2.97)	12.61	(69.64)
Amoxicillin series (thousand packs/ thousand grains)	835,791.97	991,434.31	18,332.10	(31.13)	(18.32)	(89.61)

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 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 production volume of Sildenafil Citrate Tablet increased significantly year on year, mainly due to the fact that the Company vigorously developed the terminal market, and took effective promotion measures and increased production volume to meet market demands.
- ② The production volume of Xiao Ke Pill increased significantly year on year, mainly due to the fact that we adopted strategies to control the production volume in 2019 to digest the relatively large inventory at the end of 2018, and we resumed the normal production volume in 2020, which resulted in the year-on-year growth in the production volume.
- ③ The production volume, sales volume and inventory of Cephathiamidine for Injection as at the end of the Reporting Period decreased significantly year on year, mainly due to the facts that China continued to impose strict limitation on the application of antibiotics, the National Medical Insurance Catalogue continued to apply stricter conditions for the use of Cephathiamidine, the market demands and sales volume decreased as fewer patients attended hospitals amid the epidemic, and the Company controlled the production volume, leading to the decrease in production volume and inventory.
- ④ The inventory of Zi Shen Yu Tai Pill as at the end of the Reporting Period increased significantly year on year, mainly due to ensuring adequate supplies in view of the increase in market demands as expected by the Company's subordinate production enterprises, and therefore the products were stocked up in advance, leading to the increase in the inventory.
- ⑤ The inventory of Qing Kai Ling series as at the end of the Reporting Period increased more significantly year on year, mainly due to the fact that an increase in market demand was expected in view of the influenza peak season and the products of the Company's subordinate production enterprises were stocked up in advance, resulting in the increase in the inventory.
- ⑥ The inventory of Paracetamol Caffeine and Aspirin Powder series at the end of the Reporting Period decreased more significantly year on year, mainly due to the increase in the inventory at the end of 2019 for coping with the sales demand for the first quarter of 2020. The inventory at the end of 2020 was close to the normal inventory level, but the sales volume increased in 2020, eventually leading to the decrease in inventory year on year.
- ⑦ The production volume and inventory of Amoxicillin series decreased significantly year on year, mainly due to the decrease in market demands in 2020 and the large inventory at the end of 2019, which caused the adoption of the operation strategies of controlling the production volume and digesting the inventory in 2020, and led to the decrease in the production volume and inventory year on year.

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 2020		2019		Increase/ (decrease) over the same period of 2019 (%)
		Amount (RMB'000)	% of the proportion of operation cost (%)	Amount (RMB'000)	% of the proportion of operation cost (%)	
Manufacturing business	Raw materials	8,326,095	78.39	9,881,184	76.98	(15.74)
	Fuel	116,484	1.10	132,655	1.03	(12.19)
	Labor costs	320,179	3.01	378,685	2.95	(15.45)
	Others	1,859,243	17.50	2,444,872	19.04	(23.95)
Pharmaceutical distribution business	Cost of purchase	40,407,599	100.00	39,712,291	100.00	1.75
Others	Other cost	147,176	100.00	118,890	100.00	23.79

4) Major suppliers and sale

During the Year, sales by the Group to the top five customers amounted to RMB4,829,147,000 (2019: RMB4,724,395,000), representing approximately 7.86% of the total sales (2019: 7.30%) of the Group. The sales to the largest customer amounted to RMB1,460,316,000 (2019: RMB1,475,979,000), representing 2.38% (2019: 2.28%) of the total sales of the Group. The sales to the top five 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 top five suppliers amounted to RMB4,509,662,000 (2019: RMB5,826,588,000), representing approximately 8.79% of the total purchases (2019: 9.38%) of the Group for the Year. The purchases from the largest supplier amounted to RMB1,109,956,000 (2019: RMB2,226,892,000), representing 2.16% (2019: 3.58%) of the total purchases of the Group for the Year. The purchases from the top five suppliers included RMB 0 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 2020 Social Responsibility Report of the Company (the full text of which had been disclosed on the website of SSE and 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 top five 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 RMB4,575,996,000 (2019: RMB5,736,794,000), representing a decrease of approximately 20.23% as compared with last year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,844,424,000 (2019: RMB1,978,870,000), representing a decrease of approximately 6.79% as compared with last year.

During the Reporting Period, the Group's research and development expenses was approximately RMB611,935,000 (2019: RMB576,511,000), representing an increase of approximately 6.14% as compared with last year.

During the Reporting Period, the Group's financial expenses was approximately RMB5,152,000 (2019: RMB117,117,000), representing a decrease of approximately 95.60% as compared with last year, which was mainly due to (i) a year-on-year increase in interest income of the subsidiaries of the Company; and (ii) a decrease in average bank loan interest rate of GP Corp., a subsidiary of the Company.

During the Reporting Period, the Group's income tax expenses was approximately RMB647,454,000 (2019: RMB687,246,000), representing a decrease of approximately 5.79% as compared with last 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)	611,935
Capitalization of research and development expenses in the current year (RMB'000)	6,924
Total research and development expenses (RMB'000)	618,859
Ratio of research and development expenses to income from operations (%)	1.00
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	6.07
Ratio of total research and development expenses to net assets (%)	2.19
Number of the research and development personnel of the Group	556
Percentage of the total number of the research and development personnel in the total number of personnel of the Group (%)	2.21
Percentage of the capitalization of research and development expenses (%)	1.12

(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 2019 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2019 (%)	Reasons
Net cash flow from operating activities	585,185	5,022,367	(88.35)	1) the year-on-year decrease in net cash flow from operating activities of WLJ Great Health, a wholly-owned subsidiary of the Company, as affected by the epidemic and the delay in receipt of payments for the sale of goods during the 2021 Spring Festival; and 2) a year-on-year decrease in net cash flow from operating activities resulting from the year-on-year decrease in the sales proceeds received by the subsidiaries of the Company due to the impact of the epidemic.
Net cash flow from investing activities	(1,088,056)	(1,028,395)	(5.80)	/
Net cash flow from financing activities	1,439,376	(2,231,813)	164.49	The increase in bank borrowings of the Company and its subsidiaries.

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 operations

Applicable Not Applicable

(3) Analysis of financial conditions

(i) Liquidity

As at 31 December 2020, the current ratio of the Group was 1.62 (31 December 2019: 1.57), and its quick ratio was 1.29 (31 December 2019: 1.24). Accounts receivable turnover rate was 5.57 times (31 December 2019: 6.24 times), representing a decrease of 10.78% as compared with the corresponding period of 2019. Inventory turnover rate was 5.28 times (31 December 2019: 5.57 times), representing a decrease of 5.27% as compared with the corresponding period of 2019.

(ii) Financial resources

As at 31 December 2020, cash and cash equivalents of the Group amounted to RMB17,765,133,000 (31 December 2019: RMB16,833,623,000), of which approximately 99.50% and 0.50% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2020, the Group had bank borrowings of RMB8,763,280,000 (31 December 2019: RMB5,889,009,000), including short-term borrowings of RMB 8,265,730,000 (31 December 2019: RMB5,869,009,000), current portion of non-current liabilities of RMB 0 (31 December 2019: RMB15,500,000) and long-term borrowings of RMB 497,550,000 (31 December 2019: RMB4,500,000).

(iii) Capital structure

As at 31 December 2020, the Group's current liabilities amounted to RMB29,243,232,000 (31 December 2019: RMB29,376,966,000), representing a decrease of 0.46% as compared with the corresponding period of 2019, and its long-term liabilities was RMB2,311,564,000 (31 December 2019: RMB1,527,206,000), with an increase of 51.36% as compared with the corresponding period of 2019. The shareholders' equity attributable to the shareholders of the Company amounted to RMB26,144,843,000 (31 December 2019: RMB24,184,797,000), with an increase of 8.10% as compared with the corresponding period of 2019.

(iv) Capital expenditure

The Group expects that the capital expenditure for 2021 to be approximately RMB2.115billion (2020: RMB1.098 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..

Discussion and Analysis of Operation

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

(3) Analysis of financial conditions (Continued)

(v) Assets and liabilities

Items	As at 31 December 2020 (RMB'000)	% of the total assets (%)	As at 31 December 2019 (RMB'000)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2019 (%)	Reasons for changes
Financial assets held for trading	4,000	0.01	0	0.00	/	The reclassification of asset-backed securities (ABS) on trade receivables issued by GP Corp., a subsidiary of the Company, which will fall due within one year, from "other non-current financial assets" to this item.
Accounts receivable financing	2,164,979	3.62	1,515,914	2.66	42.82	(1) The reclassification of accounts receivable of asset-backed securities (ABS), which the management of GP Corp., a subsidiary of the Company, intends to participate in, of RMB750 million to this item; (2) the decrease in the balance of notes receivable of the subsidiaries of the Company.
Advances to suppliers	1,032,533	1.73	673,353	1.18	53.34	The increase in prepayments for the procurement of drugs and other materials procured by subsidiaries of the Company.
Other receivables	765,711	1.28	1,173,360	2.06	(34.74)	(1) Dividends for 2019 received by the Company; (2) the year-on-year decrease in the amount of business transactions of GP Corp., a subsidiary of the Company.
Debt investment	505,069	0.85	0	0.00	/	Additional held-to-maturity time deposits of the Company.
Other equity instrument investment	116,367	0.19	81,978	0.14	41.95	The increase in capital contributions made by the Company to investees.
Construction in progress	1,276,251	2.14	667,402	1.17	91.23	The increase in investment in construction in progress of the Company and its subsidiaries.

Discussion and Analysis of Operation

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

(3) Analysis of financial conditions (Continued)

(v) Assets and liabilities (Continued)

Items	As at 31 December 2020 (RMB'000)	% of the total assets (%)	As at 31 December 2019 (RMB'000)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2019 (%)	Reasons for changes
Development expenditure	6,736	0.01	2,011	0.00	234.91	The increase in expenditures incurred by the subsidiaries of the Company at the development stage of intangible assets.
Other non-current assets	159,429	0.27	289,536	0.51	(44.94)	The decrease in advance payments for construction projects according to the contracts by the subsidiaries of the Company.
Short-term borrowings	8,265,730	13.83	5,869,009	10.32	40.84	(1) The replacement of internally entrusted borrowings of RMB1.250 billion originally offset at the consolidated statements with bank borrowings by the subsidiaries of the Company; (2) the increase in bank borrowings of the Company and its subsidiaries for the storage of the epidemic prevention and control supplies and the payment for the procurement from suppliers; (3) the policy-based preferential loans borrowed by the Company from banks during the Reporting Period.
Contract liabilities	1,249,256	2.09	4,675,362	8.22	(73.28)	(1) The year-on-year decrease in balances of advance payments on sales during the Reporting Period since the peak sales period of WLJ Great Health, a wholly-owned subsidiary of the Company, falls on the Spring Festival holiday, and the 2021 Spring Festival was later than that of last year and the collection of sales proceeds for the Spring Festival holiday mainly occurred in January 2021 while the collection of sales proceeds for the 2020 Spring Festival holiday mainly occurred in December 2019; (2) the decrease in advance payments on sales of other subsidiaries of the Company during the Reporting Period as affected by the epidemic.

Discussion and Analysis of Operation

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

(3) Analysis of financial conditions (Continued)

(v) Assets and liabilities (Continued)

Items	As at 31 December 2020 (RMB'000)	% of the total assets (%)	As at 31 December 2019 (RMB'000)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2019 (%)	Reasons for changes
Other current liabilities	155,980	0.26	606,815	1.07	(74.30)	The decrease in the taxes to be written off in the advance payments from customers within one year of the subsidiaries of the Company.
Long-term borrowings	497,550	0.83	4,500	0.01	10,956.67	The policy-based preferential loans borrowed by the Company and its subsidiaries from banks.
Provisions	104,528	0.17	53,206	0.09	96.46	Provision made by the subsidiaries of the Company for taxes to be refunded and losses relating to litigations during the Reporting Period.
Deferred income	784,075	1.31	575,837	1.01	36.16	The increase in government compensation for land requisition and resettlement received by the subsidiaries of the Company.
Other comprehensive income	(17,674)	(0.03)	(139)	0.00	(12,618.36)	The decrease in fair value of the financial assets and difference in the exchange rate conversion of foreign currency of the subsidiaries of the Company.

Discussion and Analysis of Operation

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

(3) Analysis of 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 2020, cash and cash equivalents of the Group amounted to RMB17,765,133,000 with an increase of RMB931,510,000 as compared with the beginning of 2020. The net cash flow from operating activities amounted to RMB585,185,000 with a decrease of RMB4,437,182,000 as compared with 2019.

(viii) Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

(ix) Charge on the Group's assets

As at 31 December 2020, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, as secured by buildings of fixed assets with the original value amounting to HKD8,893,000 and net value of HKD 6,116,000, and by investment properties with the original value amounting to HKD 6,843,000 and net value of HKD 4,622,000, had obtained the overdraft amounting to HKD 300,000, and letter of credit and 90-day credit in the total amount of HKD 100,000,000 from Bank of China (Hong Kong) Co., Ltd.. Unexpired letter of credit of EUR 259,000 and USD 371,000 in value had also be obtained.

(x) Bank loans, overdraft and other borrowings

As at 31 December 2020, the bank loans of the Group amounted to RMB 8,763,280,000 (31 December 2019: RMB 5,889,009,000), with an increase of RMB 2,874,271,000 as compared with the beginning of 2020. The above bank loans included short-term borrowings of RMB 8,265,730,000 and long-term borrowings of RMB 497,550,000.

(xi) Gearing ratio

As at 31 December 2020, the Group's gearing ratio (total liabilities/total assets × 100%) was 52.80% (31 December 2019: 54.32%).

(xii) Material investment

As at 31 December 2020, except for those disclosed in "2. Significant Changes in the Material Assets of the Group During the Reporting Period" in the section headed "III Company's Business Profile" in this annual report, the Group did not have any other material additional investment.

Discussion and Analysis of Operation

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

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

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

Applicable Not Applicable

(xiv) Others

Applicable Not Applicable

(4) Analysis of 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 of 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:

Discussion and Analysis of Operation

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

(4) Analysis of 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)*

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. In 2020, as a highlighted feature, the traditional Chinese medicine played a huge role in the prevention and control of COVID-19 epidemic, with a great contribution to the success of China’s fight against the epidemic, and thus has received worldwide attention and recognition. In the second half of 2020, Guangdong province and cities held the Traditional Chinese Medicine Conference, at which it was emphasized that policy support and protection should be strengthened to promote the modern industrial development of Chinese medicine. In September 2020, the State Administration of Traditional Chinese Medicine, together with the office of the leading group for the construction of Guangdong-Hong Kong-Macao Greater Bay Area, issued the “Plan of Construction of A Highland for Traditional Chinese Medicine in Guangdong-Hong Kong-Macao Greater Bay Area (2020-2025)” (《粵港澳大灣區中醫藥高地建設方案(2020-2025年)》), proposing to create a highland for innovation, talent and industry in order to boost this area to become by 2025 a leader of TCM characteristic service, a pioneer of TCM education reform, a demonstrator of scientific and technological innovation in TCM, and a facilitator of high-quality development of TCM cause and industry, with a significant rise in the comprehensive strength and international competitiveness, and an increasingly strong role in guiding the preservation and innovative development of TCM across the country. Affected by factors such as restrictions on the use of TCM injections and TCM prescription rights, the proprietary Chinese medicines have developed slowly. Compared with other segments, the growth rate of operating revenue has decreased significantly in recent years and is much lower than that of other segments. As China is greatly supporting the preservation and innovative development of TCM, TCM industry will probably see a rapid development in the period ahead.

Discussion and Analysis of Operation

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

(4) Analysis of 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)*

① Chinese patent medicine *(Continued)*

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

② Chemical medicine

In recent years, encouraged by various medical policies, including the consistency evaluation for generic drugs, the adjustment to the National Medical Insurance Catalogue (《國家醫保目錄》), and the shortened review and approval process for innovative drugs, the innovation-driven transformation of chemical medicines has been accelerated. In 2020, in terms of the generic drugs, the consistency evaluation was advanced steadily. With the normalization of China's national centralized volume-based procurement of medical products, the National Healthcare Security Administration carried out the second, third and fourth rounds of national centralized volume-based procurement of medical products, with average price cuts of 53% and 54% in the second and third round, respectively. It is expected that the profitability of generic drugs will further decrease in China. It is foreseeable that the profitability of China's generic drugs will drop further. In terms of innovative drugs, the formal introduction of the Administrative Measures on Drug Registration, which is clinical value-oriented and encourages research and innovation in pharmaceutical production, has further accelerated the development of innovative drugs. On 11 September 2020, the National Medical Products Administration and China National Intellectual Property Administration jointly announced the Implementation Measures for Early Resolution Mechanism in Drug Patent Disputes (for Trial Implementation) (Draft for Comments) (《藥品專利糾紛早期解決機制實施辦法(試行)(徵求意見稿)》) to further improve the linkage system for drug patent. The above-mentioned policies and regulations will affect the revenues and profits of the chemical drug enterprises, and lots of production enterprises with extreme homogeneity will face the industry's major reshuffle, while innovative drugs and generic drugs which have passed consistency evaluation will embrace new development opportunities.

Discussion and Analysis of Operation

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

(4) Analysis of 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 *(Continued)*

The Group has a complete antibiotic production chain from raw material medicine to preparation, with products covering common antibiotic varieties. The Group strives 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” (抗之霸).

2) Policies related to the industry

A) Changes in medical policies and regulations, the impact and our counter-measures

① The new Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) and the Measures for the Supervision and Administration of Drug Production (《藥品生產監督管理辦法》) were formally implemented

On 30 March 2020, the new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production were officially published and put into force on 1 July. The new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production fully implement the Market Authorization Holder System, optimize review and approval processes, strengthen whole-process supervision and legal responsibility, detail circumstances subject to penalty, and crack down on data fraud and other illegal activities.

Counter-measures: In accordance with the requirements of related policies for drug registration and production supervision, the Group will continue to play the role as an innovator by strengthening the research and development of new products and enhancing innovation capability, and strictly following the whole-process supervision requirements in terms of production and sales to ensure the quality and safety of the products.

Discussion and Analysis of Operation

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

(4) Analysis of 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 in medical policies and regulations, the impact and our counter-measures *(Continued)*

② The official launch of quality consistency evaluation of generic chemical drugs for injection

On 12 May 2020, the National Medical Products Administration issued the Announcement on Performing Consistency Evaluation of the Quality and Efficacy of Generic Chemical Injections (《關於開展化學藥品注射劑仿製藥質量和療效一致性評價工作的公告》), marking the official launch of the consistency evaluation for generic chemical injections in China. Drugs passing the consistency evaluation will be allowed by drug regulatory authority to be marked on the manual and label to that effect, and added to the Catalogs of Chemical Drugs Newly Approved for Marketing and Passing the Consistency Evaluation of the Quality and Efficacy of Generic Drugs (《新批准上市以及通過仿製藥質量和療效一致性評價的化學藥品目錄集》), and enjoy policy support from competent authority in accordance with the Opinions of the General Office of the State Council on Performing the Consistency Evaluation of Quality and Efficacy of Generic Drugs (Guo Ban Fa [2016] No. 8) (《國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見》). As at the end of the Reporting Period, 84 injections have passed or been deemed to pass the consistency evaluation, and part of them have been included in the list of medical products for national centralized volume-based procurement.

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

③ Medical representatives have officially entered the era of record keeping

On 30 September 2020, the National Medical Products Administration released the Administrative Measures for the Registration of Medical Representatives (for Trial Implementation) (《醫藥代表備案管理辦法(試行)》), which defines the medical representatives and specifies the scope of their duties, permitted activities and prohibited activities. The release of the Administrative Measures for the Registration of Medical Representatives (for Trial Implementation) (《醫藥代表備案管理辦法(試行)》) will have great impact on the marketing activities of pharmaceutical enterprises.

Counter-measures: The Group will conduct drug sales and academic promotion in strict compliance with the requirements of relevant laws and regulations.

Discussion and Analysis of Operation

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

(4) Analysis of 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 in medical policies and regulations, the impact and our counter-measures *(Continued)*

④ The protection of drug patent rights and interests brings new opportunities for the development of the industry

To protect the legitimate rights and interests of drug patentees, reduce the generic patent infringement risk, encourage innovation in medicine research and development, and promote high-quality development of generic drugs, the National Medical Products Administration and China National Intellectual Property Administration jointly drafted the Implementation Measures for Early Resolution Mechanism in Drug Patent Disputes (for Trial Implementation) (Draft for Comments) (《藥品專利糾紛早期解決機制實施辦法(試行)徵求意見稿》) and began to seek comments on 11 September 2020. The Draft for Comments raises specific requirements for drug patent linkage system and clearly specifies the policy support for patent challenge to encourage China's development of generic drugs and actively influence the development of innovative drugs.

Counter-measures: The Group will continue to pay attention to the progress of the Implementation Measures for Early Resolution Mechanism in Drug Patent Disputes (for Trial Implementation) (Draft for Comments) (《藥品專利糾紛早期解決機制實施辦法(試行)徵求意見稿》) and make plans on research and development of related products before the official implementation of these measures so as to receive the policy dividends.

Discussion and Analysis of Operation

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

(4) Analysis of 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 in medical insurance policies and regulations, the impact and our counter measures

① Normalization of national centralized volume-based procurement of medical products

Since January 2020, China has carried out three rounds of national centralized volume-based procurement of medical products. According to the released bidding results, the price of the medical products in the centralized volume-based procurement had experienced a significant drop, by approximately 50%. In addition to the centralized procurement, the General Office of the State Council released the Circular on the Reform Plan for Control of High-value Medical Consumables (Guo Ban Fa [2019] No.37) (《國務院辦公廳關於印發治理高值醫用耗材改革方案的通知》(國辦發[2019] 37號)) on 16 October 2020, which puts forward the requirement of the centralized volume-based procurement for coronary stents, and the average price dropped to less than RMB 1,000 from more than RMB 10,000, bringing huge impact on the industry.

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; and will actively participate in the bidding of bulk procurement of drugs organized by the State, and constantly improve the market share of related products. In respect of pharmaceutical distribution, the Group will fully leverage on its advantages on pharmaceutical distribution, and will actively participate in the provision of distribution services for the centralized bulk procurement of drugs organized by the State.

Discussion and Analysis of Operation

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

(4) Analysis of 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 in medical insurance policies and regulations, the impact and our counter-measures *(Continued)*

- ② From DRGs to DIP, China is deepening its medical insurance reform in terms of healthcare cost control.

On 19 October 2020, the National Healthcare Security Administration issued the Notice on the Pilot Work of the Regional Point-Based Medical Insurance Fund Allocation and the Diagnosis-Intervention Packet (《區域點數總額預算和按病種分值付費試點工作方案的通知》), initiating the DIP model across the country. On 4 November, the National Healthcare Security Administration announced the list of DIP pilot cities and 71 cities were included, which is larger than the number of the DRGs pilot cities in 2019. Compared with DRGs, DIP model is based on the average level of historic cost of diagnosis intervention, with lesser degree of difficulty in technology and promotion, and thus is more feasible as China's hospitals have had a lower level of informatization so far. The nationwide application of the DIP model will encourage medical institutions to actively optimize their medical services and realize rational drug use and avoid "big prescription, big examination".

Counter-measures: The Group will actively pay attention to the implementation of DRGs and DIP payment's pilot run, timely grasp the results of DRGs and DIP 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 of 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 in medical insurance policies and regulations, the impact and our counter-measures *(Continued)*

③ Normalized adjustment to the National Medical Insurance Catalogue (《國家醫保目錄》)

On 28 December 2020, the National Healthcare Security Administration and Ministry of Human Resources and Social Security published the 2020 Catalogue of Drugs Covered by Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2020年)》), which adds 119 drugs and removes 29 drugs, bringing the total drugs to be in 2,800 kinds in total, with a basically balanced proportion between Chinese medicines and Western medicines. The new catalogue will enter into force from 1 March 2021. Compared with the previous adjustments to the National Medical Insurance Catalogue, this adjustment has the following characteristics: firstly, the number of negotiated drugs is large, and 96 new additions upon negotiation are exclusive drugs; secondly, the price reduction for drugs within the National Medical Insurance Catalogue (《國家醫保目錄》) is negotiated for the first time, and the price of 14 kinds of drugs whose annual sales exceeds RMB 1 billion drops an average of 43.46%; thirdly, drugs newly marketed this year are included in the scope of adjustment, and finally 16 innovative drugs are added to the National Medical Insurance Catalogue (《國家醫保目錄》), showing the support for innovative drugs.

Counter-measures: The Group will continue efforts in research and development and production management, increase investment in research and development, constantly promote the implementation of new drug projects, further reduce production costs and increase production efficiency, and effectively improve the competitiveness of products. Meanwhile, 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.

Discussion and Analysis of Operation

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

(4) Analysis of 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 in healthcare policies, the impact and our counter-measures

① Further strengthening of drug management and continuous regulatory spotlight on rational drug use

On 26 February 2020, the National Health Commission issued the Opinions on Strengthening Drug Management in Medical Institutions to Promote Rational Drug Use (《關於加強醫療機構藥事管理促進合理用藥的意見》), which sets forth requirements in many aspects, including strengthening drug allocation, rational use of drugs, expanding the scope of pharmaceutical service, strengthening the construction of pharmaceutical talents and improving industry supervision. On 13 August, the National Health Commission issued the Guiding Opinions on Strengthening Performance Appraisal for Primary Healthcare Institutions (for Trial Implementation) (《關於加強基層醫療衛生機構績效考核的指導意見(試行)》), which sets forth the key points in the appraisal system, including rational use of drugs, use of drugs subject to centralized volume-based procurement, use of basic drugs, and percentage of adjuvants.

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 and will promptly adjust the drug marketing activities, and actively market the drugs to the channel of medical institutions.

② Further improved grading system for diagnosis and treatment

On 17 July 2020, the National Health Commission and the National Administration of Traditional Chinese Medicine jointly issued the Administrative Measures for Medical Alliances (for Trial Implementation) (《醫療聯合體管理辦法(試行)》) in order to further promote the building of the grading system for diagnosis and treatment and form a sound and efficient medical and health service system. These measures will further accelerate the development of medical alliances and gradually realize the grid layout and management of medical alliances. The primary medical market will see a further growth as the grading system for diagnosis and treatment is further improved.

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 of 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 in environmental policies, the impact and our counter-measures

26 February 2020, the General Office of the CCP Central Committee and the General Office of the State Council issued the Opinions on Comprehensively Strengthening the Management for Safe Production of Hazardous Chemicals (《關於全面加強危險化學品安全生產工作的意見》), which puts forward specific opinions on accelerating the modernization of the management system and capacity for safe production of hazardous chemicals and comprehensively enhancing the level of safe development. Among them, to strengthen safety risk management, it is emphasized to integrate the safe production standards in chemical industry, petrochemical industry and chemical pharmaceutical industry, solve the problem of standard inconsistency, and establish and improve the safe production standard system for hazardous chemicals.

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

Discussion and Analysis of Operation

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

(4) Analysis of 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	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	Whether included in the national essential medicine list	Whether to be included in the national medical insurance directory	Whether to be included in the provincial medical insurance directory
Cefixime series	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	No	Yes	No
Sildenafil Citrate Tablet	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	No	No	No
Xiao Ke Pill	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	Yes	Yes	No
Cephathiamidine for Injection	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	No	Yes	No
Zi Shen Yu Tai Pill	Drugs used in internal	Kidney-nourishing, spleen-invigorating, primordial Qi-reinforcing, blood-nourishing, mis carriage-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	Yes	Yes	No
Xiao Chai Hu Granule	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	No	Yes	No

Discussion and Analysis of Operation

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

(4) Analysis of 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)

Product Name	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	Whether to be included in the national essential medicine list	Whether to be included in the national medical insurance directory	Whether to be included in the provincial medical insurance directory
Qing Kai Ling series	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), from 29 May 2003 to 20 May 2034 (Injection)	Traditional Chinese medicine	No	Granules and capsules are double-span varieties; oral liquids and injections are prescription drugs	No	Qing Kai Ling Granules, Qing Kai Ling Capsules and Qing Kai Ling Injection were included	Qing Kai Ling capsule and Qing Kai Ling injection were included	Qing Kai Ling oral solution was included
Cefprozil series	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	No	Yes	Cefprozil chewable tablets were included
Paracetamol Caffeine and Aspirin Powder series	Analgesia, antipyretic, antiinflammatory, antirheumatic, anti gout.	Used to relieve fever caused by common cold and influenza and also mitigate the mild and moderate pain, such as headache, joint pain, migraine, toothache, muscle pain, neuralgia, and dysmenorrhea.	No	Chemical medicine	No	No	No	No	No	Yes
Amoxicilla series	Antimicrobial drugs	The product is indicated for infection caused by sensitive bacteria Non-β-lactamase – producing strains.	No	Chemical medicine	No	Yes	No	Yes	Yes	No

Note: The above table sets 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 of 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

Applicable Not applicable

On 28 December 2020, the State officially implemented the new edition of the National Medical Insurance Catalogue (《國家醫保目錄》). As at the end of the Reporting Period, a total of 325 varieties and 459 product specifications of the Group and joint ventures were included in the National Medical Insurance Catalogue (《國家醫保目錄》). Among these, there are 4 varieties which have been newly included in the national Medical Insurance Catalogue, no products exited the National Medical Insurance Catalogue (《國家醫保目錄》) or were adjusted the classification in the national medical insurance or indication limits.

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.

During the Reporting Period, the products of the Group and joint ventures which were included in the National Medical Insurance Catalogue (《國家醫保目錄》) are as follow:

Serial number	Product name	Type of product	Indications/Functions	New entrance/ Exclusion
1	Injection for Ribavirin	Injection	Antiviral drug. Applicable to viral pneumonia and bronchitis caused by respiratory syncytial virus.	New entrance
2	ROM erythromycin granules	Granule	Used to treat the following infections caused by sensitive strains: upper respiratory tract infection, lower respiratory tract infection, ear infection, nose infection, throat infection, genital infection (except gonococcal infection); skin and soft tissue infection. It can also be used to treat mycoplasma pneumonia, Chlamydia trachomatis infection and Legionnaires' disease.	New entrance
3	Jian Wei Xiao Shi Pill	Tablet	It aids in digestion and is used to treat dyspepsia caused by weakness of spleen and stomach, with indications like poor appetite, heartburn, unpleasant-smelling burps and bad breath, flatulence, abdominal distension, and indigestion with the aforesaid syndrome.	New entrance
4	Multivitamins (12)	Injection	Subject to the daily vitamin intake requirements for adults and children over the age of 11, it is applicable to patients who need a vitamin supplement by injection when oral nutrition is contraindicated, impossible, or inadequate (malnutrition, malabsorption, parenteral nutrition).	New entrance

Discussion and Analysis of Operation

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

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

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

5) 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
Cefoxime granules	50mg*6 packs/box	22.38-29.38	11,948.93 thousand boxes
	50mg*10 packs/box	40.83	1,219.35 thousand boxes
Cefixime capsules	50mg*6 grains/box	19.38-21.71	1,520.10 thousand boxes
	50mg*10 grains/box	32.17-35.90	1,485.97 thousand boxes
	100mg*6 grains/box	31.73-36.91	10,418.26 thousand bottles
Cefixime dispersible tablets	100mg*6 tablets/box	42.12-48.17	7,053.55 thousand boxes
	100mg*10 tablets/box	71.31-79.78	536.21 thousand boxes
Xiao Ke Pill	52.5g*120 grains/box	31.84-45.60	7,587.63 thousand bottles
Cephathiamidine for Injection	0.5g/bottle	25.76-28.52	9,739.67 thousand bottles
	1g/bottle	43.79-48.52	5,492.76 thousand bottles
Zi Sheng Yu Tai Pill	5g*6 packs/box	83.5-93.00	4,138.06 thousand boxes
Qing Kai Ling granule	3g*24 packs/box	28.08-34.56	3,629.00 thousand boxes
	3g*12 packs/box	14.04-17.28	
	3g*9 packs/box	10.53-12.96	
	10g*20 packs/box	21.99-28.82	2,532.00 thousand boxes
Qing Kai Ling capsules	0.25g*12 grains/box	5.00-6.55	2,981.00 thousand boxes
	0.25g*24 grains/box	10.00-13.10	
	0.25g*36 grains/box	15.00-19.65	
	0.4g*24 grains/box	19.50-26.65	1,009.00 thousand boxes
	0.4g*30 grains/box	24.38-33.31	
Cefprozil dispersible tablets	0.25g*6 tablets/box	27.86-32.00	7,267.34 thousand boxes
	0.25g*12 tablets/box	57.31-60.93	307.80 thousand boxes
Cefprozil granules	0.25g*6 packs/box	28.13-33.00	656.31 thousand boxes
Cefprozil capsules	0.25g*12 grains/box	27.1-47.01	283.60 thousand boxes
Cefprozil chewable tablets	0.25g*6 tablets/box	29.4-32.96	113.80 thousand boxes
Paracetamol Caffeine Aspirin Powder	0.386g*100 packages/box	28.00-40.67	5.45 thousand boxes

Situation of instructions

Applicable Not applicable

Discussion and Analysis of Operation

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

(4) Analysis of 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

Major TCM products of the Group include Xiao Ke Pill, Zi Shen Yu Tai Pill, Xiao Chai Hu Granule, Qing Kai Ling Series, Bao Ji Series, Xia Sang Ju Granule, Hua Tuo Zai Zao Pill, Xiao Er Qi Xing Cha Granule, An Gong Niu Huang Pill, Zhuang Yao Jian Shen Pill, Shu Jin Jian Yao Pill and Mi Lian Chuan Bei Pi Pa Gao 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	Trichosanthin, corn, Schisandra chinensis, Rehmannia glutinosa, Radix Puerariae, etc	Purchasing by Invitation to Bid	Procurement costs such as trichosanthus, Rehmannia glutinosa and Radix Puerariae increased, while the cost of corn and Schisandra chinensis decreased, and the overall cost decreases slightly.
Zi Shen Yu Tai Pill	Cuscuta chinensis, amomum, rehmannia, etc	Purchasing by Invitation to Bid	The purchasing cost of the main varieties such as Cuscuta chinensis, amomum, Codonopsis pilosula decreased, and the overall cost decreased.
Xiao Chai Hu Granule	Chinese thorowax root, Scutellaria baicalensis, Codonopsis pilosula, Ginger pinellia etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, and cost is basically the same as the previous period.
Qing Kai Ling series	Honeysuckle, Radix isatidis etc.	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.
Bao Ji series	Atractylodes, magnolia officinalis, Patchouli, Angelicae dahuricae, Tribulus terrestris, Radix Aucklandias, Radix trichosanthis	Purchasing by Invitation to Bid	Supply and demand basically in balance, and the price was in balance.
Xiao Chai Hu Granule	Prunella vulgaris, wild Chrysanthemum flower, Folium mor	Purchasing by Invitation to Bid	Supply and demand basically in balance, the market price of prunella vulgaris is in modest increase and the price of wild Chrysanthemum flower is declining, and the cost price was stable with a slight decline.
Hua Tuo Zai Zao Pill	Ligusticum Chuanxiong, Tetradium ruticarpum, borneol, etc.	Purchasing by Invitation to Bid	Overall costs have not changed much
Xiao Er Qi Xing Cha Granule	Coix seed, Ricegrain sprout, Unaqria, cicada slough, licorice, Lophatherum gracile, hawthorn	Purchasing by Invitation to Bid	Price of Fructus Oryzae Germinatus, Uncaria tomentosa, liquorice, lophatherum gracile, periostracum cicada and hawthorn stayed stable while price of semen coicis increased.
An Gong Niu Huang Pill	In vitro bezoar cultivation, artificial musk, etc	Musk propagated in vitro and artificial musk were exclusively supplied, and other ingredients were purchased through bidding and inquiry.	The price of in vitro bezoar cultivation exhibited a continued increasing trend and price of other ingredients didn't change much, and the cost is expected to rise slightly.
Zhuang Yao Jian Shen Pill	Cibotii Rhizoma, Kadsura coccinea, Phillipine Flemingia Root, etc.	Purchasing by Invitation to Bid	The demand for Rhizoma Cibotii, kadsura coccinea and Caulis Spatholobi exceeded the supply due to the closure of the customs, so the price rose and the cost rose.

Discussion and Analysis of Operation

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

(4) Analysis of 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 own based on production needs, by means of bidding 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.

7) 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	455,034.47	179,039.53	60.65	15.22	13.30	0.67
	Zi Shen Yu Tai Pill	341,652.10	50,548.07	85.20	9.78	3.15	0.95
	Xiao Chai Hu Granule	296,126.91	182,176.73	38.48	2.44	0.15	1.41
	Hua Tuo Zai Zao Pill	184,617.67	113,408.33	38.57	(13.31)	(21.82)	20.95
	Xia Sang Ju Granule	178,343.74	97,229.86	45.48	6.68	6.82	(0.16)
	Qing Kai Ling Granule	174,217.92	81,874.28	53.00	(2.18)	(2.71)	0.25
	Xiao Er Qi Xing Cha Granules	159,845.10	128,460.26	19.63	3.93	2.80	0.89
Antimicrobial drugs	An Gong Niu Huang Pill	157,352.43	88,175.87	43.96	104.72	119.35	(3.74)
	Cefixime series	924,916.47	561,041.59	39.34	(23.76)	(5.68)	(11.63)
	Cefathiamidine for Injection	382,870.18	372,603.41	2.68	(54.49)	(44.39)	(17.68)
	Cefprozil series	219,363.61	171,750.33	21.71	(26.25)	(17.63)	(8.20)
	Amoxicillin series	204,242.29	170,498.10	16.52	(10.20)	(12.90)	2.59
	Cefpiamide for injection	128,897.04	125,295.41	2.79	(1.93)	31.96	(24.97)
	Cefuroxime sodium for injection	117,979.74	140,890.51	(19.42)	(21.01)	2.56	(27.44)
Andrology medication	Cefdinir capsules	109,190.35	46,878.06	57.07	(35.90)	(34.29)	(1.05)
	Sildenafil Citrate Tablet	832,562.79	117,104.09	85.93	10.60	66.30	(4.72)
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol Caffeine	205,389.28	95,622.83	53.44	20.47	19.62	0.33
	Aspirin Powder series						
Dermatological medication	Feng Yong Jing series	44,912.58	22,593.74	49.69	(26.31)	(27.06)	0.52

Explanation: □Applicable ✓Not applicable

Discussion and Analysis of Operation

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

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

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

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

During the Reporting Period, the gross profit margin of the principal operation of the Company was 16.72%, among which, the gross profit margin of the Great Southern TCM segment was 36.17%. The relatively significant difference in gross profit margin between the Great Southern TCM segment of the Company and the companies in the same industry mentioned below was mainly due to the difference in the products structure and the significant difference in the gross profit margins of principal products.

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.	11,824,561.68	23.94
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.	28,585,152.03	59.62
600085	Tongrentang Chinese Medicine	13,277,123.20	46.76

Notes:

- A. The above data of relevant companies in the same industry is obtained from their annual reports 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 of the pharmaceutical manufacturing industry operation information (Continued)

(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., and carried out the scientific research through combining imported projects and independent research and achieved certain results. During the Reporting Period, the Group vigorously promoted scientific research and innovation, enhanced efforts in its intellectual property right related work and made remarkable achievements, mainly including:

① Products in research

As at the end of the Reporting Period, the Group had 124 products in research. The main areas included new drug development, generic drug quality consistency evaluation, secondary product development and food and health food development, etc.

② Approved products

During the Reporting Period, the Group and its jointly controlled entities had 11 products approved for manufacturing and 6 products passing the quality consistency evaluation.

③ Science and Technology Awards

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

Classification Level	Name of Winner	Winning Project	Award
State level	HWBYS	Creation and application of integrated innovation and supporting system of TCM quality testing technology	Second Prize of National Science and Technology Progress Award
Provincial level and ministerial level	Guangzhou Hanfang	Research on the key technology of important heterocyclic intermediates of medicine and its industrialization demonstration	Second Prize of Guangdong Provincial Science and Technology Progress Award
	Guangxi Ying Kang	Research and application of key technology for preparation of Pristatomeris tetrandra tablet	Third Prize of Guangxi Technology Invention Award

④ Patents and intellectual property rights

During the Reporting Period, the Group and its jointly controlled entities had applied for a total of 85 patents, among which, there were 71 invention patents and 14 utility model patents, and obtained 60 granted patents which included 40 invention patents and 20 utility model patents.

Discussion and Analysis of Operation

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

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

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

2) Basic information of the main research and development projects

Applicable Not applicable

R&D Program (including consistency evaluation)	Name of the medicine (product)	Registered classification	Indications or functional indications	Prescription or not	Whether it is protected by traditional Chinese medicine (if involved)	The stage of development (registration)
Consistency evaluation and research of Cefixime series preparations	Cefixime granules (50mg)	Supplementary application for quality consistency evaluation of generic drugs	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) such as Pneumococcus, Neisseria gonorrhoeae, Catta Brannhan, Escherichia coli, Klebsiella, Serratia, Proteus and Influenzae, etc	Yes		- Obtained the approval of consistency evaluation ① Supplementary research completed and reported for 100mg; ② small scale experiment for 50mg Pilot scale-up experiment in preparation workshop ① 0.1g: small scale experiment research, 3-month stability research with sample for small scale experiment completed; ② 0.2g: pilot scale-up experiment completed, preliminary BE experiment underway.
	Cefixime capsules (100mg, 50mg)					
	Cefixime tablets (100mg, 50mg)					
	Cefixime dispersible tablets (0.2g, 0.1g)					

Discussion and Analysis of Operation

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

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

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

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

R&D Program (including consistency evaluation)	Name of the medicine (product)	Registered classification	Indications or functional indications	Prescription or not	Whether it is protected by traditional Chinese medicine (if involved)	The stage of development (registration)
Consistency evaluation and research of Cefprozil series preparations	Cefprozil dispersible tablets (0.25g) Cefprozil granules (0.25g, 0.125g) Cefprozil dry suspension	Supplementary application for quality consistency evaluation of generic drugs	Used to treat the following mild and moderate infections caused by sensitive bacteria: 1. upper respiratory tract infection; 2. suppurative streptococcal pharyngitis; 3. amygdalitis	Yes		<ul style="list-style-type: none"> - CDE review completed, to be notified. ① 0.25g: to be reviewed by CDE; ② 0.125g: 3-month stability research completed. Prescription adjustment completed, pilot scale experiment in workshop to be carried out.
Therapeutic two-plasmid HBV DNA vaccine projects for IIC clinical study	DNA preparation for treating chronic hepatitis B.	-	Treating chronic hepatitis B.	-		<ul style="list-style-type: none"> - IIC clinical study has been started.
Research and development of memantine hydrochloride raw materials and tablets	Memantine hydrochloride tablets (10mg)	Category 4 chemical medicines	Used for treatment of moderate to severe Alzheimer's disease	Yes		<ul style="list-style-type: none"> - Approval obtained, and officially released for sale
Research on process optimization and raising quality standard for Tianqi Dieda Fengshi Ointment (15g/tube)	Tianqi Dieda Fengshi Ointment	Chinese medicine	Promoting blood circulation and removing blood stasis, relaxing meridian and collateral, relieving swelling and pain, dispelling wind damp. Used to treat soft tissue sprain and contusion, rheumatism and low back pain	No		<ul style="list-style-type: none"> - At the stage of small scale experiment

Discussion and Analysis of Operation

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

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

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

3) *Situation of the medicine (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 made 13 applications for production approval and obtained production approval for 11 drug products, which will further enrich the Company's product varieties, and increase the Company's products reserves.

Product name	Registry classification	Indication/Major functions
Clindamycin phosphate for injection (0.3g)	Category 6 pharmaceutical raw chemical	Used to treat severe bacterial infections caused by sensitive anaerobic bacteria, and severe bacterial infections caused by sensitive bacteria, including streptococcus, streptococcus pneumoniae, and staphylococcus.
Clindamycin phosphate for injection (0.6g) Clindamycin phosphate for injection (0.9g) Tronam for Injection (0.5g)	Category 6 pharmaceutical raw chemical	Used to treat various infections caused by sensitive aerobic gram-negative bacteria.
Tronam for Injection (1.0g) Sildenafil Citrate Tablet (0.1g)	Supplementary application for quality consistency evaluation of generic drugs	The product is indicated for treatment of erectile dysfunction (ED).
Sildenafil Citrate Tablet (50mg) Sildenafil Citrate Tablet (25mg) Cefoxime Granules (50mg)	Supplementary application for quality consistency evaluation of generic drugs	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) Pneumococcus, Neisseria gonorrhoeae, Catta Branhan, Escherichia coli, Klebsiella, Serratia, Proteus and Influenzae sensitive to cefixime.
Ciprofloxacin Hydrochloride Tablet (0.25g)	Supplementary application for quality consistency evaluation of generic drugs	Used to treat infections of urogenital system, respiratory tract, gastrointestinal tract, skin and soft tissue caused by sensitive bacteria.
Cefalexin Capsules (0.125g)	Supplementary application for quality consistency evaluation of generic drugs	Used to treat infections of respiratory tract, urinary tract and skin and soft tissue caused by sensitive bacteria, such as acute tonsillitis, angina, otitis media, sinusitis, bronchitis, and pneumonia.

Discussion and Analysis of Operation

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

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

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

4) *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

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 of the pharmaceutical manufacturing industry operation information (Continued)

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

6) The investment situation of research and development

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 (%)	Research and development investment accounted for the proportion of capitalization (%)
Harbin Pharmaceutical Group Co., Ltd.	135,430.23	1.15	0.02	7.6
China National Medicines Co., Ltd.	64,660.75	0.14	0.61	30.52
Shanghai Pharmaceuticals Holding Co., Ltd.	1,508,766.30	0.81	3.62	10.56
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	3,463,227.80	12.12	10.86	41.05
Tongrentang Chinese Medicine	241,183.22	1.82	2.61	0
Average amount of the research and development investment of the same industry during the Reporting Period (RMB'000)				1,082,653.66
Amount of the research and development investment of the Group during the Reporting Period (RMB'000)				618,859.48
Research and development investment accounted for the proportion of revenue of the Group during the Reporting Period (%)				1.00
Research and development investment accounted for the proportion of net assets of the Group during the Reporting Period (%)				2.19
Research and development investment accounted for the proportion of capitalization of the Group during the Reporting Period (%)				1.12

Notes:

- The above data of relevant companies in the same industry is obtained from their annual reports in 2019;
- The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

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

Discussion and Analysis of Operation

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

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

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

7) The investment situation of research and development

✓Applicable □Not applicable

R&D project	R&D investment amount (RMB'000)	Expense amount of R&D investment (RMB'000)	Capitalized amount of R&D investment (RMB'000)	Ratio of R&D investment to revenue (%)	Change in ratio of amount in the Reporting Period compared with the same period of last year (%)	Presentation of condition
Study on the quality consistency evaluation of cefixime series preparations	20,109.91	20,109.91	0	6.38	10.38	—
Clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization and embryo transfer	12,316.00	12,316.00	0	3.6	38.90	Efficacy and clinic research for newly added indications under this project was initiated this year and thus the cost rose much.
Study on the quality consistency evaluation of Cefprozil series preparations	9,015.69	9,015.69	0	2.86	(53.13)	Bioequivalence research and process validation under this project were completed in 2019 and thus the research and development investments were lesser in 2020.
Study on consistency evaluation of candesartan diester tablets	6,430.68	6,430.68	0	11.33	80.57	Pilot scale-up, process validation, preliminary BE and formal BE experiments were done for this medicine this year and thus the cost rose much.
To evaluate the clinical study of Kunxian capsule in the treatment of moderate and severe psoriasis vulgaris	5,389.70	5,389.70	0	9.87	(74.00)	This project has been concluded and thus the cost decreased.

Note: The proportion of R&D investment in operating revenue is the proportion of R&D investment in the operating revenue of the enterprise producing the product.

Discussion and Analysis of Operation

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

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

(iii) Situation of the sales of the Company's medicine (products)

1) 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 third section headed "Company's Business Profile" in this annual report.

2) Analysis of sales expenses

Breakdown of sales expenses

Applicable Not applicable

Items	Amount incurred for the Reporting Period (RMB'000)	Percentage of amount incurred for the Reporting Period in the total sales cost (%)
Employee remuneration	2,493,384	54.49
Sales service fee	562,057	12.28
Transportation expenses	123,362	2.70
Office expenses	42,060	0.92
Freight and miscellaneous charges	141,773	3.10
Rental expenses	29,670	0.65
Conference expenses	76,457	1.67
Advertising and promotion fees	690,743	15.09
Consulting fees	5,888	0.13
Depreciation charges	223,538	4.89
Others	187,064	4.09
Total	4,575,996	100.00

Discussion and Analysis of Operation

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

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

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

2) Analysis of sales expenses (Continued)

Comparison within 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.	861,284.28	7.28
China National Medicines Co., Ltd.	1,048,441.62	2.35
Shanghai Pharmaceuticals Holding Co., Ltd.	12,855,723.14	6.89
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	9,846,758.45	34.45
Tongrentang Chinese Medicine	2,622,264.19	19.75
The average amount of the sales expenses of the same industry (RMB'000)		5,446,888.34
Total amount of the sales expenses of the Group during the Reporting Period (RMB'000)		4,575,995.57
Sales expenses accounted for the proportion of revenues of the Group during the Reporting Period (%)		7.42

Notes:

- a. The above data of relevant companies in the same industry is obtained from their annual reports 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

Discussion and Analysis of Operation

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

(5) Investment situation

(i) Overall analysis of external equity investment

Applicable Not applicable

As at the end of the Reporting Period, the external equity investment of the Company amounted to RMB1,865,866,000, with an increase of RMB266,841,000 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 which led to the increase 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

① Financial assets held for trading

Item	Closing balance (RMB'000)	Opening balance (RMB'000)
Classification of financial assets which are measured at fair value and whose changes are included in the current profit and loss	4,000.00	—
Including: Debt instrument investment	—	—
Equity instrument investment	—	—
Others	4,000.00	—
Total	4,000.00	—

Discussion and Analysis of Operation

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

(5) Investment situation (Continued)

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

3) Financial assets evaluated at fair value (Continued)

② Other Equity Instruments investments

Item	Closing balance (RMB'000)	Opening balance (RMB'000)
Sino-Israel Bio-industry Investment Fund	98,246.27	64,018.17
South China Center for Innovative Pharmaceuticals Co., Ltd.	10,000.00	10,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677.00	7,677.00
Yilin Bio-industry Co., Ltd	443.27	281.91
Total	116,367.41	81,977.96

③ Investments in stock

Number	Type of stock	Stock code	Stock abbreviation	The initial amount of investment (RMB'000)	Number of shares held at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	3,625	2.19	884
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	1,200	0.72	(226)
3	A Share of Shenzhen Stock Exchange	000950	C.Q.Pharmaceutical Holding	150,145	25,992,330	135,160	81.51	(4,834)
4	A Share of SSE	601328	Bank of Communications	511	378,734	1,697	1.02	(316)
5	A Share of SSE	601818	Everbright Bank	10,725	6,050,000	24,140	14.56	(1,246)
Other stock investments held as at the end of the Reporting Period								
Gain/ (Loss) of stock investments sold during the Reporting Period								
Total				166,892	32,854,977	165,822	100.00	(5,738)

(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 sale of pre-packaging food, dairy products, etc.	900,000.00	100.00	6,862,042	3,448,192	8,046,985	5,569,626	1,194,817
GP Corp.	Pharmaceutical business	Retail of medical treatment apparatus	2,449,305.50	72.74	42,567,926	2,476,299	25,893,551	4,908,351	413,076

The cause of the year-on-year decrease in the income from the principal operations of WLJ Great Health was: as affected by the epidemic, the market of WLJ Great Health during the Spring Festival period in 2020 was severely affected, which led to the year-on-year decrease in its income from the principal operations for the whole year.

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

3. DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT

(1) Landscape and trend of the industry

Applicable Not applicable

In 2020, under the influence of the epidemic, the Three-Medicine Linkage reform advanced steadily and medical reform was accelerated. Driven by policies, the pharmaceutical industry was also in the process of undergoing profound changes. On the one hand, policies such as medical insurance fee control, volume-based procurement of medicines and medical apparatus, rational drug use, the promulgation of the new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production and an improved regulatory system for drugs still imposed pressure on operations, and also slowed down the growth of the entire pharmaceutical industry, with such growth mainly coming from the promotion of innovative products and consumption upgrading; on the other hand, the benefits from the significant policy reforms, such as the new version of the National Medical Insurance Catalogue, accelerated assessment and approval of innovative drugs, the state's encouragement of inheritance and innovative development of TCM and graded diagnosis and treatment, provided new room for the growth of the pharmaceutical market. Meanwhile, the accelerated 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.

Discussion and Analysis of Operation

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

(2) Development strategy and annual work plan for year 2021

Applicable Not applicable

2021 is the first year of the “14th Five-year Plan”. In 2021, the Group will carry out the following works by firmly grasping the general tone of seeking progress while maintaining stability and following the core ideas of transformation and furtherance, scientific management, risk control and innovative development, in consideration of its actual situation:

1. We will continue to focus on the “Diva brands” to promote the solid and all-round development of the Great Southern TCM segment and lay a solid foundation. (1) Upgrading the “Diva brands” plan to create more Diva brands in different areas with pointed strategies and levels and provide new drivers for the development of the Great Southern TCM segment; (2) Accelerating the revitalization project of the Group’s time-honored brands, promoting the development of such time-honored brands by category, intensifying the marketing of such brands and products, and constantly improving the visibility of such brands and products; (3) Intensifying the development of raw material pharmaceuticals, tapping promising products and enhancing the competitiveness of the business of raw material pharmaceuticals; meanwhile, strengthening the regulated and standardized construction of the state-level Chinese herbal medicine planting bases, carrying out the building of an Internet of things platform and a traceability system for core Chinese herbal medicine planting bases, and enhancing the supply level of Chinese herbal medicines; (4) Further strengthening the cooperations among the industrial, commercial and medical segments of the Group, vigorously promoting marketing innovation, constantly exploring new marketing and sales modes and increasing product sales volume.
2. We will expand and deepen the business of the Great Health segment and adhere to the development strategy of “one core with multi-elements” to realize the innovative development of the Great Health segment. (1) Continuing to further develop the Wang Lao Ji Herbal Tea gift market, catering market and ready-to-drink market, strengthening the expansion of the bottled Wang Lao Ji Herbal Tea market and the synergy between red can and green can of Wang Lao Ji Herbal Tea, increasing the channel distribution rate of Wang Lao Ji Herbal Tea to drive the growth of the terminal sales volume; (2) focusing on the new products of the “Ci Ning Ji” series by strengthening the brand promotion and accelerating and expanding the channel distribution coverage; (3) strengthening the market expansion of lozenges, tortoise herb jelly, coconut juice and other promising products to develop the Great Health business with distinctive characteristics.
3. We will deepen and enliven the Great Commerce segment and push forward the service transformation of the Great Commerce segment. (1) Accelerating the overseas spin-off listing of GP Corp. to enhance the Group’s financing capability and optimize its capital structure; (2) continuing to leverage the advantages of the terminal network of GP Corp. to accelerate business expansion and further enhance the market share; (3) accelerating the strategic deployment of the retail business; strengthening the construction of self-owned retail pharmacies and in the meantime the distribution of retail flagship pharmacies in core urban business districts, expanding pharmacies proximate to hospitals and DTP pharmacies. Meanwhile, we will improve the service provision ability of pharmacies and enhance the ability of pharmacies to provide innovative value-added services;(4) we will strengthen the building of a e-commerce system, build an intelligent service platform covering the whole medical supply chain, and commit to the new business of health care e-commerce.

Discussion and Analysis of Operation

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

(2) Development strategy and annual work plan for year 2021 *(Continued)*

4. We will develop the business of the Great Medical Care segment in both size and professionalism to build its brand influence. Focusing on specialties, strengthening the discipline building in Guangzhou Baiyunshan Hospital, further improving the medical standard of such specialties; promoting the opening of Baiyunshan Runkang Confinement Service Center to the public and creating the confinement club brand of “Baiyunshan Runkang”; expanding the product lines in the field of medical devices, focusing on the distribution of characteristic products, and creating a brand enterprise of health products.
5. We will continue to optimize the scientific and technological innovation platforms, increase investment into scientific research and build a high-level scientific research platform and system to enhance the ability of scientific research and innovation and the integrated capability of the scientific research system; to further strengthen the management of production safety and product quality, and to strictly observe the “safety line” of production management.
6. We will accelerate the construction of various production bases, continue to promote the integration of production resources, explore the intelligent manufacturing solutions for drug production, and improve production efficiency.
7. We will enhance the capability of capital operations, actively promote the external investment and mergers and acquisitions in various segments to drive the Group’s extensional development.
8. We will continue to strengthen the fundamental management and risk control, and build a highly efficient risk management system; and to strengthen the normalized management of internal risk control. We will strengthen the Group’s integrated capability in early warning, monitoring and prevention and control of risks.

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

(3) Potential challenges and risks

Applicable Not applicable

In 2021, with the Three-Medicine Linkage reform further accelerated and the continued global epidemic, there are still many uncertainties in the pharmaceutical industry. As the state's centralized drug procurement program has become normalized, more generic drugs were covered by the program, leading to an obvious decrease in drug prices, which imposed further pressure on generic drugs. As the DRGs Payment model kept expanding, and in conjunction with the improvement in the monitoring and examination systems for rational drug use, the drug consumption of medical institutions will continue to decrease. At the same time, the implementation and promotion of a series of new policies, such as the tightening of medical insurance fee control and the tilting of the National Medical Insurance Catalogue and the DRGs Payment model in favor of cost-effective generic 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 the corresponding impacts in " (4) Analysis of 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" in this annual report.

2021 is the first year of the "14th Five-year Plan", and is the second year stricken by the epidemic. As the global epidemic continues, it may still seriously challenge the social and economic development of the world and bring uncertainties to the production and operation of the Group before vaccines are put into use on a large scale basis. And the extent of the impact brought by the epidemic depends on the progress, and duration of the control and prevention of the epidemic, and the implementation of policies of control and prevention in different places towards the epidemic. The Group will pay attention to the development of the epidemic continuously, evaluate and actively respond to its influence on the financial conditions 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 2020 are set out in the consolidated income statement.

The financial condition of the Group as at 31 December 2020 is set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2020 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2020 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 2020 calculated in accordance with the China Accounting Standards for Business Enterprises was RMB6,778,560,000.

(5) Fixed assets

Details of the movements of fixed assets of the Group for the year ended 31 December 2020 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 Corporate Governance Code and Corporate Governance Report 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.

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、利息代扣代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代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 2020 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 2019 to the Board. After the proposal on profit distribution and dividend payment for 2019 was approved by the Board and the Supervisory Committee unanimously, and after the independent non-executive Directors expressed their opinions, it was submitted to the annual general meeting of the Company of 2019 for consideration and was approved. The dividends had been distributed by the end of August 2020.

(2) Proposal on profit distribution and dividend payment for 2020

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 10th meeting of the eighth session of the Board of the Company, the Board of the Company proposed the following profit distribution plan for 2020:

According to the audited financial report of the Company in 2020, the consolidated net profit of the Company attributable to the shareholders of the Company amounted to RMB2,915,244,576.05 in 2020. Based on the net profit of the Company of RMB1,940,615,878.98 in 2020, a 10% statutory surplus reserve in the amount of RMB194,061,587.90 is provided, with the addition of the undistributed profit carried over from 2019 in the amount of RMB5,989,596,679.50, and after deducting the cash dividends of 2019 in the amount of RMB957,590,868.96, the actual distributable profits at the end of 2020 amounted to RMB6,778,560,101.62.

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 2020, a cash dividend of RMB5.38 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB874,675,530.56, be distributed. Such amount of cash dividends represents 30% of the consolidated net profit attributable to shareholders of the Company and 33.29% of the net profit attributable to the shareholders of the Company after deducting non-recurring profit and loss items for the Year. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2020.

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 2020 annual general meeting of the Company. Minority shareholders will be offered sufficient opportunities to express their views and requests at the 2020 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 (%)
2020	5.38	874,675,530.56	2,915,244,576.05	30.00
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

Notes:

- a. 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.
- b. 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

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 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 incurrence 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)

(v) 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">1. GPLH 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.2. On the basis of the original undertaking letter, GPLH 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, GPLH 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 GPLH 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)*

(v) 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



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 trademarks *(Continued)*

Item	Content
Remarks	<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 "dispute 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)*

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

Item	Content
Remarks (Continued)	The Company had 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 339 domestic defensive trademarks have been changed and 2 defensive trademarks registered in Madrid, 29 defensive trademarks registered in one single foreign country have been changed. There are still 34 defensive trademarks registered in one single foreign country 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 GP Corp. as at the end of the Reporting period.

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 circular 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 2020 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 2020:

Items	Actual amount (RMB'0000)	Estimated amount (RMB'0000)	Differences (RMB'0000)	Percentage of achievement (%)
Total profit	56,926.40	67,465.49	10,529.09	84.38
Net profit	41,307.56	50,599.12	9,291.56	81.64

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 2020 was RMB569.2640 million, with the completion rate of 84.38%; the net profit was RMB413.0756 million, with the completion rate of 81.64%. GP Corp. did not meet the profit forecast of 2020 as in the asset appraisal report of the Transaction, mainly because: (1) the number of patients attending medical institutions decreased due to the outbreak of the COVID-19 epidemic in 2020, which led to a decrease in drug procurement from pharmaceutical companies accordingly, and the impact on the overall operating income was that the growth rate was slower than the expected; (2) in 2020, subject to the policy on Centralized Procurement of Drugs in the "4+7 Cities", a decline in drug price and other factors, the main operating income of GP Corp in 2020 decreased by RMB1.874 billion compared to profit forecast, and the gross profit margin was 0.18 percentage points lower than profit forecast, all of which directly affected the total profit of CP Corp. being lower than profit forecast; (3) There was a longer repayment cycle for customers which resulted an increase in the total receivables, and the provision for credit impairment profit forecast due to the epidemic. The said influence brought about by the epidemic and the medical refoin policies could not be predicted in the preparation of the profit forecast 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, namely 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 30 June 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.

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 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 Target Trademarks Purchase Agreement 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 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. According to the Performance Compensation Agreement, after the issuance of the special audit report in 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 Audit Report on the Realization of Profit Forecast in 2020 for Guangzhou Baiyunshan Pharmaceutical Holdings 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 2020 is as follows:

Item	Actual amount (RMB0'000)	Estimated amount (RMB0'000)	Difference (RMB0'000)	Completion rate (%)
Net income of trademark assets	12,204	16,265	4,061	75.03

2. PERFORMANCE OF UNDERTAKINGS *(Continued)*

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

(ii) Performance commitment *(Continued)*

In the evaluation report issued by Allied Appraisal Consultancy Company Limited 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 RMB171.45 million, respectively. The net income of “Wang Lao Ji” series trademarks in 2020 was RMB122.04 million, with a completion rate of 75.03%. The net income of “Wang Lao Ji” series trademarks in 2020 failed to reach the forecasted value in the said evaluation report mainly due to: since various epidemic prevention and control measures had been taken across the country since the outbreak of the epidemic in early 2020, the market demand for “Wang Lao Ji” series trademarks related products was under pressure and its sales during the 2020 Spring Festival holiday were significantly affected. Although market demand has basically recovered since the third quarter of 2020, due to the large proportion of income attributable to the Spring Festival holiday over the years, the sales volume for the whole year still dropped significantly this year, which resulted in the net income from trademark assets the to meet the forecasted value. The said impact brought about by the epidemic could not be predicted when the profit forecast was made in 2018.

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

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

(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

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

Explanatory notes on the appointment and dismissal of auditors

Applicable Not applicable

As considered and approved at the 3rd meeting of the Audit Committee in 2020, the 2nd meeting of the eighth session of the Board and the second meeting of the eighth session of the Supervisory Committee, the Company approved the proposed renewal of appointment of WUYIGE Certified Public Accountants LLP as the financial auditors and the internal control auditors of the Company for the year 2020. The said matter was approved at the second extraordinary general meeting of the Company in 2020 convened on 28 August 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) The material litigations and arbitrations involving the Group and controlling shareholders during the Reporting Period are as follows:

(i) In respect of the trial of the “dispute case of unjust competition” between the controlling shareholder of the Company, GPLH, and WLJ Great Health, a wholly-owned subsidiary of the Company, and Guangdong Jia Duo Bao Beverage and Food Co., Ltd. (廣東加多寶飲料食品有限公司) (“Guangdong Jia Duo Bao”) and Guangdong Lerun Store Co., Ltd. (廣東樂潤百貨有限公司) (“Lerun Store”).

1) On 3 December 2015, the Company announced the Written Civil Ruling captioned (2013) SuiZhongFaZhiMinChuZi No.619 from the Guangzhou Intermediate People’s Court in relation to the case of disputes over unjust competition between GPLH and WLJ Great Health as the plaintiffs and Guangdong Jia Duo Bao Beverage and Lerun Store as the defendants. For details please refer to the announcement of the Company dated 3 December 2015 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.

2) Guangdong Jia Duo Bao was dissatisfied with the first-instance judgment and applied for an appeal to the Guangdong High People’s Court. On 14 November 2017, the Company announced the second instance Written Civil Ruling captioned (2016) YueMinZhong No.303 in relation to the second trial of the “dispute case of unjust competition” between Guangdong Jia Duo Bao, the appellant, Lerun Store, the defendant in the first instance, and WLJ Great Health and GPLH, the respondents. For details please refer to the announcement of the Company dated 14 November 2017 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.

3) GPLH was dissatisfied with the civil judgment of Guangdong High People’s Court and applied for a retrial to the Supreme People’s Court of the PRC. On 18 June 2020, GPLH, the controlling shareholder of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the Written Civil Ruling captioned (2019) ZuiGaoFaMinShen No. 579 from the Supreme People’s Court of the PRC in respect of the retrial judgment of the “dispute case of unjust competition” with Guangdong Jia Duo Bao, the respondent, and Lerun Store, the defendant in the first instance. For details please refer to the announcement of the Company dated 19 June 2020 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.

Major Events

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

(1) The material litigations and arbitrations involving the Group and controlling shareholders during the Reporting Period are as follows: *(Continued)*

(ii) Litigation by the Company against Beijing Kangyeyuan Investment Consulting Co., Ltd. for the infringement of reputational rights on the Internet

In August 2020, the Company received the Written Civil Ruling captioned (2019) Yue 0192 MinChu No.38391 from the Guangzhou Internet Court in relation to the case of disputes over the infringement of reputational rights on the Internet between the Company, the plaintiff, and Beijing Kangyeyuan Investment Consulting Co., Ltd., the defendant. For details please refer to the announcement of the Company dated 11 August 2020 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.

(2) 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

13. EQUITY INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPACT *(Continued)*

(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 A Shares and the Class Meeting of Holders of H Shares held on 13 March 2015.

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.

As at 9 June 2020, 3,860,500 shares of the Company held under the Employee Ownership Scheme were fully sold. The Employee Ownership Scheme was completed and terminated in accordance with the relevant provisions of the relevant management rules of the Employee Ownership Scheme. For details of the Employee Ownership Scheme, please refer to the announcements dated 12 January 2015, 17 March 2015, 12 August 2019 and 9 June 2020, and the circulars dated 26 February 2015 and 16 February 2016 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 websites of the SSE and the HKEX.

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 are as follows:

Connected parties	Relationship with the Company	Type of connected transactions	Time 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	2020	Medicinal materials or pharmaceutical products	Market price	18,196	0.04	Cash
HWBYS	Joint venture	Purchase of goods	2020	Medicinal materials or pharmaceutical products	Market price	232,715	0.45	Cash
Baxter Qiao Guang	Joint venture	Purchase of goods	2020	Medicinal materials or pharmaceutical products	Market price	60,092	0.12	Cash
Subtotal						311,003		
HWBYS	Joint venture	Acceptance of service	2020	Publicity fee	Market price	11,933	1.73	Cash
Subtotal			2020			11,933		
GPHL	Parent company	Sales of products	2020	Medicinal or pharmaceutical products	Market price	201	0.00	Cash
Hua Cheng	Controlled by the same parent company	Sales of products	2020	Medicinal or pharmaceutical products	Market price	79,795	0.13	Cash
HWBYS	Joint venture	Sales of products	2020	Medicinal or pharmaceutical products	Market price	195,954	0.32	Cash
Nuo Cheng	Joint venture	Sales of products	2020	Medicinal or pharmaceutical products	Market price	44	0.00	Cash
Baxter Qiao Guang	Joint venture	Sales of products	2020	Medicinal or pharmaceutical products	Market price	2,157	0.00	Cash
Subtotal						278,151		

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	Time 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	Provision of labour service	2020	Advertising agency service	Market price	1,408	2.28	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	2020	Advertising agency service	Market price	15,435	25.00	Cash
HWBYS	Joint venture	Provision of labour service	2020	Advertising agency service	Market price	41,037	66.47	Cash
Baxter Qiao Guang	Joint venture	Provision of labour service	2020	Advertising agency service	Market price	41	0.07	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	2020	Consigned processing	Market price	20,492	11.58	Cash
HWBYS	Joint venture	Provision of labour service	2020	Consigned processing	Market price	5,691	3.22	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	2020	Research and development service	Market price	340	2.85	Cash
HWBYS	Joint venture	Provision of labour service	2020	Research and development service	Market price	30	0.25	Cash
GPHL	Parent company	Provision of labour service	2020	Other service	Market price	29	0.00	Cash
HWBYS	Joint venture	Provision of labour service	2020	Other service	Market price	637	0.00	Cash
Nuo Cheng	Joint venture	Provision of labour service	2020	Other service	Market price	1,176	0.00	Cash

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	Time 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	Provision of labour service	2020	Other service	Market price	97	0.00	Cash
Baxter Qiao Guang	Joint venture	Provision of labour service	2020	Other service	Market price	5,849	0.01	Cash
Subtotal						92,262		
Hua Cheng	Controlled by the same parent company	Provision of rights to use tradements, patents and others	2020	Rights to use trademarks	At price attetermined by agreement	342	16.73	Cash
HWBYS	Joint venture	Provision of rights to use tradements, patents and others	2020	Rights to use trademarks	At price attetermined by agreement	946	46.22	Cash
HWBYS	Joint venture	Others	2020	Assets leased from connected parties	At price attetermined by agreement	4,744	1.44	Cash
GPHL	Parent company	Others	2020	Assets leased from connected parties	At price attetermined by agreement	2,060	0.63	Cash
Subtotal						8,092		
GPHL	Parent company	Others	2020	Assets leased to connected parties	At price attetermined by agreement	342	0.85	Cash
Baxter Qiao Guang	Joint venture	Others	2020	Assets leased to connected parties	At price attetermined by agreement	3,463	8.65	Cash
Nuo Cheng	Joint venture	Others	2020	Assets leased to connected parties	At price attetermined by agreement	3,047	7.61	Cash
Subtotal						6,852		
Total						708,293		

Note: The above connected transactions were conducted in the ordinary and usual 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) Matters not disclosed in the temporary announcement

Applicable Not applicable

14. CONNECTED TRANSACTIONS *(Continued)*

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

- (iv) During the Reporting Period, as required by HKEX, details of the connected transactions are disclosed as follows:

	2020 (RMB'000)
Ultimate holding company	
Rental expenditure	2,060
Rental income	342
Labor services (advertising agency, research and development and other services)	1,437
Sale of finished goods and raw materials	201
Ultimate holding company and its subsidiaries	
Licensing fee for trademarks of "Baiyunshan"	342
Sale of finished goods and raw materials	79,996
Purchase of finished goods and raw materials	18,196
Labor services (advertising agency, research and development and other services)	17,309
Consigned processing service fee	20,492

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



14. CONNECTED TRANSACTIONS (Continued)

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

The Board believed that the 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 rental expenditure, rental income, the licensing fee of trademarks of “Baiyunshan”, sale of finished goods and raw materials, purchase of finished goods and raw materials, and advertising agency service fee, research and development service fee and consigned processing service fee of the Company are as follows:

Items	Announcement/ approval date	Cap/ Approved amount for the Year (RMB'000)
Ultimate holding company		
Rental expenditure	13 January 2020	20,000
Rental income	28 June 2019	440
Ultimate holding company and its subsidiaries		
Licensing fee for trademarks of “Baiyunshan”	24 April 2019	2,000
Sale of finished goods and raw materials	28 October 2019	180,000
Purchase of finished goods and raw materials	28 October 2019	16,000
Labor services (advertising agency, research and development and other services)	28 October 2019	24,000
Consigned processing service fee	28 October 2019	36,000

According to Chapter 14A of the Listing Rules of HKEX, the Group conducted the following continuing connected transactions during the Reporting Period:

On 28 October 2019, the Company and Hua Cheng entered into an agreement in relation to the purchase of pharmaceutical products produced by Hua Cheng by the Group and the Group's sale of unpackaged pharmaceutical raw materials, medical apparatus, packaging materials and other materials, and provision of labour services (advertising agency and research and development services) and entrusted processing services to Hua Cheng (the “Hua Cheng Agreement”) for a term of 2 years from 1 January 2020 to 31 December 2021. Hua Cheng is wholly-owned by GPLH, the controlling shareholder of the Company, therefore it is a connected person of the Company.

Details of the Hua Cheng Agreement and the transactions contemplated thereunder have been disclosed in the announcement of the Company dated 28 October 2019.

Such continuing connected transactions aforementioned (including the Hua Cheng Agreement and its contemplated transactions) have been reviewed by the independent non-executive Directors of the Company and confirmed by each independent non-executive Director that they 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 independent third parties or (ii) terms given by independent third parties. Such transactions are incurred 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 connected transactions between the Company and the ultimate holding company and the ultimate holding company and its subsidiaries did not exceed the cap for the continuing connected transactions as disclosed in the previous announcement dated 28 October 2019, and the amount for such transactions approved by the Audit Committee on 24 April 2019, 28 June 2019 and 13 January 2020.

14. CONNECTED TRANSACTIONS *(Continued)*

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

The Company's auditors have been engaged to report on the Group's continuing connected transactions in accordance with the 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 rental expenditure, rental income, the licensing fee for trademarks of "Baiyunshan", sale of finished goods and raw materials, purchase of finished goods and raw materials, and advertising agency service fee, research and development service fee and consigned processing service fee under Rule 14A.56 of the the Listing Rules of HKEX.

(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 the exclusive rights of 420 "Wang Lao Ji" series 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 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 Target Trademarks Purchase Agreement, 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.

14. CONNECTED TRANSACTIONS *(Continued)*

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

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

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 2020, the Company had 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 339 domestic defensive trademarks have been changed, 29 defensive trademarks registered in one single foreign country and 2 defensive trademarks registered in Madrid have been changed. There are still 34 defensive trademarks registered in one single foreign country pending approval.

(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 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.

14. CONNECTED TRANSACTIONS (Continued)

(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
- (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	620	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. As at 31 December 2020, the Company and Bozhou Baiyunshan had signed a debt offset agreement and the receivables were offset.

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
1	11th meeting of the Strategic Development and Investment Committee in 2015	The capital of HKD177,500,000 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.
2	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's wholly-owned subsidiary, namely 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 been 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.	
	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 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.	
	3rd meeting of the Strategic Development and Investment Committee in 2020	Chemical & Pharmaceutical Technology Company, a wholly-owned subsidiary of the Company, applied for a capital injection of RMB300.00 million from the Company for the use of the construction of the Zhuhai Project.	In progress

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
3	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.
4	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	Under construction.
5	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.	In progress
6	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.
7	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 with a total investment of RMB350.00 million.	The pre-construction preparatory work is in progress.



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
8	8th meeting of the seventh session of the Board	The Company participated in the establishment of 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 has completed which amounted to RMB72 million.
9	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.	
10	6th meeting of the Strategic Development and Investment Committee in 2019	The Company's wholly-owned subsidiary, namely Zhong Yi, carried out the 3rd GMP construction improvement project of modernization of TCM production.	The construction has been officially started and is in progress
		The first phase of the project of Gansu Guangyao Baiyunshan Traditional Chinese Medicine Technology Industrial Park was carried out by Cai Zhi Lin, a wholly-owned subsidiary of the Company.	The pre-construction preparatory work is in progress.
11	1st meeting of the Strategic Development and Investment Committee in 2020	GP Corp., a subsidiary of the Company, is currently proposing to transfer its 70% equity interest in Hubei Guangyao Ji Da Pharmaceutical Co., Ltd. (湖北廣藥吉達醫藥有限公司) by way of public listing.	Completed
		Nuo Cheng, the Company's joint venture, increased its capital contribution by RMB289,455,900 for the construction of a new plant.	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
12	2nd meeting of the Strategic Development and Investment Committee in 2020	HWBYS, a joint venture of the Company, acquired the entire equity interest in Baiyunshan Hutchison Whampoa Leida Pharmaceutical (Shantou) Co., Ltd. (白雲山和記黃埔萊達製藥(汕頭)有限公司) held by Guangdong Leida Pharmaceutical Co., Ltd. (廣東萊達製藥有限公司).	Completed
13	4th meeting of the Strategic Development and Investment Committee in 2020	A joint venture was established jointly by Chemical & Pharmaceutical Zhuhai Company and Guangdong Fudan Innovation Investment Co., Ltd. (廣東復創投資有限公司), a wholly-owned subsidiary of Zhuhai Fudan Innovation Institute (珠海復旦創新研究院).	In progress
		The Company made a capital injection of RMB10 million to Chemical & Pharmaceutical Technology Company as equity investment in the joint venture.	In progress
14	5th meeting of the Strategic Development and Investment Committee in 2020	The Company established a wholly-owned subsidiary, namely Guangzhou Baiyunshan Hua Cheng Technology Co., Ltd. (廣州白雲山花城科技有限公司).	Completed
		The Company established a wholly-owned subsidiary, namely Guangzhou Baiyunshan International Pharmaceutical and Healthcare Industry Co., Ltd. (廣州白雲山國際醫藥健康產業有限公司).	Completed
15	6th meeting of the Strategic Development and Investment Committee in 2020	The plan of Ming Xing's, a subsidiary of the Company, relocation improvement project (Phase I) was adjusted and supporting works were added with an additional investment of RMB210.78 million.	In progress

Major Events

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

(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 "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.

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 party	Secured party	Amount guaranteed	Date of guarantee (date of agreement)	Guarantee		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
					commencement date	Guarantee maturity date							
-	-	-	-	-	-	-	-	-	-	-	-	-	-
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													250,000
Total balance of guarantee provided for the benefit of subsidiaries at the end of the Reporting Period (B)													250,000
Total amount of the external guarantees of the Company (including guarantees for subsidiaries)													
Total amount of guarantee (A+B)													250,000
The proportion of the total amount of guarantees to the Company's net assets (%)													0.89
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)													250,000
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)													250,000
Description of the potential joint and several repayment liability for outstanding guarantee													-
Description of guarantee													-

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE (Continued)

(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	50,000	63,500	–
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'000) (if any)	Actual gains or losses (RMB'000)	Actual recovery	Legal procedures involved or not	Any entrusted wealth management plan in the future	Impairment provision (if any)
Guangzhou Branch of Shanghai Pudong Development Bank Co. Ltd.	Phase JG6006 of Liduoduo RMB-denominated structured deposit products with stable profit and fixed holding period for corporate issued by Shanghai Pudong Development Bank (360 days)	30,000	4 March 2020	1 March 2021	Funds of the Group	Mainly used for investment in inter-bank bills, treasury bonds, national financial bonds, corporate bonds, short-term notes, medium-term notes, inter-bank lending, borrowings and deposits, bonds or repurchases of bills, as well as interest rate-linked option products	Float income type	3.70	1,110.	0	Not matured	Yes	No	0



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)

2) Individual entrusted wealth management products (continued)

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'000) (if any)	Actual gains or losses (RMB'000)	Actual recovery	Legal procedures involved or not	Any entrusted wealth management plan in the future	Impairment provision (if any)
No.1 Sub-branch of ICBC	Net-worth wealth management product for corporate "Tian Li Bao"	12,000	24 December 2020	No fixed term	Funds of the Group	(i) highly liquid assets, including but not limited to bonds, deposits, money market funds and other money market trading instruments; (ii) creditor's rights assets, including but not limited to direct investment in creditor's rights trust plans and wealth management plan; and (iii) other assets or asset portfolios, including but not limited to asset management plans for specific clients offered by fund management companies. Moreover, the product may be used in financial businesses such as pledge of deposit and repurchase of bonds due to the demand of liquidity.	Float income type	3.50	/	0	Unrecovered	Yes	Yes	0
Nanning Mingxiu Road East Sub-branch of China Construction Bank Corporation	"Qianyuan - ZhouzhouLi" open-end principal preservation wealth management product	10,000	3 April 2019	3 April 2020	Funds of the Group	Inter-bank lending	Float income type	3.20	599	0	Not matured	Yes	Yes	0
Nanning Mingxiu Road East Sub-branch of China Construction Bank Corporation	"Qianyuan - ZhouzhouLi" open-end principal preservation wealth management product	10,000	15 January 2020	15 January 2021	Funds of the Group	Inter-bank lending	Float income type	3.20	309	0	Not matured	Yes	Yes	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

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 weath management*

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 matured (RMB'000)	Amount not received after maturity (RMB'000)
Bank entrusted loan	Funds of the Group	1,102,230	230,130	0

Others

Applicable Not applicable

2) *One-off entrusted loans*

Applicable Not applicable

Others

Applicable Not applicable

3) *Provision for impairment of entrusted loans*

Applicable Not applicable

(iii) Others

Applicable Not applicable

(4) 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 RMB1,810,400,000 AND THE RENTAL EXPENSES IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE WERE RMB797,931,000.**
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 Reply for Approving 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 RMB501,820,200 in 2020. As at 31 December 2020, the aggregate proceeds invested amounted to RMB5,201,346,500 and the aggregate proceeds invested (after the deduction of bank charges and addition of accrued interest income) amounted to RMB3,088,027,300. The details are as follows:

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)

No.	Name of projects	Proposed investment amount (RMB'0000)	Amount invested as at 31 December 2020 (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	32,278.67	(117,721.33)	31 December 2022 (note a)
2	The construction project of the Great Southern TCM production base (phase 1)	64,391.67	12,567.20	(51,824.47)	31 January 2021 (noteb)
Including	Ming Xing relocation improvement project	60,000.00	8,175.53	(51,824.47)	31 January 2024 (note d)
	He Ji Gong relocation improvement project	4,391.67	4,391.67	0	Change in the intended use (note d)
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	146,008.59	(53,991.41)	N/A
5	The project for establishment of information platform	2,774.99	2,774.99	0	31 December 2020 (note b), change in the intended use of the portion of the Company (note d)
6	The project for the establishment of Guangzhou Chemical & Pharmaceutical (Zhuhai) Co., Ltd.	48,901.37	0	(48,901.37)	(note d)
7	Replenishment of liquidity	216,344.66	218,505.20 (including the use of deposits interest)	2,160.55	N/A
	Total	790,412.68	520,134.65	(270,278.03)	-

Notes:

- 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 and passed the resolution on postponing the implementation date of the construction project of the Great Southern TCM research and development base to 31 December 2022. For details, please refer to the announcement of the Company dated 11 December 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEX.
- 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 and passed the resolution on postponing the implementation dates of the construction project of the Great Southern TCM production base (phase 1) and the project for establishment of an 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 and the circular of the Company dated 31 January 2019 on the websites of the SSE and the HKEX.

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)

- c. The Company convened the 18th meeting of the seventh session of the Board, the 12th meeting of the seventh session of the Supervisory Committee and the first EGM in 2019 on 28 March 2019, and passed the resolution on changing 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 GPLL, 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.
- d. With the approval of the 4th meeting of the eighth session of the Board and the 3rd meeting of the eighth session of the Supervisory Committee, the Company has postponed the implementation of Ming Xin’s relocation improvement project of the construction project of the Great Southern TCM production base (phase 1) designated of RMB104.725 million (the actual amount is based on the balance of designated are transferred) for the project for the establishment of the information platform (the portion of the Company) and RMB384.2887 million (the actual amount is based on the balance of the special account on the day when the proceeds are transferred) for He Ji Gong’s relocation improvement project to the project for the establishment of Guangzhou Baiyunshan Chemical & Pharmcentral (Zhuhai) Co., Ltd. Please refer to the announcement dated 25 August 2020 and 24 November 2020 and the circular dated 9 October 2020 published by the Company on the websites SSE and HKEX for details.

Save for the above, as at 31 December 2020, 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 2020 (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.

On 29 April 2020, GP Corp. completed the business registration for the change in ownership and became a company limited by shares. The resolution on the capital injection and enlargement of GP Corp. was considered and approved by the third meeting of the eighth session of the Board on 6 August 2020. The resolution on the initial public offering of foreign shares (H shares) by GP HK1_5039752_1 2 Code Riders Corp. by way of overseas listing and a series of resolutions related to the listing proposals were considered and approved by the sixth meeting of the eighth session of the Board on 30 September 2020. GP Corp. solicited qualified investors by way of a public tender process via the Guangzhou Enterprises Mergers and Acquisition Services from 12 October 2020 to 4 December 2020. According to the delisting, comprehensive agreement and competitive negotiation of the Public Tender via the Guangzhou Enterprises Mergers and Acquisition Services, the capital injection of GP Corp. eventually solicited one strategic investor and five ordinary investors which, thereby created 222,305,500 new shares by way of capital injection and enlargement. On 30 December 2020, GP Corp. completed the business registration for the changes related to the said capital injection and enlargement. For details, please refer to the announcements of the Company dated 29 April 2020, 6 August 2020, 30 September 2020 and 31 December 2020 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 of GP Corp. 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 accounts receivable 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.

As at 31 December 2020, the accumulative asset sale scale of GP Corp.'s asset-backed securitization of accounts receivable amounted to approximately RMB 4.280 billion.

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

Guang Hua, Xing Qun and Cai Zhi Lin, being subsidiaries of the Company, established poverty alleviation partnership with certain villages in Songyuan Town, Meizhou City, Guangdong Province, namely Wanxi, Jingkou and Yuanling, respectively, with the general concept of providing “targeted, early and distinct” and to achieve the objective that “aid they no longer need to worry about food and clothes, compulsory education, basic medical services and residential safety are guaranteed”, in accordance with the basic strategy of precise policy and targeted poverty alleviation. At the end of 2020, on the basis of helping all poor households in the three villages to get rid of poverty, the Company continued to make up the shortcomings, promote effectiveness, grasp the consolidation and prevent the return to poverty.

(ii) Outline of targeted approach to aid the needy in 2020

Applicable Not applicable

- 1) Industrial poverty alleviation. The Company continued to promote poverty alleviation by helping poor households to increase production and income. Relying on the local roasted tobacco and pomelo industry in Songyuan Town, Meizhou City, poor households with the ability to work were encouraged to expand the area of tobacco and pomelo cultivation. At the same time, to increase production and farmer’s income, the Company also established farmer cooperative association, constructed aqueduct, and offered farmers seed and fertilizer to constantly improve the production infrastructure.
- 2) Poverty alleviation through employment. The Company strengthened the implementation of poverty alleviation by promoting employment, and overcame difficulties in poverty alleviation by helping poor households go out to work or get a job nearby. First, we strengthened the training of labor skills by inviting technical experts or masters with skills to get rich in the village to conduct skill training for poor home-based farming households and to equip them with farming techniques, improve the level of farming, and enhance the skills of farming. Second, we implemented the employment incentives policy to reward the poor who have stable jobs outside with employment incentives, so as to guide the poor families’ surplus labor force to go out to work and to achieve the goal that “if one person have a job, the family will get rid of poverty”. Third, the WLJ Great Health base and the Cai Zhi Lin industrial service base have been moved into the Guangzhou (Meizhou) Industrial Park since 2016, and the projects were completed and put into operation in October 2020. They are expected to provide more than 600 jobs for the local farmers of the appointed villages.

22. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

(ii) Outline of targeted approach to aid the needy in 2020 (Continued)

- 3) Poverty alleviation through education. The Company actively carried out charity activities for education. Adhering to the concept of poverty alleviation with education as first priority, we actively assisted poor students to apply for targeted poverty alleviation education and living expenses subsidies in accordance with the policy to reduce the burden of education costs of poor family. We also provided scholarships to poor students admitted into universities.
- 4) Poverty alleviation by developing photovoltaic projects. The Company also implemented photovoltaic projects by constructing 6 photovoltaic stations for the three villages, which are put into use now. This can bring a revenue of more than RMB 50,000 for the villages each year.

(iii) Achievement of the Targeted Poverty Alleviation

Applicable Not applicable

(RMB'0000)

Index	Number and implementation information of GYBYS
I. General information	250.64
Including: 1. Fund	241.57
2. Materials trade	9.07
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	0
II. Itemized input	
(1) Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry projects <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 checked="" type="checkbox"/> Poverty alleviation through science and technology <input checked="" type="checkbox"/> Others



Major Events

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
1.2 Number of industrial poverty alleviation projects	14
1.3 Amount invested in industrial poverty alleviation projects	91.63
1.4 Number of poor people helped to be removed from register of persons in poverty (Persons)	0
(2) Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0
2.2 Number of people receiving vocational training (Persons/Time)	129
2.3 Number of poor people in register of persons in poverty employed (Persons)	0
(3) Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0
(4) Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	4.02
4.2 Number of students receiving allowance (Persons)	59
4.3 Amount invested in improvement of education resources in poor area	0
(5) Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poor area	0
(6) Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<input type="checkbox"/> Ecological protection and construction <input type="checkbox"/> Establishing compensation mechanism for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	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
(7) Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the three left-behind groups	0
7.2 Number of people of the three left-behind groups helped (Persons)	0
7.3 Amount invested in helping poor people with disabilities	0
7.4 Number of poor people with disabilities helped (Persons)	0
(8) Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the eastern and western parts of the country	0
8.2 Amount invested in fixed-point poverty alleviation work	0
8.3 Poverty alleviation fund	0
(9) Other projects	
Including: 9.1 Number of projects (Project)	48
9.2 Amount invested	154.99
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0
9.4 Details of other projects	Based on the actual situation, the Company constructed water channels, encouraged poor households to work and rewarded employment incentives. The Company spent a total of approximately RMB1,549,900 thousand on providing living subsidies, consolation to poor households and policy propagation during the pandemic period and advocating poverty alleviation.
III. Awards (details and levels)	No



22. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

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

(iv) Updates on phrasal progress in fulfillment of social responsibility of targeted Poverty Alleviation

✓Applicable Not applicable

The Group adhered to in-depth learning and understanding of the important instructions and spirit of Xi Jinping, the General Secretary, regarding fighting poverty and overcoming its difficulties, insisted on the Party's leadership in fighting and overcoming its difficulties, and played the role as the battle fortress of the Party's organizations at village level. The Group also actively implemented the responsibility of poverty alleviation by going all out to consolidate and improve the results of poverty alleviation and improved the quality of poverty alleviation, ensuring all poor households to get rid of poverty.

(v) Follow-up alleviation plan

✓Applicable Not applicable

In 2021, the Group will continue to carry out poverty alleviation by increasing industrial production, promoting employment and developing photovoltaic projects to maintain poverty alleviation results achieved and will further implement and promote the projects for people's well-being in the entire village.

(2) **Work on social responsibilities**

✓Applicable Not applicable

The Company prepared the Social Responsibilities Report of 2020 (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 2020 Annual Report in an orderly manner by Listed Companies 《關於做好主板上市公司2020年年度報告披露工作的通知》" 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 the Appendix 27 of the Listing Rules of the HKEX, and prepared the 2020 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 this 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 Company and Weiling, both being the subsidiaries of the Company, were among the key pollutants discharging units. The key items of waste emissions being monitored are waste 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	3.5	"Integrated Emission Standard for Air Pollutants", ≤50	0.024	2.16	None
	Nitrogen oxides	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	88.5	"Integrated Emission Standard for Air Pollutants", ≤200	0.6112	8.62	None
	Particulate matter (smoke dust)	Interval	5	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	1	"Integrated Emission Standard for Air Pollutants", ≤30	0.0069	17.78	None
	Total VOCs	Interval	5	No. 78 Tongbao Road, Tonghe Street, Guag Province, the PRC	7.63	"Integrated Emission Standard of Air Pollutants", ≤120	0.4232	15.56	None
WLJ Ya'an Company	COD	Discharge after treatment	1	No.1 Deguang Road, Ya'an Economic Development Zone, Sichuan Province, the PRC	18.62	"Integrated Wastewater Discharge Standard (III-class criteria)"	0.61	5.86	None
Weiling	COD	Discharge after treatment	1	No. 36, Huancheng East Road, Heshan Community, Hepo Street, Jiexi County, Guangdong Province, the PRC	68.75	"Integrated Wastewater Discharge Standard (III-class criteria)"	1.20	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 Company 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 Company and Weiling and their implementations (waste gas) are as follows:

Company name	Name of pollution preventing facility	Date of being put into use	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 waste 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 waste gas treatment facility DA004(5#)	2009.06.01	VOCs	Condensation + absorber recovery	360
	203 oral APIs production waste 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 waste gas treatment facility DA002 (10#)	2016.01.20	Particulate matter	Cellulose filter cylinder filtration	5,350
	203 oral raw medicine production dust and waste 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	VOCs	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 Company	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.

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, waste 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

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 share 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

(2) Changes in restricted shares

Applicable Not applicable

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

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2020, there were 123,654 shareholders in total, of which 123,627 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed shares (H shares).

As at 28 February 2021, there were 116,616 shareholders in total, of which 116,588 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 28 were holders of overseas listed shares (H shares).

(2) As at 31 December 2020, the top ten shareholders of the Company are set out as follows

Shareholders	The top ten shareholders of the Company					
	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 held (share)	Number of shares pledged or locked (share)	Nature of Shareholders
GPHL	0	732,305,103	45.04	0	0	State-owned legal person
HKSCC Nominees Limited	51,990	219,759,379	13.52	0	0	Others
GZ Chengfa	0	73,313,783	4.51	0	0	Others
GZ SOA Development	(19,724,200)	61,565,300	3.79	0	0	State-owned legal person
China Securities Finance Corporation Limited	0	47,278,008	2.91	0	0	Others
Hong Kong Securities Clearing Company Limited	(2,862,957)	17,489,786	1.08	0	0	Others
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Others
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	0	8,795,136	0.54	0	0	Others
Zhongou AMC – Agricultural Bank – Zhongou China Securities Financial Asset Management Plan	0	8,680,636	0.53	0	0	Others
Boshi AMC-Agricultural Bank-Boshi China Securities Financial Asset Management Plan	0	8,662,836	0.53	0	0	Others

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS (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	219,759,379	H shares	219,759,379
GZ Chengfa	73,313,783	Domestic shares	73,313,783
GZ SOA Development	61,565,300	Domestic shares	61,565,300
China Securities Finance Corporation Limited	47,278,008	Domestic shares	47,278,008
Hong Kong Securities Clearing Company Limited	17,489,786	Domestic shares	17,489,786
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	8,795,136	Domestic shares	8,795,136
Zhongou AMC – Agricultural Bank – Zhongou China Securities Financial Asset Management Plan	8,680,636	Domestic shares	8,680,636
Boshi AMC-Agricultural Bank-Boshi China Securities Financial Asset Management Plan	8,662,836	Domestic shares	8,662,836
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 (Continued)

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

As at 31 December 2020, 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)	Capacity	Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
GPHL	Domestic shares	732,305,103 (long position)	Beneficial owner	52.09	–
GZ Chengfa	Domestic shares	73,313,783 (long position)	Beneficial owner	5.21	–
Norges Bank	Foreign shares	32,801,000 (long position)	Beneficial owner	–	14.92
Citigroup Inc. (note 1 and note 2)	Foreign shares	20,748,690 (long position)	Interests in controlled corporation	–	9.43
		185,960 (short position)	Interests in controlled corporation	–	0.08
		20,038,862 (lending pool)	Approved lending agent	–	9.11

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

- (1) Interests in 523,868 long position foreign shares in the Company were held by Citigroup Global Markets Limited ("Citigroup Markets"), which was owned as to 100% by Citigroup Global Markets Holdings Bahamas Limited ("Citigroup Bahamas"). Citigroup Bahamas was owned as to 50.21% by Citigroup Global Markets (International) Finance GmbH ("Citigroup Markets (International) "). Citigroup Markets (International) was wholly-owned by Citigroup Global Markets Europe Finance Limited ("Citigroup Markets Europe"). Citigroup Markets Europe was wholly-owned by Citigroup Financial Products Inc. ("Citigroup Financial"), which was wholly-owned by Citigroup Global Markets Holdings Inc. ("Citigroup Holdings"). Citigroup Holdings was wholly-owned by Citigroup Inc.. Therefore, Citigroup Bahamas, Citigroup Markets (International), Citigroup Financial, Citigroup Markets Europe, Citigroup Holdings and Citigroup Inc. were deemed to be interested in the shares held by Citigroup Markets under the SFO.
- (2) Interests in 960 long position foreign shares and in 960 short position foreign shares in the Company were held by Citigroup Global Markets Hong Kong Limited ("Citigroup HK"). Citigroup HK was owned as to 100% by Citigroup Financial. Therefore, Citigroup Financial, Citigroup Holdings and Citigroup Inc. were deemed to be interested in the shares held by Citigroup HK under the SFO.
- (3) Interests in 20,223,862 long position foreign shares and in 185,000 short position foreign shares in the Company were held by Citibank, N.A., which was wholly-owned by Citicorp LLC. Citicorp LLC was wholly-owned by Citigroup Inc.. Therefore, Citicorp LLC and Citigroup Inc. were deemed to be interested in the shares held by Citibank, N.A. under the SFO.

2. In which 4,000 long position foreign shares in the Company are unlisted derivatives to be settled in cash, whereas 185,000 long position foreign shares and 185,000 short position foreign shares in the Company are unlisted derivatives to be settled physically.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2020, 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 the HKEX pursuant to Divisions 2 and 3 of Part XV of the SFO or otherwise required 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

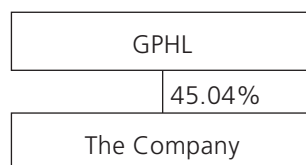
Applicable Not applicable

(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

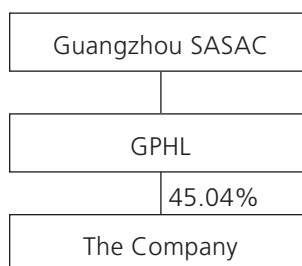
Applicable Not applicable

(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



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

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 Vice Chairperson of the Company since 28 June 2010 and 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 Vice Chairperson of HWBYS. Mr. Li has extensive experience in the fields of corporate management and marketing.

Mr. Yang Jun, aged 52, holds a master degree in business administration and 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, and staff director of Vanlead Group Co., Ltd; deputy secretary of the party committee and director of Guangzhou Public Transport Group Co., Ltd; secretary of the party committee of Guangzhou First Bus Co., Ltd. Mr. Yang has been a director of the Company since January 2020 and has been the vice chairperson since June 2020. 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 and the chairperson of Tian Xin. Mr. Yang has rich experience in party construction and innovation and enterprise 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)*

Ms. Cheng Ning, aged 55, 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 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, the chairperson of Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd and Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd. Ms. Cheng has extensive experience in finance management and internal control management.

Ms. Liu Juyan, aged 56, 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. Ms. Liu has been a Director of the Company since January 2014. Ms. Liu is currently the deputy general manager and the chief engineer of GPHL. She also serves as the chief technical officer of the Company, the vice chairperson of Nuo Cheng, a director of Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd (廣藥(珠海橫琴)醫藥產業園有限公司) and director of Guangyao International (Zhuhai Hengqin) Tradition Chinese Medicine Industry Co., Ltd (廣藥國際(珠海橫琴)中醫藥產業有限公司). Ms. Liu has extensive experience in scientific research and development, technological research and quality 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. Li Hong, aged 54, holds a bachelor degree and an EMBA degree from Lingnan College of Sun Yat-set University. Mr. Li is a senior economist (science and technological entrepreneur) and holds the titles of engineer and senior political work engineer. 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 member of the Party Committee, 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 and a director of Guangzhou Haima Pharmaceutical Advertising Co., Ltd., the chairperson of Baxter Qiao Guang, the general manager of Guang Yao Group (Macau) International Development Industry Co., Ltd., the director and general manager of Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd (廣藥(珠海橫琴)醫藥產業園有限公司) and Guangyao International (Zhuhai Hengqin) Tradition Chinese Medicine Industry Co., Ltd (廣藥國際(珠海橫琴)中醫藥產業有限公司). Mr. Li has rich experience in business administration and marketing.

Mr. Wu Changhai, aged 55, holds an EMBA degree, is a Senior Economist (Technology Entrepreneur) 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 of Qi Xing, the chairperson of Xing Qun, chairperson, a member of the party committee and a director of WLJ Great Health, chairperson of WLJ Ya'an, chairperson of Wang Lao Ji Great Health Industry (Mei Zhou) Co., Ltd., and director and general manager 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 Guangzhou Baiyunshan Medical Instrument Investment Company a director of WLJ Great Health, a director of Xing Zhu, a director of Baiyunshan Medical and Healthcare Industry Company and a director of Baiyunshan Tibetan-style Health Preservation Castle in Nyingchi of Tibet Management Co., Ltd.. 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.

Mr. Zhang Chunbo, aged 44, holds a bachelor degree and a master degree of EMBA, is a Senior Economist (Technology Entrepreneur) and a druggist and received the award of "National Model Workers". 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 deputy general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the deputy general manager, standing deputy general manager, general manager and chairperson of Zhong Yi, and general manager and Chairperson of Qi Xing. Mr. Zhang has been as the deputy 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 and the secretary of the party committee of each of Zhong Yi and Qi Xing. Mr. Zhang has extensive experiences in corporate management and marketing.

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

Mr. WONG Hin Wing, aged 58, 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 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), the Company, 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. 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 Construction Industry Council as well as the Betting and Lotteries Commission. 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 then founded and has been the Managing Director and a licensed responsible officer of Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO, since 1997. He has been an Independent non-executive Director of the Company since 23 June 2017 and has 37 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 58, completed postgraduate education and holds a master degree in management. Ms. Wang is a professor in management, a Counsellor of the Counsellors' office of the People's Government of Guangdong Province, a member of each of the ninth, tenth and eleventh session of the Chinese People's Political Consultative Conference of Guangdong Province and a member of the twelfth session of the Counsellor Consultative Committee of the Chinese People's Political Consultative Conference. 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 successively been lecturer of the Department of Trade and Economics and the director of the Teaching and Research Office 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 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 been an Independent non-executive Director of the Company since 23 June 2017 and has extensive experience in strategy management, science and technology innovation management, marketing management and brand planning and operation.

Mr. Chen Yajin, aged 58, holds a doctorate degree, and is a professor and chief physician. Mr. Chen is the vice-officer of the Biliary Surgery Expert Committee of the Capacity Building and Continuing Education Committee of the National Health Commission of the PRC, officer of the Hepatobiliary and Pancreatic ERAS Expert Committee of the Chinese Branch of the International Hepato-Pancreato-Biliary Association, officer of the Hepatobiliary Surgery Branch of Guangdong Medical Doctor Association, a standing committee member of the Bile Duct Expert Committee of the Surgery Branch of Chinese Medical Doctor Association, the vice-officer of the Digestive Oncology Branch of Chinese Research Hospital Association, a member of the Biliary Surgery Group of the Surgery Branch of Chinese Medical Association, a member and the vice-officer of the China Branch of Asian-Pacific Laparoscopic Hepatectomy Promotion Committee, and a standing committee member of the International Laparoscopic Liver Society (ILLS). Mr. Chen began his career in July 1986, and successively held various positions such as the director of hepatobiliary surgery department and deputy officer of the Southern Hospital District Management Committee of Sun Yat-Sen Memorial Hospital of Sun Yat-Sen University and has been an independent non-executive Director of the Company since 29 June 2020. Mr. Chen is currently the director of hepatobiliary surgery department and officer of the Southern Hospital District Management Committee of Sun Yat-Sen Memorial Hospital of Sun Yat-Sen University. Mr. Chen has extensive experience in scientific research and development and technical research.

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. Huang Min, aged 57, holds a postgraduate degree and a doctorate degree in pharmacology, and is a professor (Grade II). Mr. Huang is a member of the Pharmacopoeia Commission of the PRC, a member of the Seventh Session of the Pharmacy Academic Appraisal Group of the Academic Degree Committee of the State Council, the officer of the Clinical Pharmacology Expert Committee of Chinese Pharmacological Society, the vice-officer of the Drug Metabolism Expert Committee, a standing committee member of Guangdong Provincial Association for Science and Technology and the president of Guangdong Provincial Assessment & Accreditation Federation of Technology. Mr. Huang began his career in June 1983, and successively held various positions such as a lecturer and an associate professor of the Department of Clinical Pharmacology of Zhongshan Medical University, and executive vice-dean and dean of School of Pharmaceutical Sciences of Sun Yat-Sen University. Mr. Huang has been an independent non-executive Director of the Company since 29 June 2020 and is currently a professor and the director of the Institute of Clinical Pharmacology of Sun Yat-sen University. Mr. Huang has extensive experience in the teaching, scientific research and scientific and technological development in the field of pharmacy.

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, 53 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 served as a Supervisor of the Company since September 2019 and chairperson of the Board of Supervisors of the Company since January 2020. Mr. Cai currently serves as the director of the organization department, HR department and unified front work department. 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 55, 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, head of the audit department and director of the risk control office of the Company, and director of Cai Zhi Lin. Ms. Gao served as a Supervisor of the Company since June 2017. Ms. Gao has extensive experience in audit, risk control and securities affairs. Ms. Gao resigned from her position as a supervisor representing shareholders of the Company on 23 November 2020 since she has reached the legal age for retirement and the resignation of Ms. Gao will become effective after the new supervisor has been elected at the general meeting expected to be held by the Company to fill the vacancy in the position of supervisor after the resignation of Ms. Gao.

Mr. Cheng Jinyuan, aged 47, has a bachelor degree and a master degree of 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 Guang Hua Pharmaceutical, director of discipline inspection office of GPLH, and director of discipline inspection office of the Company. Mr. Cheng has been a Supervisor of the Company since January 2020. Mr. Cheng currently serves as the head of the audit department, director of the risk control office and director of the inspection office of the party committee of GPLH, the head of the audit department and director of the risk control office of the Company. Mr. Cheng has rich experience in discipline inspection, financial management and marketing.

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

Mr. Huang Haiwen, aged 40, 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 deputy general manager of operating division of Guangxi Ying King; head and vice manager of operating division of Baiyunshan General Factory and deputy general manager of Baiyunshan Pharmaceutical Marketing Co., Ltd. Mr. Huang has been a deputy general manager of the Company since July 2019 and currently serves as the general manager of Baiyunshan Pharmaceutical Marketing and manager of Baiyunshan General Factory. Mr. Huang has rich experience in marketing management and market operation.

Ms. Zheng Haoshan, aged 45, 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 has been a deputy general manager of the Company since July 2019 and currently serves as the head of business administration department of the Company; director of GP Corp.; director of Pharmaceutical Import & Export; director of Cai Zhi Lin Caithilin Pharmaceutical; director of Ming Xing and director of Zhong Yi. Ms. Zheng has rich experience in enterprise management, resource integration and operation analysis.

Mr. Zheng Jianxiang, aged 51, is the holder of a master’s degree in business administration and a bachelor’s degree, economist title. Mr. Zheng commenced working in July 1993 and served successively as the director of the Shanghai office, and deputy director of sales department of Guangzhou Pharmaceutical Company; the director of overseas sales department, director of purchasing department, director of purchasing center, deputy director of marketing department and deputy general manager of GP Corp; the deputy general manager of Cai Zhi Lin and the chairperson of Guangzhou Cai Zhi Lin Pharmacy. Mr. Zheng has been a deputy general manager of the Company since August 2020 and is the secretary of the party committee and chairperson of our GP Corp, a director of Cai Zhi Lin, a director of Pharmaceutical Import & Export, a director of Baiyunshan Medical Equipment Investment, and a director of Guangzhou Zhongcheng Medical Equipment Industry Development Co., Ltd.. Mr. Zheng has extensive experience in business management and marketing.

Ms. Huang Xuezen, aged 47, 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 1999 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.

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

Biographies of outgoing independent non-executive directors

Mr. Chu Xiaoping, aged 66, 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 Holding Co., Ltd. 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 experiences in the organisation, leadership, innovation and sustainable development of enterprises. Mr. Chu resigned as an independent non-executive Director of the Company on 29 June 2020.

Mr. Jiang Wenqi, aged 63, 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. Mr. Jiang resigned as an independent non-executive Director of the Company on 29 June 2020.

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 are there 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 2020)

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 RMB15,898,940.

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 Note③ (RMB'000) (before tax)	Emoluments received from the Company's shareholder during the Reporting Period Note② (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	0	(100,000)	Note ④	/	1,550.91
Yang Jun	Vice chairperson	Male	52	2020-01-13	Note ①	0	0	0	N/A	/	868.21
Cheng Ning	Vice chairperson	Female	55	2012-09-19	Note ①	21,500	0	(21,500)	Note ④	/	1,389.53
Liu Juyan	Executive Director	Female	56	2014-01-28	Note ①	13,000	0	(13,000)	Note ④	/	1,381.00
Li Hong	Executive Director General manager	Male	54	2018-06-22	Note ①	10,000	0	(10,000)	Note ④	1,441.04	/
Wu Changhai	Executive Director Standing deputy general manager	Male	55	2010-06-28	Note ①	13,000	0	(13,000)	Note ④	1,373.28	/
Zhang Chunbo	Executive Director	Male	44	2015-01-12	Note ①	10,000	0	(10,000)	Note ④	1,146.69	/
Wong Hin Wing	Independent non- executive Director	Male	58	2017-06-23	Note ①	0	0	0	N/A	100.00	/
Wang Weihong	Independent non- executive Director	Female	58	2017-06-23	Note ①	0	0	0	N/A	100.00	/
Chen Yajin	Independent non- executive Director	Male	58	2020-06-29	Note ①	0	0	0	N/A	50.00	/
Huang Min	Independent non- executive Director	Male	57	2020-06-29	Note ①	0	0	0	N/A	50.00	/
Cai Ruiyu	Supervisor	Male	53	2019-09-24	Note ①	5,000	0	(5,000)	Note ④	1,028.60	/
Gao Yanzhu	Supervisor	Female	55	2017-06-23	Note ①	5,000	0	(5,000)	Note ④	757.20	/
Cheng Jinyuan	Supervisor	Male	47	2020-01-13	Note ①	0	0	0	N/A	801.37	/
Huang Haiwen	Deputy general manager	Male	40	2019-07-12	Note ①	17,500	0	(17,500)	Note ④	1,044.40	/
Zheng Haoshan	Deputy general manager	Female	45	2019-07-12	Note ①	50,000	0	(50,000)	Note ④	1,115.31	/
Zheng Jianxiang	Deputy general manager	Male	51	2020-08-28	Note ①	2,900	2,300	(600)	Note ④	680.70	/
Huang Xuezheng	Secretary to the Board	Female	47	2017-04-26	Note ①	2,500	0	(2,500)	Note ④	920.72	/
2. Interest (A-shares) emoluments of outgoing Directors, Supervisors, and senior management during the Reporting Period											
Chu Xiaoping	Independent non- executive Director	Male	66	2014-01-28	2020-06-29	0	0	0	/	50.00	/
Jiang Wenqi	Independent non- executive Director	Male	63	2015-03-13	2020-06-29	0	0	0	/	50.00	/

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 2020) (Continued)

Notes:

- ① The term of office of members of the 8th session of the Board, Supervisory Committee commenced from 29 June 2020 up to the date on which the members of the new session of the Board and the Supervisory Committee are elected.

Except for Mr. Zheng Jianxiong whose term of office commenced from 28 August 2020 until members of the new session of the Board of Directors are elected, the term of office of the members of senior management commenced from 29 June 2020 up to the date on which the members of the new session of the Board are elected.

- ② The emoluments of Mr. Li Chuyuan, Mr. Yang Jun, Ms. Cheng Ning and Ms. Liu Juyan 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 2020 as well as settlement of annual salary for the previous year, etc.

- ③ The emoluments of Mr. Li Hong, Mr. Wu Changhai, Mr. Cheng Jinyuan, Ms. Gao Yanzhu, Mr. Cai Ruiyu, Ms. Zheng Haoshan and Ms. Huang Xuezhen for the Year were received from the Company, which included without limitation the basic salary, staff welfare benefits as well as settlement of annual salary for the previous year, etc.

The emoluments of Mr. Wong Hin Wing, Ms. Wang Weihong, Mr. Chen Yajin, Mr. Huang Min, Mr. Chu Xiaoping and Mr. Jiang Wenqi for the Year were received from the Company, among which, Mr. Chan Yajin and Mr. Huang Min began to receive emoluments from the Company since 29 June 2020.

The emoluments of Mr. Zhang Chunbo, Mr. Huang Haiwen and Mr. Zheng Jianxiong were received from the Company and its subsidiaries.

- ④ Mr. Li Chuyuan, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Wu Changhai, Mr. Li Hong, Mr. Zhang Chunbo, Ms. Gao Yanzhu, Mr. Cai Ruiyu, Mr. Huang Haiwen, Ms. Zheng Haoshan and Ms. Huang Xuezhen participated in the Stock Ownership Scheme for 2015. On 2020, 3,860,500 shares of the Company held under the 2015 Stock Ownership Scheme were fully sold. For details, please refer to the announcement of the Company dated 9 June 2020 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.

Mr. Zheng Jianxiong held shares that were traded in the secondary market before he became the deputy general manager of the Company.

(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 2020, 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 Hong	Beneficial Owner	Tian Xin	5,000	Note

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.

- (ii) Saved as disclosed above, as at 31 December 2020, 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	June 2013	/
		Secretary of the party committee	July 2013	/
Yang Jun	GPHL	Vice chairperson	October 2019	/
		Deputy secretary of the party committee	October 2019	/
		General manager	October 2019	/
Cheng Ning	GPHL	Standing deputy general manager	March 2019	December 2020
		Chief Financial Officer	May 2010	/
Liu Juyan	GPHL	Deputy general manager	January 2011	/
		Chief engineer	August 2005	/

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 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) At the first extraordinary general meeting in 2020 held on 13 January 2020, Mr. Yang Jun was elected as the executive Director of the seventh session of the Board and his term of office commenced from the date on which he was elected up to the date on which the members of the new session of the Board are elected; Mr. Cheng Jinyuan was elected as a supervisor representing the shareholders of the seventh session of the Supervisor Committee and his term of office commenced from the date on which he was elected up to the date on which the members of the new session of the Supervisor Committee are elected. At the 21st meeting of the 7th session of the Supervisory Committee of the Company held on the same date, Mr. Cai Ruiyu was elected as the chairperson of the seventh session of the Supervisory Committee and his term of office commenced from the date on which he was elected up to the date on which the members of the new session of the Supervisor Committee are elected.
- (ii) At the enlarged meeting of the second session of the Labour Union Committee of the Company held on 17 June 2020, Mr. Cai Ruiyu was elected as the supervisor representing the employees of the eighth session of the supervisory committee of the Company. The commencement date of the term of office of Mr. Cai as a member of the 8th session of the supervisory committee shall be the same as that of members of the 8th session of the supervisory committee to be elected.
- (iii) At the annual general meeting of the Company for the year 2019 which was held on 29 June 2020, Mr. Li Chuyuan, Mr. Yang Jun, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Li Hong, Mr. Wu Changhai and Mr. Zhang Chunbo were elected as executive directors of the eighth session of the Board; Mr. Wong Hin Wing, Ms. Wang Weihong, Mr. Chen Yajin and Mr. Huang Min were elected as independent non-executive Directors of the eighth session of the Board. The term of office of each Directors is 3 years, commencing from the date on which they are elected up to the date on which the members of the new session of the Board are elected.

At the same day, Ms. Gao Yanzhu and Mr. Chen Jinyuan were elected as supervisors representing the shareholders of the eight session of the Supervisor Committee and their term of office commenced from the date on which they were elected up to the date on which the members of the new session of the Supervisor Committee are elected.
- (iv) At the 1st meeting of the 8th session of the Board held on 29 June 2020, Mr. Li Chuyuan was elected as the chairperson of the eighth session of the Board, and Mr. Yang Jun and Ms. Cheng Ning were elected as the vice chairpersons of the eighth session of the Board, Mr. Li Hong was appointed as the general manager of the Company, Mr. Wu Changhai was appointed as the standing deputy general manager of the Company, Mr. Zhang Chunbo, Mr. Huang Haiwen and Ms. Zheng Haoshan were appointed as deputy general managers of the Company, and Ms. Huang Xuezhen was appointed as Secretary to the Board of the Company. The term of office of each number commences from the date on which they are elected up to the date on which the members of the new session of the Board are elected. On the same day, each of Mr. Chu Xiaoping and Mr. Jiang Wenqi retired as an independent non-executive Director of the Company.

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)*

(1) During the Reporting Period *(Continued)*

- (v) At the 5th meeting of the 8th session of the Board of the Company held on 8 August 2020, Mr. Zheng Jianxiong was appointed as the deputy general manager of the Company, whose term of office commenced from the date of appointment up to the date on which members of the new session of the Board are elected.
- (vi) The Company received a resignation letter tendered by Ms. Gao Yanzhu, the supervisor representing shareholders of the Company on 23 November 2020. Ms. Gao has resigned from her position as a supervisor representing shareholders of the Company since she has reached the legal age for retirement. Ms. Gao will continue to perform her duties as a supervisor representing shareholders of the Company until a new supervisor is elected. The resignation of Ms. Gao will become effective after the new supervisor has been elected at the general meeting expected to be held by the Company to fill the vacancy in the position of supervisor after the resignation of Ms. Gao.

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 2020 are as follows:

Name of director, supervisor	Detail of change
Yang Jun	Appointed as the chairperson of Tian Xin in June 2020.
Cheng Ning	Retired as the Financial Controller of GPLH in December 2020.
Li Hong	Appointed as a director of Guangzhou Haima Pharmaceutical Advertising Co., Ltd in March 2016, the chairperson of Baster Qiao Guang in May 2019, the director of Guangyao (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd. and Guangyao International (Zhuhai Hengqin) Pharmaceutical Industry Park Co. Ltd in September 2019.
Wu Changhai	Retired as a member of the party committee of WLJ Great Health in May 2020; appointed as a director of Tibet Linzhi Baiyun Tibetan Health Castle Management Co., Ltd. in May 2018.
Wong Hin wing	Retired as an independent non-executive director of 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) on 22 December 2020.
Chen Jinyuan	In December 2020, served as the head of the audit department and director of risk control office of Guangzhou Pharmaceutical Holdings and the Company; in August 2020, served as the director of the inspection office of the CPC committee of Guangzhou Pharmaceutical Holdings; ceased to serve as the director of discipline inspection and supervision office of the Guangzhou Pharmaceutical Holdings and the Company in July 2020.

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

Each of the Directors and Supervisors of the 8th session of the Board and 8th session of the Supervisory Committee has signed a written service contract with the Company, and the contract terms are effective from 29 June 2020 up to the date on which the members of the new session of the Board or the Supervisory Committee are elected.

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 COMPANY AND THE MAJOR SUBSIDIARIES

(1) Situation of the employees

Numbers of the employees of the Company	2,236
Numbers of the employees of the major subsidiaries	22,932
Total	25,168
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	13,800
Gross payroll of the Group	RMB3.337 billion

Composition

Category constitution	a number of constitute staff
Production staff	4,358
Sales personnel	13,919
Technical staff	3,177
Finance staff	753
Administrative staff	2,961
Total	25,168

Educational Level

	Number
Post Graduate	591
Undergraduate	7,806
University college	7,633
Secondary and below	9,138
Total	25,168

11. EMPLOYEES OF THE GROUP *(Continued)*

(2) Remuneration policy

Applicable Not applicable

The remuneration of the employees of the Group includes salaries, subsidies, bonuses, enterprise annuities 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 staff shuttles, apartments for talents, and various interest groups.

(3) Training plan

Applicable Not applicable

The Group attaches great importance to employees' career development 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 of each type of talents, the Group combined the internal and external trainings to build a competent 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 code provisions under the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 to the Listing Rules of HKEX, except that (i) Mr. Li Chuyuan, Mr. Li Hong, executive Directors of the Company, and Mr. Chu Xiaoping, Mr. Jiang Wenqi and Mr. Wong Hin Wing, independent non-executive Directors of the Company, were unable to attend the first extraordinary general meeting in 2020 due to business reasons; (ii) Ms. Liu Juyan, an executive Director of the Company, was unable to attend the annual general meeting for year 2019, the first class meeting of the holders of A shares in 2020 and the first class meeting of the holders of H shares in 2020 due to business reasons; (iii) Mr. Li Chuyuan, Mr. Li Hong and Mr. Wu Changhai, executive Directors of the Company, and Mr. Chen Yajin and Mr. Huang Min, independent non-executive Directors of the Company, were unable to attend the second extraordinary general meeting in 2020 due to business reasons; and (iv) Ms. Liu Juyan, Mr. Wu Changhai and Mr. Zhang Chunbo, executive Directors of the Company, and Mr. Huang Min, an independent non-executive Director of the Company, were unable to attend the third extraordinary general meeting in 2020, the second class meeting of the holders of A shares in 2020 and the second class meeting of the holders of H shares in 2020 due to business reasons, which constituted deviation from code provision A.6.7 of the CG Code.

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 2020 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 first Audit Committee meeting of the Company in 2021 on 18 March 2021 to review and approve the Company's 2020 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.

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 2019 pursuant to the requirements of the “Notice on preparation of the 2019 Annual Report in an order by manner by Listed Companies” issued by the SSE, and the “Self-assessment Report on Internal Control for 2019” and the “Report on Performance of Social Responsibilities for 2019” were prepared accordingly, which were disclosed after being duly considered and approved at the Board meeting of the Company held on 31 March 2020.
- (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 general meeting on 13 January 2020. For the details of the amendments please refer to the circular of the Company dated 28 November 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 20 January 2020.
- (iv) In order to safeguard the legitimate rights and interests of small and medium investors, fully reflect the Company’s small and medium investors’ intentions and demands in the decision-making process of major issues, and ensure that small and medium investors can exercise their rights in accordance with the law, the Company, subject to requirements of securities regulators, including the Opinions of the State Council on Further Strengthening the Protection of the Lawful Rights and Interests of Minority Investors in the Capital Market, the Guidelines for Articles of Association of Listed Companies, after taking into account its Articles of Association, formulated the “Management Measures for Individual Voting Counting for Small and Medium Investors”. The above revisions had been approved at the Board meeting on 31 March 2020.

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) According to the Company Law, the Securities Law, the Code of Corporate Governance of Listed Companies (2018 Revision) and relevant regulations, and coupled with the Company's practice of operating in compliance of laws and regulations, the Company has revised its Articles of Association, Rules of Procedure for the Shareholder's meeting and relevant clauses. The above revisions had been approved by the Board on 31 March 2020 and the general meeting on 29 June 2020. For the details of the amendments, please refer to the circular of the Company dated 13 May 2020.
- (vi) To establish and improve the management system for the information disclosure of debt financing instruments in the inter-bank bond market, the Company has formulated the Management System for the Information Disclosure of the Debt Financing Instruments in the Inter-bank Bond Market, which was reviewed and approved by the Company on the Board's meeting held on 8 July 2020.
- (vii) In order to further improving corporate governance, integrating the practical operation of the Company, the Company has revised the relevant provisions in the Implementation Rules on the Budget Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd., "Implementation Rules on the Audit Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd." The above revisions had been approved at the Board meeting on 30 September 2020.
- (viii) During the Reporting Period, the Company established the three defense lines of "risk control, internal control and internal audit" covering the entire Group and enhanced the risk prevention and control ability of "businesses in core area and businesses involves high risk", finally achieving the goal of "perfect system, controllable risks, compliance with operation and healthy development". We focused on the following tasks:
 - 1) The Company launched an in-depth investigation of internal control and the establishment of internal control system exercise. The Company organized more than 20 of its subsidiaries to carry out in-depth internal control audits on procurement, contracts, and financial reporting processes in order to identify the rooted causes and take effective corrective measures; and formulated the "Implementation Work Plan for Internal Control System of Relevant Enterprises under Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited 2020" which provided guidance to enterprises that have not yet established internal control systems to establish and improve their internal control systems and to include them under the supervision of the effective operation of the Group-wide internal control system.
 - 2) The Company carried out regularization management for sorting out special projects and risk control. The project of regularization of shareholding management was completed and a special inspection of the regularization management of the Group, its joint ventures, associates and companies which the Group held equity interests was conducted to deal with the risk found and proposed improvement measures. At the same time, the Company organized the evaluation of the overall risk management operation effectiveness for 2019 and the annual risk assessment for 2020, strengthen the identification and evaluation of risks, the formulation of risk strategies and the implementation of resolution measures.

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)*

- 3) The Company carried out special audits on major investments and economic responsibilities. Subsidiaries involving in equity investment, investment in fixed assets and research and development were selected for the purpose of the audit. The audit focused on investment decisions, use of funds, process management, post-investment management, etc. to prevent significant investment risks. At the same time, the Company carried out a number of audits on the economic responsibilities and pandemic prevention materials management of its subsidiaries to strengthen the use of audit results, reveal existing problems and room for improvement, and encourage enterprises to improve their business management.
- 4) The Company carried out a special audit on account receivables, focusing on auditing the authenticity and completeness of account receivables as well as the perfection and effectiveness of internal control to prevent and control the recovery risk of account receivables.

(3) Establishment and implementation of insider 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 insider 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 insider 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 insider 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 insider information, ensuring that the persons in possession of insider 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 general meeting in strict compliance 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 meetings 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.

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; and
- (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
Company website: <http://www.gybys.com.cn>

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

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 2020	13 January 2020	<p>(1) The following resolutions have been passed as ordinary resolutions: Resolution on amendments to the rules of procedures of the Board of Directors of the Company, Resolution on change in the auditor of the Company for year 2019. Resolution on change in the auditor for the internal control of the Company for year 2019, Resolution on the by-election of Mr. Yang Jun as an executive director of the seventh session of the Board of the Company and the emoluments to be paid to him as a director. Resolution on the by-election of Mr. Cheng Jinyuan as a supervisor representing shareholders of the seventh session of the supervisory committee of the Company and the emoluments to be paid to him as a supervisor.</p> <p>(2) The following resolutions have been passed as special resolution: Resolution on amendment to the Articles of Association of the Company.</p>	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)	14 January 2020

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 2019	29 June 2020	<p>(1) by ordinary resolutions: Annual Report and its summary for year 2019, Report of the Board for year 2019, Report of the supervisory committee of the Company for year 2019, Financial report of the Company for year 2019; Auditors' report of the Company for year 2019; Proposal on profit distribution and dividend payment of the Company for year 2019; Resolutions on the emoluments to be paid to the directors of the 7th session of the Board of the Company for year 2020; Resolutions on the emoluments to be paid to the supervisors of the 7th session of the supervisory committee of the Company for year 2020; 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 (the name of which has been changed to "Guangzhou Pharmaceutical Company Limited"), 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 internal idle funds of the Company and its subsidiaries; Resolution on amendments to the rules of procedures of the shareholders meetings of the Company; Resolution in relation to the emoluments to be paid to Mr. Cai Ruiyu, a supervisor representing the employees of the 8th session of the Supervisory Committee of the Company, for year 2020; Resolution on the election of executive directors of the 8th session of the Board of the Company and the emoluments to be paid for year 2020; Resolution on the election of independent non-executive directors of the 8th session of the Board of the Company and the emoluments to be paid for year 2020; Resolution on the election of the 8th session of the Supervisory Committee of the Company and the emoluments to be paid for year 2020.</p> <p>(2) by Special Resolutions: Resolution on amendments to the Articles of Association of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, Resolution on granting a general mandate to the Board for issuing new shares of the Company.</p>	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
The first Class Meeting of the Holders of A Shares in 2020	29 June 2020	Resolution on amendments to the Articles of Association of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Resolution on amendments to the rules of procedures of the general meeting 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)	30 June 2020
The first Class Meeting of the Holders of H Shares in 2020	29 June 2020	Resolution on amendments to the Articles of Association of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Resolution on amendments to the rules of procedures of the general meeting 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)	30 June 2020
The second extraordinary general meeting in 2020	28 August 2020	(1) by ordinary resolutions: Resolution on re-appointment of WUYIGE Certified Public Accountants LLP as the auditors of the Company for year 2020. Resolution on re-appointment of WUYIGE Certified Public Accountants LLP as the auditors for the internal control of the Company for year 2020. (2) by Special Resolutions: Resolution on proposal to the general meeting on grant of general mandate to the Company for issuing medium-term notes. Resolution on proposal to the general meeting on grant of general mandate to Guangzhou Pharmaceutical Company Limited, a controlling subsidiary of the Company, for issuing medium-term notes and super-short-term debentures.	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)	29 August 2020

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 third extraordinary general meeting in 2020	23 November 2020	(1) by ordinary resolutions: Resolution on changes in use of proceeds from the fund raising of the Company, Resolution on closing of investment project using proceeds from the fund raising, and the surplus of which to be used to supplement the working capital permanently, The resolution on Initial Public Offering of Overseas Listed Foreign Capital shares (H shares) Regarding and the Proposal in relation to the Overseas Listing of Guangzhou Pharmaceuticals Company Limited, The resolution Regarding the Compliance of the Overseas Listing of Guangzhou Pharmaceuticals Company Limited with the "Circular on Issues in Relation to Regulating Overseas Listing of Subsidiaries of the PRC Listed Companies", The resolution Regarding the Undertaking of Maintaining the Independent Listing Status of the Company, The resolution Regarding the Explanations on the Sustainable Profitability Statement and Prospects of the Company, The resolution Regarding the Authorisation to the Board and its Authorised Persons to Deal with Matters in Relation to the Spin-off and Listing of Guangzhou Pharmaceuticals Company Limited. (2) by Special Resolutions: The resolution Regarding provision of Assured Entitlement to the H Shareholder(s) of the Company only for the Spin-off and Overseas Listing of Guangzhou Pharmaceuticals Company Limited.	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)	24 November 2020
The second Class Meeting of the Holders of A Shares in 2020	23 November 2020	The resolution Regarding provision of Assured Entitlement to the H Shareholder(s) of the Company only for the Spin-off and Overseas Listing of Guangzhou Pharmaceuticals Company Limited.	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)	24 November 2020
The second Class Meeting of the Holders of H Shares in 2020	23 November 2020	The resolution Regarding provision of Assured Entitlement to the H Shareholder(s) of the Company only for the Spin-off and Overseas Listing of Guangzhou Pharmaceuticals Company Limited.	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)	24 November 2020

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 surpassed 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 8th session of the Board of the Company since its establishment, consisting of 11 directors, including Mr. Li Chuyuan (chairperson), Mr. Yang Jun (vice chairperson), Ms. Cheng Ning (vice chairperson), Ms. Liu Juyan, Mr. Li Hong, Mr. Wu Changhai and Mr. Zhang Chunbo as executive Directors, and Mr. Wong Hin Wing, Ms. Wang Weihong, Mr. Chen Yanjin and Mr. Huang Min as independent non-executive directors. Their term of office is from 29 June 2020 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; and
- (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 deputy 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);
- (Q) determining the emolument and subsidy standards for the Directors of the Company;
- (R) determining the subsidy standards for the independent non-executive Directors; and
- (S) 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 is listed, and certificates of qualification for training or certificate recognized by the relevant authorities were obtained. The secretary of the Board also participates in the relevant professional trainings of not less than 15 hours each year. All Directors had provided the secretary of 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. Details of training on directors and secretary of the Company in 2020 are as follows:

Executive director

Li Chuyuan	✓
Yang Jun	✓
Cheng Ning	
Liu Juyan	✓
Wu Changhai	✓
Zhang Chunbo	✓

Independent director

Wong Hin Wing	✓
Wang Weihong	✓
Chen Yajin	✓
Huang Min	✓

Company secretary

Huang Xuezheng	✓
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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 costs 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 2020, 13 Board meetings were held to discuss the capital increase and additional issue of shares of pharmaceutical company, connected transactions, nomination of candidates of Directors for the eighth session of board of the Company and recommendations for their remuneration in 2020, initial public offerings of pharmaceutical company's overseas listed foreign shares (H shares) and listing plans and financial matters. The Board meetings had effective discussion and can make decisions which are serious and cautions.

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 (Notes)	Number of meetings participated by appointing a representative	Number of absence	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	13	13	8	0	0	No	4	2
Yang Jun	No	13	13	8	0	0	Yes	4	4
Cheng Ning	No	13	13	8	0	0	No	4	4
Liu Juyan	No	13	11	8	2	0	No	4	2
Li Hong	No	13	12	8	1	0	No	4	2
Wu Changhai	No	13	11	8	2	0	No	4	2
Zhang Chunbo	No	13	13	8	0	0	No	4	3
Chu Xiaoping	Yes	4	4	3	0	0	No	1	0
Jiang Wenqi	Yes	4	4	4	0	0	No	1	0
Wong Hin Wing	Yes	13	13	12	0	0	No	4	3
Wang Weihong	Yes	13	13	10	0	0	No	4	4
Chen Yajin	Yes	9	9	6	0	0	No	3	2
Huang Min	Yes	9	9	6	0	0	No	3	1

3. BOARD OF DIRECTORS *(Continued)*

2. Board Meetings *(Continued)*

Notes:

- A. Participation by way of communication is deemed participation in person.
- B. At the first extraordinary general meeting in 2020 held on 13 January 2020, Mr. Yang Jun was elected as the executive Director of the seventh session of the Board; at the annual general meeting of the Company for the year 2019 which was held on 29 June 2020, Mr. Chen Yajin and Mr. Huang Min were elected as independent non-executive directors of the eight session of the Board, with their term of office commencing from the date on which they are elected up to the date on which the members of the new session of the Board are elected. On the same day, each of Mr. Chu Xiaoping and Mr. Jiang Wenqi, as they have served as independent non-executive directors for two sessions of the Board consecutively, retired as independent non-executive Directors upon expiry of their terms of office.

Explanation for two successive instances of absence from Board meeting in person

Applicable Not applicable

Number of Board meetings held during the year	13
Including: number of on-site meeting	1
Number of meetings by way of communication	8
Number of on-site meetings of combined with participation by communication	4



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 or 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 or her 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 2020 Annual Report in an ordering manner by Listed Companies” issued by SSE on 14 January 2021, 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 2020 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. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing (chairperson of the Audit Committee) 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 and expired on 29 June 2020.

The Audit Committee of the eighth session of the Board was established on 29 June 2020 and comprises Mr. Wong Hin Wing (chairperson of the Audit Committee), Ms. Wang Weihong, Mr. Chen Yajin and Mr. Huang Min. All four of them are independent non-executive Directors and are qualified under the relevant requirements, whose term of office commenced from 29 June 2020 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2020 including:

- 1) held 4 meetings in 2020 and each of the members of the committee attended all the meetings, in which the members reviewed the 2019 Annual Report, 2020 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 2019 and audit risk control work plan for 2020;
- 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.

The work on the annual audit for 2020 and relevant jobs regarding the preparation of the annual report are as follows:

In accordance with "the Notice on preparation of the 2020 Annual Report in an orderly manner by Listed Companies" issued by the SSE on 14 January 2021, 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 2020 and the preparation of the annual report for 2020 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 2020 Annual Report" and reviewed the audit plan submitted by the auditors.

4. COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

- 2) On 9 March 2021, 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 2020 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 18 March 2021, the Audit Committee convened the first meeting in 2021 and considered and passed the 2020 Annual Report and its summary and the Company's 2020 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 was established on 23 June 2017, which comprises Mr. Li Chuyuan (chairperson of the committee) and Chen Mao (resigned on 31 May 2019 and at the 23rd meeting of the seventh session of the Board held on 3 June 2019, it was approved to add Mr. Li Hong), Ms. Liu Juyan, Mr. Chu Xiaoping and Ms. Wang Weihong as members of the strategic development and investment committee of the seventh session of the Board. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 and expired on 29 June 2020.

The strategic development and investment Committee of the 8th session of the Board was established on 29 June 2020 and comprises Mr. Li Chuyuan (the chairperson of the Committee), Ms. Liu Juyan, Mr. Li Hong, Ms. Wang Weihong and Mr. Chen Yajing. The term of office of the aforementioned committee members commenced from the date of their appointments on 29 June 2020 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 attended 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 was established on 23 June 2017 and comprises Mr. Chu Xiaoping (chairperson of the committee), Mr. Ni Yidong (was resigned on 22 October 2019), 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 and expired on 29 June 2020.

The Nomination and Remuneration Committee of the eighth session of the Board was established on 29 June 2020 and comprises Mr. Huang Min (chairperson of the committee), Mr. Yang Jun, Mr. Wu Changhai, Mr. Wong Hin Wing and Mr. Chen Yajin. The term of office of the aforementioned committee members commenced from the date of their appointments on 29 June 2020 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 four meetings to review the proposals on the emoluments of Directors, Supervisors and senior management of the Company for year 2019, the proposals for the emoluments of the Directors of the Company for year 2020, the proposal on nominating candidates for Director of the eighth session of the Board, and the proposal on nominating candidates for vice general manager of the eighth 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. On 29 May 2020, the Company held the third meeting of the Nomination and Remuneration Committee in 2020 and reviewed and approved the Proposal on Nominating Candidates for Directors of the Eighth Session of the Board.

The Company has formulated the Diversification Policy for the Board Members ("Policy"), 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 insider information before disclosure of material price sensitive information which may affect the stock price of the Company.

4. COMMITTEES OF THE BOARD *(Continued)*

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the fourth 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 was established on 23 June 2017 and 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 and expired on 29 June 2020.

The Budget Committee of the eighth session of the Board was established on 29 June 2020 and comprises Ms. Wang Weihong (the chairperson of the Committee), Ms. Cheng Ning, Mr. Zhang Chunbo, Mr. Wong Hin Wing and Mr. Huang Min. The term of office of the aforementioned committee members commenced from the date of their appointments on 29 June 2020 up to the date on which members of the new session of the Board are elected.

- (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' general 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' general meetings, and has no dissenting view on any reports and proposals submitted by the Board at shareholders' general 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' general 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 10 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 2020, 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 1,885 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 2020 Annual Report in an orderly manner by Listed Companies" issued by SSE on 14 January 2020.

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 2020, 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 2020, 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 142 to 296 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



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 2020, 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 2020 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. (47) Operating income and operating costs” of the financial statements, the Company’s 2020 annual operating income was RMB 61,673,702,450.01, of which the main business income was RMB 61,450,355,469.37, accounting for 99.64% 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. (21) 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 RMB 932 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.

3. KEY AUDIT MATTERS (Continued)

(3) Trademark impairment test

① Matters Description

For details of relevant information disclosure, please refer to the notes “III. (21). Long-term asset impairment” and the notes “V. (19) Intangible assets” to the financial statements.

In April 2019, the Company purchased the Wang Lao Ji series of trademarks with a purchase amount of RMB 1.389 billion, which are intangible assets with uncertain service life. According to the regulations, intangible assets with uncertain service life should be tested for impairment at the end of each year.

The Management hired an independent appraiser to evaluate the fair value of the Wang Lao Ji series of trademarks to assist the management in conducting impairment tests on the Wang Lao Ji series of trademarks. Impairment assessment involves determining the discount rate and other assessment parameters and assumptions about the operation and financial situation in the next few years, including the sales growth rate and gross profit margin in the next few years.

Since the impairment of the Wang Lao Ji series of trademarks 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 the Wang Lao Ji series of trademark tests, we consider 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 trademark impairment testing;
- (b) Discuss with the management the method of trademark impairment testing, the reasonableness of assumptions such as future income forecasts and discount rate of cash flow, and the judgment and evaluation of profitability;
- (c) Evaluate the competence, professional quality and objectivity of external valuation experts hired by the management;
- (d) Discuss with external valuation experts hired by the Management to understand whether the key assumptions used in the impairment test are reasonable, etc.;
- (e) With the assistance of internal valuation experts, evaluate the rationality of valuation parameters such as the value type, valuation method, and discount rate of the asset appraisal report issued by the external appraisal expert.

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 2020 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 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.

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

CICPA: **Xia Ling**

CICPA: **Wang JingKun**

18 March 2021

Consolidated Balance Sheet

31 December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	31 December 2020	31 December 2019
Current assets:			
Cash at bank and on hand	V.1	19,470,276,224.53	18,469,618,237.41
Financial assets held for trading	V.2	4,000,000.00	–
Derivative financial assets		–	–
Notes receivable	V.3	1,134,815,993.39	1,526,081,541.94
Accounts receivable	V.4	12,389,655,576.61	12,555,024,519.58
Accounts receivable financing	V.5	2,164,978,925.29	1,515,914,114.01
Advances to suppliers	V.6	1,032,533,165.54	673,352,793.02
Other receivables	V.7	765,711,481.37	1,173,360,042.04
Including: Interest receivable	V.7	4,477,916.67	1,666,666.70
Dividends receivable	V.7	37,938,523.45	316,706,053.45
Inventories	V.8	9,764,531,363.80	9,490,040,264.05
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		–	–
Other current assets	V.9	670,115,291.06	578,841,623.65
Total current assets		47,396,618,021.59	45,982,233,135.70
Non-current assets:			
Debt investment	V.10	505,069,444.73	–
Other debt investment		–	–
Long-term receivables		–	–
Long-term equity investment	V.11	1,865,866,171.60	1,599,025,192.41
Other equity instrument investment	V.12	116,367,414.84	81,977,960.04
Other non-current financial assets	V.13	263,528,067.86	262,469,919.10
Investment properties	V.14	213,001,989.80	218,199,149.16
Fixed assets	V.15	2,912,513,169.84	2,923,584,939.66
Construction in progress	V.16	1,276,251,488.95	667,402,454.68
Bearer biological assets	V.17	3,153,885.00	3,503,295.00
Oil and gas assets		–	–
Right-of-use assets	V.18	909,338,251.24	842,077,052.31
Intangible assets	V.19	2,443,588,248.17	2,485,288,578.20
Development expenditure	V.20	6,735,587.41	2,011,139.26
Goodwill	V.21	825,573,066.90	825,573,066.90
Long-term prepaid expenses	V.22	111,306,370.33	115,785,234.75
Deferred tax assets	V.23	751,722,372.84	594,992,161.76
Other non-current assets	V.24	159,429,328.02	289,535,847.27
Total non-current assets		12,363,444,857.53	10,911,425,990.50
Total Assets		59,760,062,879.12	56,893,659,126.20

Consolidated Balance Sheet

31 December 2020

Item	Notes	31 December 2020	31 December 2019
Current liabilities:			
Short-term borrowings	V.25	8,265,729,653.03	5,869,008,916.96
Financial liabilities held for trading	V.26	–	–
Derivative financial liabilities		–	–
Notes payable	V.27	3,284,549,237.79	3,982,425,654.37
Accounts payable	V.28	10,874,808,379.60	9,698,952,240.46
Advances from customers		–	–
Contract liabilities	V.29	1,249,255,585.45	4,675,361,799.46
Employee benefits payable	V.30	846,778,208.52	839,640,308.29
Taxes payable	V.31	316,109,068.00	248,014,970.03
Other payables	V.32	4,013,915,065.13	3,227,385,632.70
Including: Interest payable	V.32	17,844,845.53	34,840,834.22
Dividends payable	V.32	57,512,041.85	47,933,025.07
Liabilities held for sales		–	–
Current portion of non-current liabilities	V.33	236,106,690.45	229,361,467.97
Other current liabilities	V.34	155,979,889.85	606,814,819.73
Total current liabilities		<u>29,243,231,777.82</u>	<u>29,376,965,809.97</u>
Non-current liabilities:			
Long-term borrowings	V.35	497,550,000.00	4,500,000.00
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual bond		–	–
Lease liabilities	V.36	561,824,454.28	546,994,554.21
Long-term payables	V.37	22,846,772.00	25,229,042.00
Long-term employee benefits payable	V.38	302,723.26	329,428.98
Provisions	V.39	104,528,196.76	53,205,872.32
Deferred income	V.40	784,074,821.24	575,837,179.25
Deferred tax liabilities	V.23	286,359,056.86	266,908,733.88
Other non-current liabilities	V.41	54,078,462.71	54,201,557.40
Total non-current liabilities		<u>2,311,564,487.11</u>	<u>1,527,206,368.04</u>
Total Liabilities		<u>31,554,796,264.93</u>	<u>30,904,172,178.01</u>

Consolidated Balance Sheet

31 December 2020

Item	Notes	31 December 2020	31 December 2019
Shareholders' equity:			
Share capital	V.42	1,625,790,949.00	1,625,790,949.00
Other equity instruments		—	—
Including: Preferred stock		—	—
Perpetual bond		—	—
Capital surplus	V.43	9,885,011,185.13	9,865,084,049.39
Less: Treasury shares		—	—
Other comprehensive income	V.44	-17,673,498.70	-138,960.56
Special reserve		—	—
Surplus reserve	V.45	1,720,302,768.39	1,526,241,180.49
Undistributed profits	V.46	12,931,411,564.72	11,167,819,445.53
Total equity attributable to shareholders of the parent company		26,144,842,968.54	24,184,796,663.85
Minority interest		2,060,423,645.65	1,804,690,284.34
Total Shareholders' Equity		28,205,266,614.19	25,989,486,948.19
Total Liabilities and Shareholders' Equity		59,760,062,879.12	56,893,659,126.20

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Income Statement

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	Current period	Prior period
I. Operating income	V.47	61,673,702,450.01	64,951,777,641.83
Less: Operating costs	V.47	51,233,326,115.24	52,729,242,257.44
Taxes and surcharges	V.48	257,593,330.50	298,087,171.25
Selling and distribution expenses	V.49	4,575,995,568.24	5,736,793,789.43
General and administrative expenses	V.50	1,844,423,667.84	1,978,870,482.38
R&D expenses	V.41	611,934,929.42	576,511,023.23
Financial expenses	V.52	5,151,929.67	117,117,328.52
Including: Interest expense	V.52	336,411,783.76	374,224,115.91
Interest income	V.52	373,868,381.65	303,216,899.66
Add: Other income	V.53	327,985,438.11	430,019,889.08
Investment income ("-" for loss)	V.54	344,170,979.46	198,458,982.24
Including: Share of profit or loss of associates and joint ventures	V.54	355,657,716.27	144,486,150.48
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.55	-8,469,244.97	31,623,136.01
Impairment losses in respect of credit ("-" for loss)	V.56	-115,551,971.54	-110,033,777.85
Impairment losses in respect of assets ("-" for loss)	V.57	-23,949,972.06	-11,485,403.86
Gains on disposal of assets ("-" for loss)	V.58	2,954,109.08	1,274,043.27
II. Operating profit ("-" for loss)		3,672,416,247.18	4,055,012,458.47
Add: Non-operating income	V.59	157,615,896.44	109,179,829.49
Less: Non-operating expenses	V.60	90,950,431.33	35,658,815.35
III. Total profit ("-" for loss)		3,739,081,712.29	4,128,533,472.61
Less: Income tax expenses	V.61	647,453,872.83	687,246,274.38
IV. Net profit ("-" for net loss)		3,091,627,839.46	3,441,287,198.23
(I) Classified by the continuity of operations		-	-
1. Net profit from continuing operations ("-" for loss)		3,091,627,839.46	3,441,287,198.23
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)		2,915,244,576.05	3,188,884,638.91
2. Minority interest ("-" for loss)		176,383,263.41	252,402,559.32

Consolidated Income Statement

January to December 2020

Item	Notes	Current period	Prior period
V. Other comprehensive income, net of tax		-18,800,542.58	338,178.54
Other comprehensive income, net of tax attributable to the parent company's shareholders		-17,534,538.14	338,178.54
(I) Other comprehensive income that will not be reclassified to profit or loss		-2,453,740.55	-2,481,924.23
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.62	-2,453,740.55	-2,481,924.23
4. Change in fair value of the Company's own credit risk		-	-
(II) Other comprehensive income that may be reclassified into profit or loss		-15,080,797.59	2,820,102.77
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
2. Change in fair value of other debt investments	V.62	-5,064,017.77	-
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.62	-10,016,779.82	2,820,102.77
7. Others		-	-
Other comprehensive income, net of tax attributable to minority shareholders		-1,266,004.44	-
VI. Total comprehensive income		3,072,827,296.88	3,441,625,376.77
1. Total comprehensive income attributable to shareholders of the parent company		2,897,710,037.91	3,189,222,817.45
2. Total comprehensive income attributable to minority shareholders		175,117,258.97	252,402,559.32
VII. Earnings per share (EPS):			
1. Basic earnings per share	V.63	1.793	1.961
2. Diluted earnings per share	V.63	1.793	1.961

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi Zhizhi

Consolidated Statement of Cash Flow

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	Current period	Prior period
I. Cash flow from operating activities:			
Cash receipts from the sale of goods and the rendering of services		56,854,889,752.63	63,287,834,633.51
Receipts of taxes refunds		10,092,786.52	33,585,389.38
Other cash receipts relating to operating activities	V.64	2,128,307,787.51	1,314,306,416.08
Subtotal of cash inflow from operating activities		58,993,290,326.66	64,635,726,438.97
Cash payments for goods purchased and services received		46,804,034,341.38	46,811,797,128.27
Cash payments to and on behalf of employees		4,709,778,927.12	4,795,096,236.48
Payments of all types of taxes		2,647,983,120.79	3,032,246,089.42
Other cash payments relating to operating activities	V.64	4,246,308,914.28	4,974,220,102.46
Subtotal of cash outflow from operating activities		58,408,105,303.57	59,613,359,556.63
Net cash flow from operating activities		585,185,023.09	5,022,366,882.34
II. Cash flow from investing activities:			
Cash receipts from returns of investments		101,400,000.00	1,585,560,614.86
Cash receipts from returns on investments		326,320,081.45	140,790,673.97
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		6,145,599.58	1,116,468.40
Net cash receipts from the disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities	V.64	101,163.83	45,408.50
Subtotal of cash inflow from investment activities		433,966,844.86	1,727,513,165.73
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		876,502,745.66	2,399,810,857.05
Cash payments to acquire investments		610,775,000.00	353,874,800.00
Net cash payments for acquisitions of subsidiaries and other business units		—	2,222,779.56
Other cash payments relating to investing activities	V.64	34,745,591.46	—
Subtotal of cash outflow from investment activities		1,522,023,337.12	2,755,908,436.61
Net cash flow from investing activities		-1,088,056,492.26	-1,028,395,270.88

Consolidated Statement of Cash Flow

January to December 2020

Item	Notes	Current period	Prior period
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		213,714,660.64	121,017,847.48
Including: cash receipts from minorities making investment in subsidiaries		213,714,660.64	121,015,339.61
Cash receipts from borrowing		8,917,817,000.71	7,118,767,113.66
Other cash receipts relating to financing activities	V.64	2,918,786,199.38	2,323,388,828.59
Subtotal of cash inflow from financing activities		12,050,317,860.73	9,563,173,789.73
Cash repayments of amounts borrowed		6,158,578,483.96	7,698,792,097.95
Cash payments for distribution of dividends, profits or interest expenses		1,377,826,111.80	1,089,330,847.61
Including: payments for distribution of dividends or profit to minorities of subsidiaries		87,911,332.23	43,642,833.89
Other cash payments relating to financing activities	V.64	3,074,537,071.74	3,006,863,671.97
Subtotal of cash outflow from financing activities		10,610,941,667.50	11,794,986,617.53
Net cash flow from financing activities		1,439,376,193.23	-2,231,812,827.80
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-4,994,458.19	-148,473.81
V. Net increase in cash and cash equivalents	V.65	931,510,265.87	1,762,010,309.85
Add: opening balance of cash and cash equivalents	V.65	16,833,622,508.23	15,071,612,198.38
VI. Closing balance of cash and cash equivalents	V.65	17,765,132,774.10	16,833,622,508.23

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Changes in Shareholders' Equity

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Equity attributable to the Shareholders of Parent Company										Total Shareholders' Equity		
	Share capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less: Comprehensive Income	Special Reserve	Surplus Reserve	Undistributed profits		Subtotal	Minority Equity
I. Balance at 31 December 2019	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-138,900.56	-	1,526,241,180.09	11,167,819,445.53	24,184,736,633.85	1,804,690,284.34	25,988,486,948.19
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Combination of businesses under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2020	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-138,900.56	-	1,526,241,180.09	11,167,819,445.53	24,184,736,633.85	1,804,690,284.34	25,988,486,948.19
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	19,927,135.74	-	-17,534,538.14	-	194,061,587.90	1,763,592,119.19	1,960,046,304.69	255,733,361.31	2,215,779,666.00
(1) Total comprehensive income	-	-	-	-	-	-	-17,534,538.14	-	-	2,915,244,576.05	2,897,740,037.91	175,117,298.97	3,072,827,296.88
(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	-	-	-	-	-	-	-	-	194,061,587.90	-1,151,652,456.86	-957,590,088.96	-99,539,591.46	-1,057,130,370.42
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	194,061,587.90	-194,061,587.90	-	-	-
3. 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	-	-	-	-	19,927,135.74	-	-	-	-	-	19,927,135.74	-	19,927,135.74
IV. Balance at 31 December 2020	1,625,790,949.00	-	-	-	9,885,011,185.13	-	-17,673,488.70	-	1,720,302,768.39	12,931,411,564.72	26,144,842,968.54	2,060,423,645.65	28,205,266,614.19

Consolidated Statement of Changes in Shareholders' Equity

January to December 2020

Unit: RMB

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Item	Equity attributable to the Shareholders of Parent Company										Total Shareholders' Equity		
	Share capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Other Comprehensive Income	Special reserve	Surplus Reserve	Undistributed profits		Subtotal	Minority Equity
I. Balance at 31 December 2019	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	1,458,823,545.72	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	-	1,368,735,157.63	8,885,776,191.86	21,684,909,208.78	1,458,823,545.72	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	345,866,739.12	2,845,754,194.19
(1) Total comprehensive income	-	-	-	-	-	-	338,178.54	-	157,506,022.86	2,342,043,253.67	2,499,887,655.07	345,866,739.12	2,845,754,194.19
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	3,188,884,638.91	3,189,222,817.45	253,402,559.32	3,441,625,376.77
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-	121,015,339.61	121,015,339.61
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	121,015,339.61	121,015,339.61
3. Share-based payment recognized in Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	157,506,022.86	-846,841,385.74	-689,335,362.38	-27,551,159.81	-716,886,522.19
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	157,506,022.86	-157,506,022.86	-689,335,362.38	-27,551,159.81	-716,886,522.19
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Intend 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 30 June 2019	1,625,790,949.00	-	-	-	9,865,084,049.39	-	-138,960.56	-	1,526,241,180.49	11,167,819,445.53	24,184,736,663.85	1,804,690,284.34	25,989,486,948.19

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Balance Sheet

31 December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	31 December 2020	31 December 2019
Current assets:			
Cash at bank and on hand		7,521,190,578.73	6,321,162,972.77
Financial assets held for trading		-	-
Derivative financial assets		-	-
Notes receivable		532,824,889.92	508,495,006.80
Accounts receivable	XIV.1	201,331,485.77	129,979,798.36
Accounts receivable financing		274,695,510.29	222,842,858.68
Advances to suppliers		27,549,396.18	6,128,432.10
Other receivables	XIV.2	703,246,345.85	1,934,398,668.36
Including: Interest receivable	XIV.2	-	-
Dividends receivable	XIV.2	165,044,898.43	463,226,705.58
Inventories		484,244,589.88	534,931,211.35
Contract assets		-	-
Assets held for sales		-	-
Current portion of non-current assets		-	-
Other current assets		257,168,644.21	38,676,123.76
Total current assets		10,002,251,440.83	9,696,615,072.18
Non-current assets:			
Debt investments		505,069,444.73	-
Other debt investments		-	-
Long-term receivables		-	-
Long-term equity investments	XIV.3	10,619,786,236.44	10,089,420,785.24
Other equity instrument investments		116,367,414.84	81,977,960.04
Other non-current financial assets		246,975,526.67	255,009,227.54
Investment properties		197,265,068.14	205,859,204.51
Fixed assets		468,753,101.75	481,357,324.46
Construction in progress		239,669,203.07	125,347,198.87
Bearer biological assets		-	-
Oil and gas assets		-	-
Right-of-use assets		16,033,325.27	14,749,483.54
Intangible assets		1,733,508,114.31	1,744,366,663.50
Development expenditure		-	-
Goodwill		-	-
Long-term prepaid expenses		3,994,695.36	2,100,502.42
Deferred tax assets		164,225,716.39	161,954,721.70
Other non-current assets		97,433,596.00	97,433,596.00
Total non-current assets		14,409,081,442.97	13,259,576,667.82
Total Assets		24,411,332,883.80	22,956,191,740.00

Balance Sheet

31 December 2020

Item	Notes	31 December 2020	31 December 2019
Current liabilities:			
Short-term borrowings		300,000,000.00	854,431,644.92
Financial liabilities held for trading		—	—
Derivative financial liabilities		—	—
Notes payable		513,766.96	—
Accounts payable		641,752,407.73	310,400,672.81
Advances from customers		—	—
Contract liabilities		199,057,095.72	283,563,073.97
Employee benefits payable		71,717,415.33	81,797,031.37
Taxes payable		26,411,509.32	55,153,090.24
Other payables		2,719,555,447.38	2,283,912,927.07
Including: Interest payable		495,879.17	—
Dividends payable		807,840.18	673,222.20
Liabilities held for sales		—	—
Current portion of non-current liabilities		6,108,194.90	4,276,809.32
Other current liabilities		27,180,326.31	40,378,119.85
Total current liabilities		3,992,296,163.65	3,913,913,369.55
Non-current liabilities:			
Long-term borrowings		297,550,000.00	—
Bonds payable		—	—
Including: Preferred stock		—	—
Perpetual bond		—	—
Lease liabilities		10,646,083.96	10,822,166.98
Long-term payables		7,802,224.39	7,802,224.39
Long-term employee benefits payable		—	—
Provisions		473,152,845.19	355,119,019.19
Deferred income		51,990,599.86	70,543,622.88
Deferred tax liabilities		12,957,950.22	13,624,660.96
Other non-current liabilities		75,646.19	76,575.18
Total non-current liabilities		854,175,349.81	457,988,269.58
Total Liabilities		4,846,471,513.46	4,371,901,639.13

Balance Sheet

31 December 2020

Item	Notes	31 December 2020	31 December 2019
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		-7,359,509.96	-4,905,769.41
Special reserve		—	—
Surplus reserve		1,347,694,333.79	1,153,632,745.89
Undistributed profits		6,778,560,101.62	5,989,596,679.50
Total Shareholders' Equity		19,564,861,370.34	18,584,290,100.87
Total Liabilities and Shareholders' Equity		24,411,332,883.80	22,956,191,740.00

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Income Statement

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	Current period	Prior period
I. Operating income	XIV.4	4,096,099,777.29	5,027,078,906.58
Less: Operating costs	XIV.4	2,290,473,837.38	3,191,285,118.20
Taxes and surcharges		38,660,312.88	44,445,311.86
Selling and distribution expenses		539,942,775.46	501,896,385.69
General and administrative expenses		336,605,067.33	441,728,093.75
R&D expenses		181,155,175.07	188,251,921.82
Financial expenses		-105,205,259.70	-82,564,656.42
Including: Interest expense		16,735,677.13	32,450,947.17
Interest income		121,537,828.46	116,899,581.57
Add: Other income		21,204,747.38	22,162,217.96
Investment income ("-" for loss)	XIV.5	1,233,170,805.00	868,196,412.41
Including: Share of profit or loss of associates and joint ventures		370,968,825.50	118,433,832.36
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)		-8,033,700.87	31,683,733.45
Impairment losses in respect of credit		-792,499.29	24,755.44
Impairment losses in respect of assets		2,615,784.76	3,371,458.80
Gains on disposal of assets ("-" for loss)		77,110.18	144,841.90
II. Operating profit ("-" for loss)		2,062,710,116.03	1,667,620,151.64
Add: Non-operating income		2,046,690.11	6,798,390.67
Less: Non-operating expenses		5,032,940.64	2,995,104.49
III. Total profit ("-" for loss)		2,059,723,865.50	1,671,423,437.82
Less: Income tax expenses		119,107,986.52	96,363,209.26
IV. Net profit ("-" for net loss)		1,940,615,878.98	1,575,060,228.56
1. Net profit from continuing operations ("-" for loss)		1,940,615,878.98	1,575,060,228.56
2. Net profit from discontinued operation ("-" for loss)		-	-

Income Statement

January to December 2020

Item	Notes	Current period	Prior period
V. Other comprehensive income, net of tax		-2,453,740.55	-2,481,924.23
(1) Other comprehensive income that will not be reclassified to profit or loss		-2,453,740.55	-2,481,924.23
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		-2,453,740.55	-2,481,924.23
4. Change in fair value of the Company's own credit risk		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		-	-
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
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		1,938,162,138.43	1,572,578,304.33

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Cash Flow

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

Item	Notes	Current period	Prior period
I. Cash flow arising from operating activities:			
Cash receipts from the sale of goods and the rendering of services		3,122,882,259.96	4,045,115,485.83
Receipts of taxes refunds		19,259.32	
Other cash receipts relating to operating activities		436,332,231.37	498,339,053.08
Subtotal of cash inflow from operating activities		3,559,233,750.65	4,543,454,538.91
Cash payments for goods purchased and services received		1,344,991,734.66	2,145,217,146.44
Cash payments to and on behalf of employees		449,488,678.37	491,600,235.47
Payments of all types of taxes		423,371,014.33	515,143,457.32
Other cash payments relating to operating activities		562,917,368.04	421,539,413.35
Subtotal of cash outflow from operating activities		2,780,768,795.40	3,573,500,252.58
Net cash flow from operating activities		778,464,955.25	969,954,286.33
II. Cash flow from investing activities:			
Cash receipts from returns of investments		–	1,544,474,800.00
Cash receipts from returns on investments		1,658,982,386.11	1,259,800,425.39
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		111,908.00	359,970.87
Net cash received from disposal of subsidiaries and other business units		–	–
Other cash receipts relating to investing activities		1,804,895,390.56	1,283,686,450.93
Subtotal of cash inflow from investment activities		3,463,989,684.67	4,088,321,647.19
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		147,659,619.34	1,666,672,275.79
Cash payments to acquire investments		777,275,000.00	1,916,651,800.00
Net cash payments for acquisitions of subsidiaries and other business units		–	–
Other cash payments relating to investing activities		1,092,331,644.92	1,136,233,486.36
Subtotal of cash outflow from investment activities		2,017,266,264.26	4,719,557,562.15
Net cash flow from investing activities		1,446,723,420.41	-631,235,914.96

Statement of Cash Flow

January to December 2020

Item	Notes	Current period	Prior period
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		–	–
Cash receipts from borrowing		797,550,000.00	854,431,644.92
Other cash receipts relating to financing activities		–	52,884,129.44
Subtotal of cash inflow from financing activities		797,550,000.00	907,315,774.36
Cash repayments of amounts borrowed		1,054,431,644.92	954,431,644.92
Cash payments for distribution of dividends, profits or interest expenses		972,371,087.68	719,323,679.72
Other cash payments relating to financing activities		6,630,701.31	31,038,893.47
Subtotal of cash outflow from financing activities		2,033,433,433.91	1,704,794,218.11
Net cash flow from financing activities		-1,235,883,433.91	-797,478,443.75
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-19,097.45	5,520.37
V. Net increase in cash and cash equivalents		989,285,844.30	-458,754,552.01
Add: opening balance of cash and cash equivalents		6,301,162,971.77	6,759,917,523.78
VI. Closing balance of cash and cash equivalents		7,290,448,816.07	6,301,162,971.77

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Changes in Shareholders' Equity

January to December 2020

Unit: RMB

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Item	Other equity instruments				Less: Treasury shares	Other Comprehensive Income	Special reserve	Surplus Reserve	Undistributed profits	Total Shareholders' Equity
	Share capital	Perpetual bond	Perpetual bond	Others						
I. 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	
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	
II. Balance at 1 January 2020	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	
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	194,061,587.90	788,963,422.12	980,571,869.47	
(1) Total comprehensive income	-	-	-	-	-	-	-	1,940,615,878.98	1,938,162,138.43	
(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	-	-	-	-	-	-	194,061,587.90	-1,151,652,456.86	-957,590,868.96	
2. Profit distribution to shareholders	-	-	-	-	-	-	194,061,587.90	-194,061,587.90	-	
3. 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 2020	1,625,790,949.00	-	-	-	9,820,175,495.89	-	1,347,694,333.79	6,778,560,101.62	19,564,861,370.34	

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Changes in Shareholders' Equity

January to December 2020

Prepared by: Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Unit: RMB

January to December 2019

Item	Other equity instruments				Capital Reserve	Less: Treasury shares	Other Comprehensive Income	Special reserve	Surplus Reserve	Undistributed profits	Total Shareholders' Equity
	Share capital	Perpetual bond	Perpetual bond	Others							
I. 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
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	-	-2,423,845.18	-	996,126,723.03	5,261,377,836.18	17,701,047,158.92
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	-2,481,924.23	-	157,506,022.86	728,218,843.32	883,242,941.95
(1) Total comprehensive income	-	-	-	-	-	-	-2,481,924.23	-	-	1,575,060,228.56	1,572,578,304.33
(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	-846,841,385.24	-689,335,362.38
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	157,506,022.86	-157,506,022.86	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-689,335,362.38	-689,335,362.38
3. 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 2019	1,625,790,949.00	-	-	-	9,820,175,495.89	-	-4,905,769.41	-	1,153,632,745.89	5,989,596,679.50	18,584,290,100.87

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 RMB 1, 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 (Continued)

The major CPM products of the Group include: Xiaoke Pills, Banlangen Granules Series, Zishen Yutai Pills, Xiao Chaihu Granules, Compound Danshen Tablets Series, Qingkailing Series, Huatuo Zaizao Pills, Xiasangju Granules, Baoji Series, and Seven Star Tea for Children Granules, Angong Niu Huang Pills, Zhuangyao Jianshen Pills, Shujin Jianyao Pills, Honey Refined Chuanbei Loquat Ointment, etc. The main products of western medicine are cefixime series, sildenafil citrate, cefthiamidine, cefprozil series, argafen powder series, amoxicillin, etc. The main products of pre-packaged food manufacturers include Wanglaoji herbal tea, Ci Ning Ji series, etc.

The financial statements were authorized for issue by the Board on 18 March 2021.

2. Scope of consolidation

The Group has 105 subsidiaries included in the scope of consolidation from January to December in 2020. 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 6 and decreased by 5 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
Guangyao Hanfang (Zhuhai Hengqin) Pharmaceutical Co., Ltd.	Indirect 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

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 Pharmaceutical Co., Ltd. (hereinafter referred to as "Wang Lao Ji")	Direct holding
Guangzhou Wang Lao Ji Food Co., Ltd.	Indirect holding
Guangyao Wang Lao Ji (Bijie) Industry 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
Guangyao Qi Hua 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 Indirect
Hainan Guangyao Chen Fei Pharmacy Chain Co., Ltd.	Indirect Indirect
Guangyao Shanxi 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
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

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
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Indirect holding
Zhongshan Guangyao Gui Kang Pharmaceutical 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 Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect holding
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Indirect holding
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (hereinafter referred to as "Cai Zhi Lin")	Direct 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
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 Cai Zhi Lin National Medical Museum 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



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
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
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
Guizhou Wang Lao Ji Ci Ning Ji Industry Development 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

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 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
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
Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd.	Indirect 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.	Direct holding
Guangzhou Baiyunshan Yi Hu Health Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Health Care Medical Products 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 Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Direct holding
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
Guangzhou Baiyunshan International Pharmaceutical and Health Industry Co., Ltd.	Direct holding
Guangzhou Baiyunshan Hua Cheng Technology 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 Standards" and specific accounting standards issued by the Ministry of Finance (hereinafter collectively referred to as "Accounting Standards for Business Enterprises"), 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 2020, and performance results and cash flows for the period then ended.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

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.

The accounting period of this financial statement is from January 1, 2020 to December 31, 2020.

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.

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

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.

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 related to business combination shall be recognized through profit or loss for the current year.

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 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.

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.

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"

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 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.

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.

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 *(Continued)*

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.

(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.

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)*

(2) Methods for Translation of Monetary Items and Non-Monetary Items in Foreign Currency *(Continued)*

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.

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.

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)*

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.

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.

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)*

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.

(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.

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 *(Continued)*

① *Financial liabilities measured at fair value through profit or loss for the current period (Continued)*

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.

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.

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 *(Continued)*

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.

(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.

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)*

(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.

(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.

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 *(Continued)*

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: Aging Portfolio

Accounts receivable portfolio 2: Individual Accrual Portfolio

Notes Receivable Portfolio 1: Aging Portfolio

Notes Receivable Portfolio 2: Low Risk 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 (Continued)

- (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

Low-value consumables are amortized by the immediate write-off amortization method upon usage. Packaging materials are amortized by the immediate write-off amortization method 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 period (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	0.00	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, Wang laoji, Jianzhiqiao, Guo Ying, Jian Min, Dazhai, and Weiyi 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 expected 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".

31. Changes in Significant Changes in Accounting Policies and Accounting Estimates

No

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

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:

(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.

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)*

(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.

(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.

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)*

(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.

(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.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

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: 13%, 9% (2) Services etc.: 6%, 5%, 3%
Consumption tax	Taxable income	10%
Urban maintenance and construction tax	Actual payment of turnover tax	7%
Education surcharge	Actual payment of turnover tax	3%
Local education surcharge	Actual payment of turnover tax	2%
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). 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.

Taxpayer	Corporate income tax	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. GR201844003890), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No. GR201845000342), Weiling (No. GR201844007959), WLJ Great Health (No. GR201944000953), Guangyao General Institute (No. 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	814,579.91	883,955.59
Cash at bank	17,738,141,398.59	16,829,618,823.88
Other currency balance	1,731,320,246.03	1,639,115,457.94
Total	19,470,276,224.53	18,469,618,237.41
Including: Total amount of cash kept in foreign countries	82,251,385.28	69,807,439.31

Notes:

- (1) Other currency balance RMB 1,731,320 thousand (31 December 2019: RMB 1,639,115 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 2020, the amount of the Group's cash at bank and on hand with restrictions on ownership was RMB 1,705,143 thousand (31 December 2019: RMB 1,635,996 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	1,137,188,905.68	1,284,103,385.06
Factoring deposit for accounts receivable	–	–
Frozen account funds	64,529,762.25	61,036,156.17
Letters of credit	48,297,983.42	19,696,428.25
Term deposit	445,000,000.00	270,179,688.00
Factoring repayment for accounts receivable	–	72,351.99
Guarantee deposits	9,164,375.92	108,380.00
Housing funds	925,606.04	591,339.71
Other	36,817.12	208,000.00
Total	1,705,143,450.43	1,635,995,729.18

Note: The freezing of account funds is mainly due to the principal and interest frozen in the litigation case between the group's subsidiaries and Guangdong Guangsheng Nonferrous Metals Group Co., Ltd., involving an amount of RMB 6,324 thousand. For details of the litigation information, please refer to Note 13 (11), 1, (2)①,②.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Transactional financial assets

Item	Closing balance	Opening balance
Classification of financial assets that are measured at fair value and whose changes are included in the current profit and loss	4,000,000.00	—
Including: Debt instrument investment	—	—
Equity instrument investment	—	—
Derivative financial assets	—	—
Hybrid instrument assets	—	—
Other	4,000,000.00	—
Designated as financial assets that are measured at fair value and whose changes are included in the current profit and loss	—	—
Including: Debt instrument investment	—	—
Hybrid instrument assets	—	—
Other	—	—
Total	4,000,000.00	—
Including: the part reclassified to other non-current financial assets	—	—

3. Notes Receivable

(1) Category of notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes	1,036,369,577.94	1,409,558,796.80
Commercial acceptance notes	102,760,544.13	117,699,742.56
Less: Bad debt reserves	4,314,128.68	1,176,997.42
Total	1,134,815,993.39	1,526,081,541.94

(2) Notes receivable pledged at the year end

Item	Amount pledged at the year end
Bank acceptance notes	17,210,000.00
Commercial acceptance notes	—
Total	17,210,000.00

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. 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

Item	Amount derecognized at the year end (Note)	Amount not derecognized at the year end
Bank acceptance notes	<u>2,531,828,919.41</u>	<u>325,864,103.37</u>
Total	<u>2,531,828,919.41</u>	<u>325,864,103.37</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 RMB 2,531,829 thousand.
- 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 2020 which shall be matured by 31 December 2021.
- ⑤ For the year from January to December 2020, 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.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable (Continued)

- (4) As on 31 December 2020, the bank acceptance notes endorsed by the Group to other parties but not matured was RMB 2,461,751 thousand (31 December 2019: RMB 1,623,767 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	23 Dec 2020	23 Mar 2021	20,000,000.00
Customer 2	16 Oct 2020	16 Jan 2021	16,000,000.00
Customer 3	30 Oct 2020	30 Jan 2021	11,311,475.45
Customer 4	26 Oct 2020	25 Jan 2021	11,305,000.00
Customer 5	13 Nov 2020	13 Feb 2021	10,000,000.00

- (5) As on 31 December 2020, there are no commercial acceptance notes endorsed by the Group but not matured (31 December 2019: RMB 1,500 thousand).

- (6) As on 31 December 2020, bank acceptance notes discounted by the Group but not matured was RMB 394,002 thousand (31 December 2019: RMB 172,130 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	25 Dec 2020	25 Mar 2021	12,691,980.00
Customer 2	29 Dec 2020	29 Mar 2021	8,749,435.37
Customer 3	30 Dec 2020	30 Sept 2021	7,358,179.04
Customer 4	17 Dec 2020	16 Mar 2021	5,840,190.73
Customer 5	28 Oct 2020	28 Jan 2021	5,000,000.00

- (7) As on 31 December 2020, there are no commercial acceptance notes endorsed by the Group but not matured (on 31 December 2019: RMB 200 thousand).

- (8) As on 31 December 2020 and 31 December 2019, 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		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio	1,139,130,122.07	100.00	4,314,128.68	0.38	1,134,815,993.39
Including: portfolio 1	102,760,544.13	9.02	4,314,128.68	4.20	98,446,415.45
portfolio 2	1,036,369,577.94	90.98	-	-	1,036,369,577.94
Total	1,139,130,122.07	100.00	4,314,128.68	0.38	1,134,815,993.39

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable (Continued)

(9) Notes receivable disclosed by methods 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 (%)	
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>

① The Group had no notes receivable which are subject to separate provision at the end of the year.

② Notes receivable which are subject to provision by aging portfolio

Item	Book balance	Closing balance Provision for bad debts	Expected credit loss (%)
Within one year	90,260,544.13	902,605.45	1.00
Over one year	12,500,000.00	3,411,523.23	27.29
Total	<u>102,760,544.13</u>	<u>4,314,128.68</u>	<u>4.20</u>

③ Notes receivable which are subject to provision by financial asset portfolio with extremely low credit risk

Item	Notes receivable	Closing balance Provision for bad debts	Expected credit loss (%)
Notes receivable with extremely low credit risk	1,036,369,577.94	-	-
Total	<u>1,036,369,577.94</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable (Continued)

(10) Provision for bad debts.

The amount of provision for bad debts accrued in the current year is RMB 3,143 thousand, and there is no provision for bad debts is recovered or reversed in this year. Other transfers out of bad debt provision of RMB 5,000, caused by the disposal of subsidiaries.

(11) The Group had no notes receivable written off for the current year.

4. Accounts receivable

(1) The aging analysis of accounts receivable based on booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	12,061,337,011.07	12,279,203,329.97
1 to 2 years	393,436,764.62	281,873,461.22
2 to 3 years	60,706,620.53	165,330,048.12
3 to 4 years	148,699,324.24	12,655,288.53
4 to 5 years	7,790,540.34	15,509,462.78
Over 5 years	184,115,980.53	181,864,903.62
Total book balance of accounts receivable	<u>12,856,086,241.33</u>	<u>12,936,436,494.24</u>
Less: Provision for bad debts	<u>466,430,664.72</u>	<u>381,411,974.66</u>
Total book value of accounts receivable	<u>12,389,655,576.61</u>	<u>12,555,024,519.58</u>

(2) Accounts receivable disclosed by method of accruing provision for bad debts

Category	Book balance Amount	Closing balance		
		Proportion (%)	Provision for bad debts Amount	Expected credit loss (%)
Accounts receivable subject to separate provision	356,541,754.08	2.77	262,084,458.27	73.51
Accounts receivable subject to provision by portfolio	12,499,544,487.25	97.23	204,346,206.45	1.63
Including: portfolio 1	12,499,544,487.25	97.23	204,346,206.45	1.63
Total	<u>12,856,086,241.33</u>	<u>100.00</u>	<u>466,430,664.72</u>	<u>3.63</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

Category	Book balance Amount	Opening balance Proportion (%)	Provision for bad debts	
			Amount	Expected credit loss (%)
Accounts receivable subject to separate provision	358,916,862.27	2.78	191,992,184.94	53.49
Accounts receivable subject to provision by portfolio	12,577,519,631.97	97.22	189,419,789.72	1.51
Including: portfolio 1	<u>12,577,519,631.97</u>	<u>97.22</u>	<u>189,419,789.72</u>	<u>1.51</u>
Total	<u>12,936,436,494.24</u>	<u>100.00</u>	<u>381,411,974.66</u>	<u>2.95</u>

① Accounts receivable subject to separate provision at the end of the year

Accounts receivable (by debtor)	Book balance	Provision for bad debts	Expected credit loss (%)	Reason
Customer 1	145,866,752.86	145,866,752.86	100.00	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	19,559,232.59	5,181,774.72	26.49	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. (5) ①
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	<u>40,797,503.85</u>	<u>40,555,658.85</u>	<u>99.41</u>	Amount is expected to be unrecoverable.
Total	<u>356,541,754.08</u>	<u>262,084,458.27</u>	<u>-</u>	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

② Accounts receivable subject to provision by portfolio

Portfolio 1

Aging	Book balance	Closing balance Provision for bad debts	Expected credit loss (%)
Within 1 year	12,041,994,363.29	120,417,054.30	1.00
1 to 2 years	387,113,838.75	38,711,383.90	10.00
2 to 3 years	29,536,810.35	8,861,043.08	30.00
3 to 4 years	7,629,036.28	3,814,518.16	50.00
4 to 5 years	3,641,167.87	2,912,936.30	80.00
Over 5 years	29,629,270.71	29,629,270.71	100.00
Total	12,499,544,487.25	204,346,206.45	–

Cont.

Aging	Book balance	Opening balance Provision for bad debts	Expected credit loss (%)
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	12,577,519,631.97	189,419,789.72	–

(3) Provision for bad debts accrued, recovered or reversed this year

The amount of provision for bad debts accrued in the current year is RMB 109,845 thousand. The recovery or reversal of the bad debt provisions is RMB 2,050 thousand in the current year. Other transfer-out bad debt provisions of RMB 13,617 thousand, including: reclassification of accounts receivable to receivables financing reduces bad debt provision by RMB 7,669 thousand, liquidation subsidiary reduces bad debt provision by RMB 5,151 thousand and disposal subsidiary reduces bad debt provision by RMB 797 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(4) Accounts receivable written off in the current year:

Item	Amount written off
Accounts receivable written off	9,158,424.26

Including: Important accounts receivable write-off situation

Company	Types	Amount written off	Reason	Write-off procedures performed	Whether due to related transactions
Customer 1	Sales receivable	8,401,453.66	unrecoverable	Approved by management	NO
Total		<u>8,401,453.66</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	336,436,904.78	2.62	3,365,972.59
Customer 2	273,933,036.48	2.13	2,744,434.37
Customer 3	243,179,493.27	1.89	4,723,191.51
Customer 4	219,504,632.03	1.71	2,320,097.59
Customer 5	211,212,100.66	1.64	2,112,218.86
Total	<u>1,284,266,167.22</u>	<u>9.99</u>	<u>15,265,914.92</u>

(6) Accounts receivables derecognized due to transfer of financial assets in the current year.

Items	Transfer method of financial assets	Accounts receivables derecognized	Profit or loss from the derecognition
ABS increment base assets	sold	2,390,707,060.26	50,215,537.05
Accounts Receivable Factoring	sold	50,168,604.88	-
Total		<u>2,440,875,665.14</u>	<u>50,215,537.05</u>

(7) The Group had no assets or liabilities arising from the transfer of the accounts receivable with the continuing involvement for the current year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Receivables financing

Item	Closing balance	Opening balance
Notes receivable	1,414,124,906.14	1,515,914,114.01
Accounts receivable (Note)	750,854,019.15	–
Total	<u>2,164,978,925.29</u>	<u>1,515,914,114.01</u>

Note: The Group's business model for managing this part of the accounts receivable is both to collect contractual cash flow as the goal and to sell accounts receivable (asset securitization). Therefore, the Group classifies this part of the accounts receivable as Financial assets that are measured at fair value and whose changes are included in other comprehensive income are listed in the financing of receivables.

6. Advances to suppliers

(1) The aging analysis of advances to suppliers based on booking date is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	1,018,522,816.40	98.64	647,412,646.18	96.15
1 to 2 years	4,116,764.85	0.40	16,851,520.10	2.50
2 to 3 years	4,369,038.25	0.42	5,060,708.51	0.75
Over 3 years	5,524,546.04	0.54	4,027,918.23	0.60
Total	<u>1,032,533,165.54</u>	<u>100.00</u>	<u>673,352,793.02</u>	<u>100.00</u>

(2) The top five suppliers by balances are as follows:

Company	Closing balance	Proportion to total closing balance of advances to suppliers (%)
Supplier 1	235,769,395.47	22.83
Supplier 2	129,763,021.59	12.57
Supplier 3	91,800,376.52	8.89
Supplier 4	35,841,232.20	3.47
Supplier 5	35,429,422.21	3.43
Total	<u>528,603,447.99</u>	<u>51.19</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Receivables

Item	Closing balance	Opening balance
Interest receivable	4,477,916.67	1,666,666.70
Dividends receivable	37,938,523.45	316,706,053.45
Other receivables	776,890,039.32	904,685,208.63
Less: Provision for bad debts	53,594,998.07	49,697,886.74
Total	<u>765,711,481.37</u>	<u>1,173,360,042.04</u>

(1) Interest receivable

① Interest receivable by category

Item	Closing balance	Opening balance
Term deposit	4,477,916.67	1,666,666.70
Less: Provision for bad debts	—	—
Total	<u>4,477,916.67</u>	<u>1,666,666.70</u>

(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
Less: Provision for bad debts	—	—
Total	<u>37,938,523.45</u>	<u>316,706,053.45</u>

② Important dividends receivable with an age of more than 1 year

Item	Closing balance	Reason for receivable	aging	Whether impairment occurred and its judgment basis
Nuo Cheng	<u>37,938,523.45</u>	Not paid	Above 3 years	No
Total	<u>37,938,523.45</u>			

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Receivables (Continued)

(3) Other receivables

① Other receivables disclosed per aging:

Aging	Closing balance	Opening balance
Within 1 year	597,533,813.85	745,093,461.94
1 to 2 years	54,057,466.95	77,127,890.11
2 to 3 years	51,927,772.55	25,407,276.76
3 to 4 years	22,664,539.72	14,692,212.94
4 to 5 years	14,612,015.90	5,923,360.23
Over 5 years	36,094,430.35	36,441,006.65
Total	<u>776,890,039.32</u>	<u>904,685,208.63</u>

② Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from external parties	533,487,361.80	628,808,015.60
Margin, deposit and down payment	125,216,738.57	149,762,074.79
Advances to employees	41,940,796.10	50,395,230.88
Petty cash	11,280,929.84	13,888,670.96
Receivables due from related parties	14,390,894.18	7,053,789.51
Tax refund for exports	2,617,054.55	130,089.65
Others	47,956,264.28	54,647,337.24
Total book balance of other receivables	776,890,039.32	904,685,208.63
Less: Provision for bad debts	53,594,998.07	49,697,886.74
Total	<u>723,295,041.25</u>	<u>854,987,321.89</u>

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 on 1 Jan 2019	9,155,077.78	–	40,542,808.96	49,697,886.74
Provision at current year	2,170,163.65	–	3,317,314.74	5,487,478.39
Reversal of bad debt provision at current year	–	–	872,566.11	872,566.11
Charge off at current year	–	–	–	–
Written off at current year	–	–	23,000.00	23,000.00
Other changes	694,800.95	–	–	694,800.95
Ending balance on 31 December 2020	<u>10,630,440.48</u>	<u>–</u>	<u>42,964,557.59</u>	<u>53,594,998.07</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Receivables (Continued)

(3) Other receivables

④ Provision for bad debts

The amount of bad debt provision for this year was RMB 5,487 thousand; The amount of bad debt provision recovered or reversed for this year was RMB 873 thousand. Other changes of RMB 695 thousand, including: the liquidation subsidiary reduced the bad debt provision by RMB 683 thousand and the transfer subsidiary reduced the bad debt provision by RMB 12 thousand.

⑤ Other receivables written off for this year.

Item	Amount written off
Other receivables written off	23,000.00

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	33,347,339.17	Within 1 year	4.29	-
Other receivables 2	Receivables due from external parties	27,800,000.00	Within 1 year	3.58	278,000.00
Other receivables 3	Receivables due from external parties	15,215,569.97	Within 1 year, 1 to 2 years, 2 to 3 years	1.96	295,241.87
Other receivables 4	Receivables due from external parties	10,765,643.89	Within 1 year	1.39	107,656.44
Other receivables 5	Receivables due from external parties	10,315,700.00	4 to 5 year	1.33	10,315,700.00
Total	-	<u>97,444,253.03</u>	-	<u>12.55</u>	<u>10,996,598.31</u>

⑦ The Group had no other receivables related to government grants for this year.

⑧ The Group had no other receivables that had been derecognized due to transfer of financial assets for this year.

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)

8. 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 value	Book balance
Raw materials	881,270,726.45	2,362,973.18	878,907,753.27	1,013,657,884.08
Turnover materials	147,351,892.09	-	147,351,892.09	158,726,849.10
Consignment processing material	3,158,510.07	-	3,158,510.07	3,874,143.16
Work in progress	546,798,886.75	-	546,798,886.75	664,587,736.78
Commodity stocks	8,252,511,887.77	64,197,566.15	8,188,314,321.62	7,724,802,592.59
Total	<u>9,831,091,903.13</u>	<u>66,560,539.33</u>	<u>9,764,531,363.80</u>	<u>9,565,649,205.71</u>

(2) Provision for decline in value of inventories

Item	Opening balance	Provision	Decrease in this year		Closing balance
			Reversed	Written-off	
Raw materials	9,913,957.23	1,434,118.55	342,116.80	8,642,985.80	2,362,973.18
Commodity stocks	65,694,984.43	29,631,607.31	6,773,637.00	24,355,388.59	64,197,566.15
Total	<u>75,608,941.66</u>	<u>31,065,725.86</u>	<u>7,115,753.80</u>	<u>32,998,374.39</u>	<u>66,560,539.33</u>

(3) In current year end, there is no capitalization of borrowing costs in the inventory.

(4) No amortization of contract performance costs in this year.

9. Other Current Assets

Item	Closing balance	Opening balance
Input VAT to be certified	560,121,154.23	445,728,811.25
Prepaid income tax	49,137,617.20	70,747,299.62
Structured deposits	30,000,000.00	30,000,000.00
Undisposed assets for whole relocation (Note)	20,000,000.00	20,401,231.79
Bank financial products	1,440,641.32	11,495,150.95
Others	9,415,878.31	469,130.04
Total	<u>670,115,291.06</u>	<u>578,841,623.65</u>

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, subsidiary 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. The transfer to relevant government departments begun on June 29, 2020.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt investment

(1) Classification of debt investment

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Fixed deposit held to maturity	505,069,444.73	-	505,069,444.73	-	-	-
Total	505,069,444.73	-	505,069,444.73	-	-	-

11. Long-term Equity Investment

Investee	Opening balance	Increase	Decrease	Investment gains and losses recognized under equity method	Change in the current year			Provision for impairment	Others	Closing balance	Closing balance of provision for impairment
					Adjustment to other comprehensive income	Declaration of cash dividends or profits					
I. Joint ventures											
HWBYS	129,599,934.56	-	-	304,449,234.82	-	(68,024,758.00)	-	-	366,024,411.38	-	
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	47,518,816.60	-	-	3,056,241.04	-	-	-	-	50,575,057.64	-	
Nuo Cheng	255,238,296.74	-	-	(15,793,060.35)	-	-	-	-	239,445,236.39	-	
Subtotal	432,357,047.90	-	-	291,712,415.51	-	(68,024,758.00)	-	-	656,044,705.41	-	
II. Associates											
Jinying Fund Management Co., Ltd	63,796,881.10	-	-	5,030,503.67	-	-	-	-	68,827,384.77	-	
Guangzhou Baiyunshan Weiji Medical Investment Management Co., Ltd.	2,033,367.82	-	-	18,495.54	-	-	-	-	2,051,863.36	-	
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd. (hereinafter referred to as "Baiyunshan Yi Xin Tang")	71,772,551.47	-	-	(133,508.80)	-	-	-	-	71,639,042.67	-	
Guangdong Guangyao Jirshen Equity Investment Fund Management Co., Ltd.	9,383,230.68	-	-	(1,712,687.15)	-	-	-	-	7,670,543.53	-	
Yunnan Hongxiang Yi Xin Tang Pharmaceutical (Group) Co., Ltd. (hereinafter referred as "Yi Xin Tang")	906,440,943.85	-	-	57,692,280.94	-	(12,578,616.30)	-	-	951,554,608.49	-	
Chuangmei Medicines Co., Ltd.	65,423,790.37	-	-	-	-	-	(2,292,114.53)	-	63,131,675.84	-	
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	45,829,731.75	-	-	(1,788,761.99)	-	-	-	-	44,040,969.76	-	
Guangzhou Zhongcheng Medical Instruments Industry Development Co., Ltd.	1,987,647.47	-	-	(1,082,209.70)	-	-	-	-	905,437.77	-	
Subtotal	1,166,668,144.51	-	-	58,024,052.51	-	(12,578,616.30)	-	(2,292,114.53)	1,209,821,466.19	-	
Total	1,599,025,192.41	-	-	349,736,468.02	-	(80,603,374.30)	-	(2,292,114.53)	1,865,866,171.60	-	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other Equity Instruments investments

Item	Investment cost	Opening balance	Closing balance	Dividend income recognized in the current year	Amount of cumulative profits and losses transferred from other comprehensive income to retained earnings for this year	Reasons designated as measured at fair value and their changes included in other comprehensive income
Sino-Israel Bio-industry Investment Fund	112,122,500.00	64,018,169.89	98,246,271.20	-	-	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	450,000.00	281,913.64	443,267.13	-	-	Long-term holdings for strategic purposes
Total	130,250,376.51	81,977,960.04	116,367,414.84	-	-	-

13. Other Non-Current Financial Assets

Item	Closing balance	Opening balance
Financial assets classified at FVTPL for this year	263,528,067.86	262,469,919.10
Including: Equity instrument investments	250,000,674.13	258,469,919.10
Other	13,527,393.73	4,000,000.00
Total	263,528,067.86	262,469,919.10

14. Investment Properties

(1) Investment property measured using the cost model

Item	Buildings	Land use right	Working in progress	Total
I. Original cost				
1. Opening balance	402,912,124.18	18,344,900.69	-	421,257,024.87
2. Increase	-	-	5,626,773.47	5,626,773.47
(1) Purchase	-	-	5,512,377.67	5,512,377.67
(2) Changes in foreign exchange. rate	-	-	-	-
(3) Other	-	-	114,395.80	114,395.80
3. Decrease	10,036,674.61	-	-	10,036,674.61
(1) Disposal	477,440.00	-	-	477,440.00
(2) Transfer to inventory/ fixed assets/ construction in progress	9,123,370.00	-	-	9,123,370.00
(3) Changes in foreign exchange. rate	435,864.61	-	-	435,864.61
4. Closing balance	392,875,449.57	18,344,900.69	5,626,773.47	416,847,123.73

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Investment Properties (Continued)

(1) Investment property measured using the cost model (Continued)

Item	Buildings	Land use right	Working in progress	Total
II. Accumulated depreciation and amortization				
1. Opening balance	193,168,781.90	9,889,093.81	-	203,057,875.71
2. Increase	10,113,908.30	315,640.01	-	10,429,548.31
(1) Provision or amortization	10,113,908.30	315,640.01	-	10,429,548.31
(2) Changes in foreign exchange rate	-	-	-	-
3. Decrease	9,642,290.09	-	-	9,642,290.09
(1) Disposal	463,116.80	-	-	463,116.80
(2) Transfer to inventory/ fixed assets/ construction in progress	9,008,974.20	-	-	9,008,974.20
(3) Changes in foreign exchange rate	170,199.09	-	-	170,199.09
4. Closing balance	193,640,400.11	10,204,733.82	-	203,845,133.93
III. Provision for impairment				
1. Opening balance	-	-	-	-
2. Increase	-	-	-	-
3. Decrease	-	-	-	-
4. Closing balance	-	-	-	-
IV. Book value				
1. Closing balance of book value	199,235,049.46	8,140,166.87	5,626,773.47	213,001,989.80
2. Opening balance of book value	209,743,342.28	8,455,806.88	-	218,199,149.16

- (1) Depreciation is RMB 10,114 thousand for Jan to December 2020 (Jan to December 2019: RMB 10,330 thousand). Amortization is RMB 316 thousand for Jan to December 2020 (Jan to December 2019: RMB 365 thousand).
- (2) Increase in original value and accumulated depreciation of investment property due to change in foreign exchange rate is RMB 436 thousand and RMB 170 thousand respectively for Jan to December 2020 (Jan to December 2019: increased RMB 157 thousand and RMB 57 thousand respectively).
- (3) Most of the investment properties with land use right are located in Mainland China with useful life vary from 10 to 50 years.
- (4) The Group had RMB 0 thousand conversion of self-use properties or inventory to investment properties for this year (Jan to December 2019: 1,744 thousand).

15. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	2,930,885,555.96	2,942,169,658.84
Disposal of fixed assets	-	-
Less: Provision for impairment	18,372,386.12	18,584,719.18
Total	2,912,513,169.84	2,923,584,939.66

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Fixed Assets (Continued)

(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	3,061,157,832.87	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
2. Increase	64,484,859.35	206,636,940.39	6,008,881.48	11,761,956.25	32,065,668.81	372,646.59	321,330,952.87
(1) Purchases	2,066,972.17	47,287,695.12	2,881,361.73	8,075,141.57	20,243,561.10	122,081.80	80,676,813.49
(2) Transferred from construction in progress	62,417,887.18	159,349,245.27	3,127,519.75	3,686,814.68	11,765,896.90	250,564.79	240,597,928.57
(3) Increase in business combination	-	-	-	-	-	-	-
(4) Changes in foreign exchange rate	-	-	-	-	-	-	-
(5) Other	-	-	-	-	56,210.81	-	56,210.81
3. Decrease	8,769,459.31	81,938,532.14	7,703,471.11	6,223,898.59	20,390,424.41	1,190,579.42	126,216,364.98
(1) Disposal or scrap	4,340,386.04	44,061,882.32	7,703,471.11	5,615,822.75	19,795,536.56	783,723.05	82,300,821.83
(2) Changes in foreign exchange rate	561,867.36	-	-	-	-	-	561,867.36
(3) Other	3,867,205.91	37,876,649.82	-	608,075.84	594,887.85	406,856.37	43,353,675.79
4. Closing balance	3,116,873,232.91	2,506,332,325.48	120,763,257.24	191,282,739.32	291,688,156.18	54,938,752.48	6,281,878,463.61
II. Accumulated depreciation							
1. Opening 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
2. Increase	115,635,466.25	143,210,919.22	7,216,969.05	16,570,422.69	27,992,929.65	4,788,866.47	315,415,573.33
(1) Provision	115,635,466.25	143,210,919.22	7,216,969.05	16,570,422.69	27,992,929.65	4,788,866.47	315,415,573.33
(2) Increase in business combination	-	-	-	-	-	-	-
(3) Changes in foreign exchange rate	-	-	-	-	-	-	-
(4) Other	-	-	-	-	-	-	-
3. Decrease	2,869,159.97	74,153,200.78	6,634,182.14	5,153,139.86	19,318,875.43	888,324.38	109,016,882.56
(1) Disposal or scrap	2,765,683.07	40,549,952.19	6,634,182.14	5,153,139.86	18,779,579.95	481,468.02	74,364,005.23
(2) Transfer to investment properties	-	-	-	-	-	-	-
(3) Changes in foreign exchange rate	103,476.90	-	-	-	-	-	103,476.90
(4) Other	-	33,603,248.59	-	-	539,295.48	406,856.36	34,549,400.43
4. Closing balance	1,348,460,948.34	1,559,124,283.05	84,096,774.63	126,341,565.44	192,729,428.00	40,239,908.19	3,350,992,907.65
III. Provision for impairment							
1. Opening balance	11,767,229.72	5,214,313.69	158,224.47	1,443,365.80	1,585.50	-	18,584,719.18
2. Increase	-	-	-	-	-	-	-
(1) Provision	-	-	-	-	-	-	-
3. Decrease	-	212,333.06	-	-	-	-	212,333.06
(1) Disposal or scrap	-	212,333.06	-	-	-	-	212,333.06
4. Closing balance	11,767,229.72	5,001,980.63	158,224.47	1,443,365.80	1,585.50	-	18,372,386.12
IV. Book value							
1. Closing balance of book value	1,756,645,054.85	942,206,061.80	36,508,258.14	63,497,808.08	98,957,142.68	14,698,844.29	2,912,513,169.84
2. Opening 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

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Fixed Assets (Continued)

(1) Fixed assets (Continued)

- Note: ① Original value of fixed assets transferred from construction in progress is RMB 240,598 thousand from Jan to December 2020 (Jan to December 2019: RMB 176,573 thousand).
- ② Decrease in original value and accumulated depreciation of fixed assets due to the fluctuation in foreign exchange rate are RMB 562 thousand and RMB 103 thousand respectively from Jan to December 2020 (Jan to December 2019: increased RMB 162 thousand and RMB 46 thousand respectively).
- ③ Fixed assets depreciation accrued from Jan to December 2020 is RMB 315,416 thousand (Jan to December 2019: RMB 312,323 thousand), which is comprised of depreciation in operating cost RMB 144,616 thousand, depreciation in selling expenses RMB 56,469 thousand, depreciation in General and administrative expenses RMB 84,604 thousand and depreciation in R&D expenditure RMB 29,547 thousand (Jan to December 2019: depreciation in operating cost RMB 123,083 thousand, depreciation in selling expenses RMB 50,691 thousand, depreciation in General administrative expenses RMB 109,689 thousand and depreciation in R&D expenditure RMB 28,860 thousand).

(2) Temporary idle fixed assets

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value	Note
Buildings	430,613.36	260,859.32	–	169,754.04	
Machinery and equipment	1,678,344.15	1,205,024.42	243,845.49	229,474.24	
Total	2,108,957.51	1,465,883.74	243,845.49	399,228.28	

(3) There is no fixed assets leased out under operating lease in this year

(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	46,835,571.24	Not handled yet as necessary procedures were not complete	Unknown
Total	46,835,571.24	–	–

Notes:

As on 31 December 2020, 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\$6,116 thousand (Converted into RMB 5,147 thousand), and investment property with the original costs of HK\$ 6,843 thousand and the net value of HK\$ 4,622 thousand (Converted into RMB 3,891 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 259 thousand, USD 371 thousand from the Bank of China (Hong Kong) Co., Ltd.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Construction in progress

Item	Closing balance	Opening balance
Construction in progress	1,276,503,223.33	667,654,189.06
Construction material	–	–
Less: Provision for impairment	251,734.38	251,734.38
Total	1,276,251,488.95	667,402,454.68

(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	1,276,503,223.33	251,734.38	1,276,251,488.95	667,654,189.06	251,734.38	667,402,454.68
Total	1,276,503,223.33	251,734.38	1,276,251,488.95	667,654,189.06	251,734.38	667,402,454.68

(2) Changes of significant construction in progress in the current year

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current year	Other decrease in the current year	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Baiyun project	527,000,000.00	20,440,078.30	249,622,636.35	–	–	270,062,714.65	60.90%	60.90%	Self-raised funds
Construction of Bio-island R&D Headquarters	1,099,853,000.00	63,987,704.96	112,740,055.64	–	–	176,727,760.60	35.10%	36.00%	Self-raised funds, issuing shares
Ming Xing relocation improvement	475,620,000.00	126,583,487.35	29,074,216.87	–	–	155,657,704.22	32.73%	37.00%	Self-raised funds, issuing shares
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	126,933,866.98	50,648,071.09	72,788,995.05	114,576.30	104,678,366.72	52.98%	61.50%	Self-raised funds
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	731,879,100.00	28,027,483.68	66,531,355.96	–	–	94,558,839.64	24.00%	40.00%	Self-raised funds
Cai Zhi Lin Meizhou TCM Industrialized production and service base	130,000,000.00	69,752,573.91	3,234,148.43	–	–	72,986,722.34	83.00%	95.00%	Self-raised funds
Chinese medicine modernization GMP phase III construction project	287,620,000.00	3,292,709.89	57,267,796.11	–	–	60,560,506.00	21.06%	21.06%	Self-raised funds, borrowing
Narsha Base Project	750,000,000.00	1,653,626.42	54,132,459.02	–	–	55,786,085.44	7.44%	7.44%	Self-raised funds
Zhongluotan Wulonggang AB08070981 block	159,750,000.00	26,172,092.48	4,366,239.65	–	–	30,538,332.13	33.43%	33.43%	Self-raised funds
Project of special medical use formula food production line	42,400,000.00	15,516,621.46	8,887,966.92	–	–	24,404,588.38	68.32%	70.00%	Self-raised funds
Extension project K of Hospital service	204,000,000.00	5,703,677.12	35,685,187.56	18,597,768.47	2,710,401.95	20,080,694.26	72.85%	72.85%	Self-raised funds
Extension project S of Hospital service	18,969,000.00	–	13,802,913.70	–	–	13,802,913.70	72.77%	72.77%	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)

16. Construction in progress (Continued)

(2) Changes of significant construction in progress in the current year (Continued)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current year	Other decrease in the current year	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Public Service Platform for Testing and Inspection of Traditional Chinese Medicine Industry in Guangzhou Dawan District	18,700,000.00	-	13,513,544.44	-	-	13,513,544.44	72.26%	90.00%	Self-raised funds
Monoclonal antibody project	62,650,000.00	3,760,732.90	9,634,439.06	-	-	13,395,171.96	36.35%	29.89%	Self-raised funds
Extension project R of Hospital service	103,000,000.00	1,622,983.28	16,064,739.81	10,574,690.24	104,718.64	7,008,314.21	88.73%	88.73%	Self-raised funds
Building 3445	8,400,000.00	-	6,947,742.71	-	-	6,947,742.71	82.71%	45.00%	Self-raised funds
Confinement Club House Renovation Project	10,000,000.00	5,968,448.25	914,911.64	-	-	6,883,359.89	68.83%	80.00%	Self-raised funds
Extension project D of Hospital service	190,000,000.00	25,394,202.04	14,053,750.66	15,617,699.05	18,530,656.08	5,299,597.57	37.43%	37.43%	Self-raised funds
Extension project M of Hospital service	101,600,000.00	4,712,701.68	3,007,140.26	2,593,835.81	-	5,126,006.13	21.05%	21.05%	Self-raised funds
Guangyao Baiyunshan secondary node project	8,000,000.00	1,008,849.56	3,811,146.51	-	-	4,819,996.07	60.25%	90.00%	Self-raised funds
Power distribution project	6,000,000.00	1,596,503.84	2,437,352.82	-	-	4,033,856.66	67.23%	85.00%	Self-raised funds
Toxic production workshop decoration project	4,000,000.00	3,927,052.93	-	-	-	3,927,052.93	98.18%	99.00%	Self-raised funds
Ordinary decoction piece production line equipment	3,900,000.00	2,318,911.04	1,515,044.27	-	-	3,833,955.31	98.31%	99.00%	Self-raised funds
Logistics Information Management System	17,000,000.00	-	3,681,720.84	-	-	3,681,720.84	46.96%	46.96%	Self-raised funds
Guangzhou Pharmaceutical EHR project	4,175,000.00	3,439,477.52	53,773.58	-	-	3,493,251.10	83.67%	95.00%	Self-raised funds, issuing shares
Guangzhou Pharmaceutical Consolidated Reporting Platform Project	6,156,000.00	3,385,021.92	-	-	-	3,385,021.92	56.18%	93.00%	Self-raised funds, issuing shares
Extension project O of Hospital service	72,900,000.00	3,095,575.24	-	-	-	3,095,575.24	8.78%	8.78%	Self-raised funds
Other	2,833,328,331.32	119,359,806.31	143,319,516.99	120,424,939.95	34,040,555.08	108,213,828.27	/	/	Self-raised funds
Total	8,276,900,431.32	667,654,189.06	904,947,870.89	240,597,928.57	55,500,908.05	1,276,503,223.33	-	-	-

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 current year.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. 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	-

17. Bearer Biological Assets

(1) Cost Measurement Method

Item	Unripe bearer biological assets – Camellia Citrus	Total
I. Original cost		
1. Opening balance	3,678,000.00	3,678,000.00
2. Increase	-	-
3. Decrease	-	-
4. Closing balance	3,678,000.00	3,678,000.00
II. Accumulated depreciation		
1. Opening balance	174,705.00	174,705.00
2. Increase	349,410.00	349,410.00
(1)Provision	349,410.00	349,410.00
3. Decrease	-	-
(1)Disposal	-	-
(2)Other	-	-
4. Closing balance	524,115.00	524,115.00
III. Provision for impairment		
1. Opening balance	-	-
2. Increase	-	-
(1)Provision	-	-
3. Decrease	-	-
(1)Disposal	-	-
(2)Other	-	-
4. Closing balance	-	-
IV. Book value		
1. Closing balance of book value	3,153,885.00	3,153,885.00
2. Opening balance of book value	3,503,295.00	3,503,295.00

Note: Bearer biological assets are measured at cost, the crop production increased by RMB 0 thousand due to purchase, RMB 0 due to breeding (education), and RMB 0 due to sale, decreased RMB 0 by death, loss, damage and decreased RMB 349 thousand due to depreciation.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Right-of-use Assets

Item	Buildings	Machinery and equipment	Total
I. Original cost			
1. Opening balance	778,801,910.85	319,014,157.96	1,097,816,068.81
2. Increase	305,421,938.72	37,324,537.28	342,746,476.00
(1) New lease	305,421,938.72	37,324,537.28	342,746,476.00
3. Decrease	78,039,337.21	73,898.82	78,113,236.03
(1) Disposal	78,039,337.21	73,898.82	78,113,236.03
(2) Other	—	—	—
4. Closing balance	1,006,184,512.36	356,264,796.42	1,362,449,308.78
II. Accumulated depreciation			
1. Opening balance	181,377,565.87	74,361,450.63	255,739,016.50
2. Increase	218,414,061.78	36,851,118.85	255,265,180.63
(1) Provision	218,414,061.78	36,851,118.85	255,265,180.63
3. Decrease	57,847,316.93	45,822.66	57,893,139.59
(1) Disposal	57,847,316.93	45,822.66	57,893,139.59
(2) Other	—	—	—
4. Closing balance	341,944,310.72	111,166,746.82	453,111,057.54
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	664,240,201.64	245,098,049.60	909,338,251.24
2. Opening balance of book value	597,424,344.98	244,652,707.33	842,077,052.31

Note: 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)

19. 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	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
2. Increase	-	5,072,789.62	-	72,801.99	-	16,770,191.90	21,915,783.51
(1) Purchase	-	5,056,603.77	-	72,801.99	-	16,484,463.59	21,613,869.35
(2) Internal R&D	-	16,185.85	-	-	-	285,728.31	301,914.16
(3) Increase in business combinations	-	-	-	-	-	-	-
(4) Other	-	-	-	-	-	-	-
3. Decrease	392,209.44	-	-	-	-	2,362,718.15	2,754,927.59
(1) Disposal	392,209.44	-	-	-	-	2,362,718.15	2,754,927.59
(2) Other	-	-	-	-	-	-	-
4. Closing balance	866,589,124.62	22,185,679.98	64,860,711.53	1,561,818,053.54	127,793,900.00	235,801,056.23	2,879,048,525.90
II. Accumulated amortization							
1. Opening 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
2. Increase	19,080,807.77	757,983.87	5,203,747.04	736.24	-	37,694,020.39	62,737,295.31
(1) Provision	19,080,807.77	757,983.87	5,203,747.04	736.24	-	37,694,020.39	62,737,295.31
(2) Other	-	-	-	-	-	-	-
3. Decrease	209,520.41	-	-	4,611.36	-	1,661,977.59	1,876,109.36
(1) Disposal	209,520.41	-	-	-	-	1,661,977.59	1,871,498.00
(2) Other	-	-	-	4,611.36	-	-	4,611.36
4. Closing balance	194,269,116.42	11,339,055.67	36,457,535.26	32,792,424.68	-	159,565,229.66	434,423,361.69
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	672,320,008.20	10,393,281.27	28,403,176.27	1,528,442,055.86	127,793,900.00	76,235,826.57	2,443,588,248.17
2. Opening 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

Note: The purchase of intangible assets this year includes the amount transferred from construction in progress.

The amortization amount for Jan to December 2020 was RMB 62,737 thousand (Jan to December 2019: RMB 57,311 thousand), which included in the development expenditure RMB 54 thousand, included in the current profit and loss of RMB 62,683 thousand. 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)

19. Intangible Assets (Continued)

(1) Intangible assets (Continued)

The recoverable amount of a trademark with no useful life shall be calculated and determined by the income method. That is, by estimating the expected future income of the target trademark asset, converting it into the present value through an appropriate discount rate and adding it up to determine the recoverable amount. The expected income is calculated according to the following formula: Expected income $R_i = (\text{trademark usage fee billing base} \times \text{trademark usage fee rate}) - \text{taxes and surcharges} - \text{corporate income tax}$. The key valuation parameters include: (1) discount rate, here 12.5%; (2) sales revenue growth rate, generally 2%, and individual companies 10%-15%; (3) trademark use The fee rate is obtained by multiplying the excess profit rate by the trademark contribution rate. The excess profit rate is averaged based on the historical data of the Company in the past four years. The trademark contribution rate is obtained using the analytic hierarchy process. The final calculated trademark usage fee rate is 0.80%-1.96%.

After testing, it was not found that the Group owns the Baiyunshan trademark, the Dashen product trademark, and the Xingqun series, Zhong Yi series, Pan Gaoshou series, Chen Liji series, Jingxiutang series, Qixing series, Wanglaoji series, Jianzhiqiao series, Guoying, Jianmin, Dazhai, and Weiyi series are impaired.

20. Development expenditure

Item	Opening balance	Increase		Decrease			Closing balance	Provision for impairment
		Internal development expenditure	Others	Transfer to current P&L	Confirmed as Intangible assets	Others		
Capital expenditure	2,811,139.26	6,924,554.99	-	1,898,192.68	301,914.16	-	7,535,587.41	800,000.00
Expense expenditure	-	611,934,929.42	-	611,934,929.42	-	-	-	-
Total	2,811,139.26	618,859,484.41	-	613,833,122.10	301,914.16	-	7,535,587.41	800,000.00

Note: Development expenditure RMB 800 thousand was a patent on technology purchased by the Group subsidiary in 2005, recorded as development expenditure accounting, not to carry out further research after the purchase, as current year 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)

21. 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	Others	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	475,756.92	-	-	-	-	475,756.92
GP Corp.	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
		Provision	Others	Disposal	Others	
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92
GP Corp.	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	9,216,610.56	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	72,186,653.97	2,003,600.47	1,620,114,424.76
Book value of asset group including overall goodwill ^⑦ =⑤+⑥	90,258,439.38	4,286,552.65	2,742,039,088.08
The present value of the asset group's estimated future cash flows (recoverable amount) ^⑧	114,652,800.00	35,237,400.00	2,916,990,000.00
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)

21. 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.

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.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. 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
- 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;
 - 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 year	Key parameter			Discount rate (Weighted average cost of capital before tax) (%)
		Forecast growth rate	Stable growth year	Profit margin	
GP Corp.	2021-2025 (steady period hereafter)	Note 1	Flat	Calculate based on expected revenue, cost, expenses, etc	10.63
Guangzhou Baiyunshan Hospital	2021-2025 (steady period hereafter)	Note 2	Flat	Calculate based on expected revenue, cost, expenses, etc	12.67
Guangyao Haima	2021-2025 (steady period hereafter)	Note 3	Flat	Calculate based on expected revenue, cost, expenses, etc	12.85

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. 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:

- (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 8.21%、8.10%、8.48%、8.57%、8.66% respectively for the period from 2021 to 2025.
- (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 23.40% for the period from 2021 to 2025.
- (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 2020 to 2024 with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, estimated revenue growth rate shall be 6.81% for the period from 2021 to 2025.

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.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Long-term prepaid expenses

Item	Opening balance	Increase	Amortization	Other decrease	Closing balance
Decoration expenses	93,705,997.51	21,836,135.88	24,480,730.02	-	91,061,403.37
ABC Buildings certification service	2,105,655.72	126,993.36	1,718,486.20	-	514,162.88
GMP reconstruction expenses	4,388,099.19	1,520,385.39	2,758,042.64	-	3,150,441.94
Computer system expenses	2,176,645.99	884,187.55	1,058,230.19	-	2,002,603.35
Others	13,408,836.34	6,506,940.43	5,338,017.98	-	14,577,758.79
Total	115,785,234.75	30,874,642.61	35,353,507.03	-	111,306,370.33

23. Deferred Tax Assets and Deferred Tax Liabilities

(1) Breakdown of deferred tax assets and deferred tax liabilities 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	288,141,294.54	1,475,078,761.11	291,077,109.49	1,539,239,656.82
Provision for credit impairment	130,198,717.21	535,389,937.11	105,675,242.20	436,330,761.10
Deferred income	88,850,432.72	561,565,680.51	55,740,744.18	367,409,369.79
Provisions	94,893,389.59	620,622,597.26	54,767,852.88	361,119,019.19
Impact on total profit arising from elimination	27,615,601.14	152,794,135.27	28,096,603.35	167,248,134.82
Provision for decline in value of inventories	13,619,088.04	64,045,662.50	14,086,318.22	73,151,124.41
Fixed assets depreciation differences between accounting and tax law	12,755,055.25	54,442,369.56	12,065,932.28	49,849,331.36
Employee benefits payable	13,664,665.28	75,080,186.51	12,870,897.13	72,018,979.32
Deductible tax losses	63,470,362.48	395,822,625.92	9,735,529.17	38,942,116.59
Other non-current financial assets	2,938,649.44	19,590,996.28	2,104,558.42	14,030,389.44
Other equity instruments investments	2,103,934.32	14,026,228.80	1,672,112.46	11,147,416.42
Provision for impairment of fixed assets	1,549,311.61	10,214,401.28	1,547,000.97	10,278,623.98
Long-term prepaid expenses	-	-	115,618.49	509,888.81
Intangible assets depreciation differences between accounting and tax law	43,098.88	287,325.87	1,024,905.45	6,801,891.30
Provision for impairment of construction in progress	37,760.16	251,734.38	37,760.16	251,734.38
Provision for impairment of intangible assets	33,829.90	200,883.33		
Others	11,807,182.28	52,123,615.27	4,373,976.91	17,584,438.68
Subtotal	751,722,372.84	4,031,537,140.96	594,992,161.76	3,165,912,876.41

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(1) Breakdown of deferred tax assets and deferred tax liabilities 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	147,734,903.25	590,939,612.96	158,076,602.31	648,399,048.36
Other receivables-profit distribution	118,163,163.50	787,754,423.33	88,654,707.00	591,031,380.00
Other non-current financial assets	11,746,152.32	78,307,682.13	12,416,646.79	82,777,645.27
Fixed assets depreciation differences between accounting and tax law	6,948,738.72	46,324,924.78	4,637,771.95	30,918,479.67
Book value of amortization provided for intangible assets appreciation	1,115,476.80	7,436,512.00	2,592,358.68	13,436,996.29
Book value of depreciation provided for fixed assets appreciation	238,503.60	1,590,024.00	252,646.20	1,684,308.00
Other equity instruments investments	59,558.67	238,280.61	80,480.95	321,923.80
Others	352,560.00	2,350,400.00	197,520.00	1,316,800.00
Subtotal	286,359,056.86	1,514,941,859.81	266,908,733.88	1,369,886,581.39

(2) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	117,797,546.25	16,319,732.81
Deductible losses	263,897,086.88	166,424,564.61
Total	380,694,633.13	182,744,297.42

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. 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
2020	–	31,102,837.77	
2021	35,399,376.92	35,399,376.92	
2022	58,877,444.43	53,565,207.91	
2023	39,403,272.77	26,913,491.62	
2024	49,436,130.85	19,443,650.39	
2025	79,780,861.91	–	
Total	262,897,086.88	166,424,564.61	

24. Other Non-current Assets

Item	Closing balance	Opening balance
Advance payment of project	159,146,450.00	289,535,847.27
Other	282,878.02	
Total	159,429,328.02	289,535,847.27

25. Short-term Borrowings

- (1) Category of short-term borrowings

Item	Closing balance	Opening balance
Pledge borrowings	398,420,821.22	331,492,899.63
Guarantee borrowings	153,003,037.43	729,000,000.00
Credit borrowings	7,667,414,100.02	4,794,182,563.96
Bills Discounted	46,891,694.36	14,333,453.37
Total	8,265,729,653.03	5,869,008,916.96

Note:

- ① Please refer to Note. V. 66. Assets with Restricted Ownership or Use Right for details on category and amount of pledge borrowings.
- ② As on 31 December 2020, short-term borrowings of RMB 127,823 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 2020, the weighted average annual interest rate of short-term borrowings is 3.2988% (31 December 2019: 4.0414%).

- (2) The Group had no overdue short-term borrowings as on 31 December 2020.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. 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	—	—

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.

27. Notes Payable

Category	Closing balance	Opening balance
Commercial acceptance notes	3,265,703,451.04	3,838,313,929.94
Bank acceptance notes	18,845,786.75	144,111,724.43
Total	3,284,549,237.79	3,982,425,654.37

Note: As on 31 December 2020, amount expected to be matured within a year is RMB 3,284,549 thousand (31 December 2019: RMB 3,982,426 thousand).

28. Accounts Payable

(1) The aging of accounts payable based on the booking date is as follows:

Item	Closing balance	Opening balance
Within 1 year	10,483,901,955.40	9,293,107,363.52
Over 1 year	390,906,424.20	405,844,876.94
Total	10,874,808,379.60	9,698,952,240.46

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. 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	36,486,055.18	Payment terms not satisfied
Supplier 3	22,576,000.00	Litigation is involved. Please refer to Note XIII (11). 1. (2) ①
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) ②
Total	<u>146,267,076.12</u>	—

29. Contract liabilities

(1) Contract liabilities are as follows:

Item	Closing balance	Opening balance
Product sales payment received in advance	1,244,021,767.32	4,673,372,543.66
Medical payment received in advance	5,233,818.13	1,989,255.80
Total	<u>1,249,255,585.45</u>	<u>4,675,361,799.46</u>

(2) Contract liabilities disclosed by aging;

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	1,213,397,998.28	97.13	4,628,421,767.16	99.00
Over 1 year	35,857,587.17	2.87	46,940,032.30	1.00
Total	<u>1,249,255,585.45</u>	<u>100.00</u>	<u>4,675,361,799.46</u>	<u>100.00</u>

(3) The Group had no significant contract liabilities with aging over 1 year as on 31 December 2020 and 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)

30. Employee Benefits Payable

(1) Presentation of employee benefits payable

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term employee benefits	837,966,226.64	4,461,277,995.55	4,460,741,805.12	838,502,417.07
II. Post-employment benefits-set up a deposit plan	1,674,081.65	251,242,607.06	246,640,897.26	6,275,791.45
III. Termination benefits	–	4,396,224.74	2,396,224.74	2,000,000.00
Total	<u>839,640,308.29</u>	<u>4,716,916,827.35</u>	<u>4,709,778,927.12</u>	<u>846,778,208.52</u>

(2) Presentation of short-term benefits

Item	Opening balance	Increase	Decrease	Closing balance
1. Wages, bonuses, allowances and subsidies	789,136,232.88	3,795,904,422.30	3,798,754,229.48	786,286,425.70
2. Employee welfare	5,072,824.69	174,339,883.44	174,499,660.65	4,913,047.48
3. Social Insurance premium	135,384.83	151,792,868.53	151,773,156.99	155,096.37
Including: Medical insurance premium	116,721.50	134,458,353.21	134,425,476.28	149,598.43
Industrial injury insurance premium	12,076.76	1,639,958.57	1,648,385.82	3,649.51
Maternity insurance premium	6,586.57	15,694,556.75	15,699,294.89	1,848.43
4. Housing funds	106,625.41	251,752,028.17	251,749,301.57	109,352.01
5. Labor-union expenditure and employee education funds	12,785,360.62	63,644,144.57	62,476,499.60	13,953,005.59
6. Non-monetary welfare	–	416,096.92	86,473.47	329,623.45
7. Housing allowance	30,472,805.52	20,047,585.95	18,021,765.57	32,498,625.90
8. Other short-term benefits	256,992.69	3,380,965.67	3,380,717.79	257,240.57
Total	<u>837,966,226.64</u>	<u>4,461,277,995.55</u>	<u>4,460,741,805.12</u>	<u>838,502,417.07</u>

(3) Disclosure of defined contribution plan by categories

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension insurance	659,741.51	109,018,165.35	108,926,183.20	751,723.66
2. Unemployment insurance premiums	34,987.93	2,034,921.77	2,024,354.98	45,554.72
3. Enterprise annuity	186,886.18	98,845,297.51	94,221,984.45	4,810,199.24
4. Others	792,466.03	41,344,222.43	41,468,374.63	668,313.83
Total	<u>1,674,081.65</u>	<u>251,242,607.06</u>	<u>246,640,897.26</u>	<u>6,275,791.45</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Employee Benefits Payable (Continued)

(4) Termination benefits

Item	Opening balance	Increase	Decrease	Closing balance
Compensation for termination of labor relations	-	4,396,224.74	2,396,224.74	2,000,000.00
Total	-	4,396,224.74	2,396,224.74	2,000,000.00

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 2020. There are no overdue employee benefits payable. The balance is expected to be paid and utilized in this year.

31. Tax Payable

Item	Closing balance	Opening balance
Value-added tax	47,522,893.95	43,777,553.09
Enterprise income tax	238,379,083.67	170,516,110.36
Property tax	1,671,400.93	2,073,057.40
Land use tax	1,111,608.05	228,654.93
Individual income tax	14,936,489.94	13,949,810.26
Urban maintenance and construction tax	5,253,657.87	8,276,042.50
Educational surcharge	2,341,757.27	3,627,073.79
Local education surcharge	1,422,322.56	2,287,002.79
Stamp duty	3,361,431.50	3,169,010.21
Others	108,422.26	110,654.70
Total	316,109,068.00	248,014,970.03

32. Other payables

Item	Closing balance	Opening balance
Interest payable	17,844,845.53	34,840,834.22
Dividends payable	57,512,041.85	47,933,025.07
Other payables	3,938,558,177.75	3,144,611,773.41
Total	4,013,915,065.13	3,227,385,632.70

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Other payables (Continued)

(1) Interest payable

Item	Closing balance	Opening balance
Long-term borrowings interest payable	495,879.17	40,027.78
Short-term borrowings interest payable	17,348,966.36	34,800,806.44
Total	17,844,845.53	34,840,834.22

(2) Dividends payable

Item	Closing balance	Opening balance
Foreign public shares	155,202.85	158,151.19
Domestic public shares	652,592.32	515,026.00
Minority shareholders	56,704,201.67	47,259,802.87
BYS Group	45.01	45.01
Total	57,512,041.85	47,933,025.07

(3) Other payables

① Disclosures of other payables by nature

Nature of amount	Closing balance	Opening balance
Sales discounts	1,455,832,831.71	1,191,315,114.52
Epidemic prevention supplies turnover fund	652,627,225.38	—
Accounts payable to external entities	597,085,560.22	454,129,043.02
Margin, deposit, and down payment received	544,055,936.52	524,896,337.00
Accrued expenses	504,429,838.09	754,061,734.99
Accruals for fixed assets	51,792,676.21	35,455,839.86
Current accounts to related parties	28,280,422.08	65,236,915.30
Funds received temporarily from employees	26,090,020.74	11,144,725.60
Others	78,363,666.80	108,372,063.12
Total	3,938,558,177.75	3,144,611,773.41

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Other payables (Continued)

(3) Other payables (Continued)

② Breakdown of accrued expenses

Item	Closing balance	Opening balance
Terminal expenses	135,407,894.51	308,206,575.70
Freight expenses	129,209,916.74	220,324,070.10
Advertisement and promotion expenses	115,410,316.76	96,534,389.43
Travel expenses	17,196,578.70	18,693,254.79
Conference expenses	14,162,187.64	12,574,474.78
Agency fee	10,801,807.17	4,840,381.18
Rental expenses	9,074,370.19	5,998,139.73
Utilities expenses	8,345,264.63	5,120,987.47
Research and development expenditures	5,944,526.20	20,170,653.31
Trademark fee	1,800,000.00	860,019.48
Consulting fee	1,120,351.62	4,337,132.03
Medicine service expenses	–	1,060,000.00
Others	55,956,623.93	55,341,656.99
Total	504,429,838.09	754,061,734.99

③ Disclosures of other payables by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	3,486,852,580.09	88.53	2,740,818,462.50	87.16
Over 1 year	451,705,597.66	11.47	403,793,310.91	12.84
Total	3,938,558,177.75	100.00	3,144,611,773.41	100.00

④ The Group had no significant other payables with aging over 1 year as on 31 December 2020 and 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)

33. Current portion of non-current liabilities

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note V. 35)	–	15,500,000.00
Lease liabilities due within 1 year (Note V. 36)	236,106,690.45	213,861,467.97
Total	236,106,690.45	229,361,467.97

34. Other Current Liabilities

Item	Closing balance	Opening balance
Pending output VAT	155,979,889.85	606,814,819.73
Total	155,979,889.85	606,814,819.73

35. Long-term Borrowings

(1) Classification of long-term borrowings

Item	Closing balance	Opening balance	Interest rate range
Mortgage borrowings	–	20,000,000.00	–
Credit borrowings	497,550,000.00	–	–
Less: Long-term borrowings due within 1 year (Note V. 33)	–	15,500,000.00	–
Total	497,550,000.00	4,500,000.00	–

Note: as on 31 December 2020, the average annual rate of long-term borrowings is 3.0000% (as on 31 December 2019: 6.6500%).

(2) The Group had no overdue long-term borrowings as on 31 December 2020.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Lease Liabilities

Item	Closing balance	Opening balance
Lease liabilities	797,931,144.73	760,856,022.18
Less: Amount due within 1 year (Note V. 33)	236,106,690.45	213,861,467.97
Total	561,824,454.28	546,994,554.21

37. Long-term Payables

Item	Closing balance	Opening balance
Long-term payables	20,464,502.00	20,464,502.00
Special payables	2,382,270.00	4,764,540.00
Total	22,846,772.00	25,229,042.00

(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	4,764,540.00	-	2,382,270.00	2,382,270.00	Government compensation for relocation due to policies
Total	4,764,540.00	-	2,382,270.00	2,382,270.00	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Long-term Employee Benefits Payable

Item	Closing balance	Opening balance
Post-employment benefits – provision for long service bonus	302,723.26	329,428.98
Total	302,723.26	329,428.98

39. Provisions

Item	Opening balance	Increase	Decrease	Closing balance	Cause
Employee benefits for restructuring of Guangyao General Institute	46,458,609.10	–	1,040,603.53	45,418,005.57	Note (1)
Unemployed fee for relocation of Qi Xing	247,072.03	–	247,072.03		Note (2)
Pending litigation	6,000,000.00	12,000,000.00	–	18,000,000.00	Note (3)
Estimated tax refund	–	40,610,000.00	–	40,610,000.00	Note (4)
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	53,205,872.32	52,610,000.00	1,287,675.56	104,528,196.76	

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) ①、②.
- (4) The Group's subsidiaries have estimated taxes to be refunded.



Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. 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	276,291,385.25	66,897,366.75	111,974.64	16,542,014.61	1,899,269.30	1,111,400.00	2,352,543.71	321,171,549.74	
Including:									
Technology funds granted by the government	81,286,413.93	3,308,960.38	-	12,090,400.85	-	1,111,400.00	2,352,543.71	69,041,029.75	Government funding
Compensation for relocation	1,287,150.25	23,610,523.00	72,997.56	-	1,899,269.30	-	-	22,925,406.39	Government funding
Government subsidies on interests	-	758,500.00	-	632,083.00	-	-	-	126,417.00	Government funding
Special project funds for environmental protection	1,402,159.95	-	-	198,603.28	-	-	-	1,203,556.67	Government funding
Construction funds for innovation platform and laboratory	12,574,794.12	-	-	448,093.09	-	-	-	12,126,701.03	Government funding
Land support funds granted by the government	67,887,619.16	-	-	-	-	-	-	67,887,619.16	Government funding
Support funds for industrial development	95,599,271.82	31,831,383.37	-	1,978,805.76	-	-	-	125,451,849.43	Government funding
Others	16,253,976.02	7,388,000.00	38,977.08	1,194,028.63	-	-	-	22,408,970.31	Government funding
Other government grants related to income	299,545,794.00	630,023,982.72	130,069,576.41	241,026,380.86	87,440,964.85	1,874,377.36	6,255,205.74	462,903,271.50	
Including:									
Technology funds granted by the government	82,516,707.44	47,324,071.79	-	37,864,706.54	37,600.00	1,020,477.36	5,998,256.29	84,919,739.04	Government funding
Medical industrial research project funds	937,320.22	-	-	180,000.00	-	-	-	757,320.22	Government funding
Special fund for innovative enterprises	3,965,756.09	9,242,800.00	-	8,251,756.01	-	853,900.00	-	4,102,900.08	Government funding
Compensation for relocation	199,724,366.11	378,834,347.36	130,069,576.41	-	86,778,041.84	-	-	361,711,095.22	Government funding
Support funds for industrial development	1,600,000.00	173,383,070.99	-	173,383,070.99	-	-	-	1,600,000.00	Government funding
Others	10,801,644.14	21,239,692.58	-	21,346,847.32	625,323.01	-	256,949.45	9,812,216.94	Government funding
Total	575,837,179.25	696,921,349.47	130,181,551.05	257,568,395.47	89,340,234.15	2,985,777.36	8,607,749.45	784,074,821.24	

Note: According to the "Notice of the Guangdong Provincial Department of Finance on Recovering Funds for Some Provincial Science and Technology Plan Projects in Previous Years" (Yuecai Kejiao [2020] No. 47), "Notice of Guangzhou Municipal Finance Bureau on Transferring Funds for Some Provincial Science and Technology Plan Projects in Previous Years" (Sui Caijiao [2020] No. 44), "Notice of the Finance Bureau of Liwan District, Guangzhou City on the Transfer of Funds for Some Provincial Science and Technology Plan Projects in Previous Years" (Li Caiqi [2020] No. 74), Guangzhou Baiyunshan Pharmaceutical Group Co., Ltd. Baiyunshan Pharmaceutical General Factory refunds the amount RMB 8,350.80 thousand of the Provincial Science and Technology Plan Project (Project name: "Special Fund for Introducing Innovative Scientific Research Teams and Leading Talents in 2013", Provincial Finance Bureau issued document number: Yue Cai Jiao [2014] No. 326, Municipal Finance Bureau Issued document number: Yue Cai Jiao [2014] No. 292), this amount shall be refunded before June 5, 2020 and the proof shall be provided.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. 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	3,853,462.71	3,976,557.40
Total	54,078,462.71	54,201,557.40

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.

42. Share capital

	Opening balance	Changes in the current year				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)

43. 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	19,927,135.74	–	836,741,549.75
Including: Capital reserve transferred under previous accounting system	<u>24,955,836.66</u>	<u>–</u>	<u>–</u>	<u>24,955,836.66</u>
Total	<u>9,865,084,049.39</u>	<u>19,927,135.74</u>	<u>–</u>	<u>9,885,011,185.13</u>

Note: In December 2020, the minority shareholders of the Pharmaceutical Company increased the capital of the Pharmaceutical Company, resulting in the dilution of the Company's shareholding in the Pharmaceutical Company from 80% to 72.74%. The Company calculates the difference between the Company's share in the net book assets of the Pharmaceutical Company before the capital increase and the share of the net book assets of the Pharmaceutical Company calculated according to the Company's shareholding ratio after the capital increase, and increases the capital reserve by RMB 19,927 thousand.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Other Comprehensive Income

Item	Opening balance	Current amount before tax	Less: profit or loss transferred from other comprehensive income in previous year	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	(3,486,724.17)	(2,885,545.20)	-	(431,804.65)	(7,517,758.32)	5,064,017.77	(11,004,482.49)
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	(4,934,905.98)	(2,885,545.20)	-	(431,804.65)	(7,517,758.32)	5,064,017.77	(12,452,664.30)
II. Other comprehensive income that may be reclassified into profit or loss	3,347,763.61	(17,692,886.67)	-	(2,110,007.40)	(10,016,779.82)	(6,330,022.21)	(6,669,016.21)
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	3,318,627.04	(9,252,857.06)	-	-	(10,016,779.82)	-	(6,698,152.78)
Change in fair value of investments in other debt instruments	-	(8,440,029.61)	-	(2,110,007.40)	-	(6,330,022.21)	-
Total other comprehensive income	(138,960.56)	(20,578,431.87)	-	(2,541,812.05)	(17,534,538.14)	(1,266,004.44)	(17,673,498.70)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Surplus Reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	1,407,315,563.00	194,061,587.90	-	1,601,377,150.90
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
Total	1,526,241,180.49	194,061,587.90	-	1,720,302,768.39

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.

46. Undistributed profits

Item	Closing balance	Opening balance
Closing balance of undistributed profits of prior year before adjustments	11,167,819,445.53	8,825,776,191.86
Adjustments to opening balance of undistributed profits at the current year (Add: +; Less: -)	-	-
Undistributed profits at the beginning of current year after adjustments	11,167,819,445.53	8,825,776,191.86
Add: Net profit attributable to shareholders of the parent company for the current year	2,915,244,576.05	3,188,884,638.91
Less: Appropriation of statutory surplus reserve	194,061,587.90	157,506,022.86
Appropriation of discretionary surplus reserve	-	-
Ordinary share dividends payable	957,590,868.96	689,335,362.38
Ordinary shares dividends converted to share capital	-	-
Closing balance of undistributed profits	12,931,411,564.72	11,167,819,445.53

Note:

- (1) As on 31 December 2020, surplus reserve of subsidiaries comprised in undistributed profit, attributable to the parent company, was RMB 423,836 thousand (31 December 2019: RMB 360,003 thousand).
- (2) According to the resolution of the 2019 annual general meeting held on 29 June 2020, the Company shall issue cash dividends to all shareholders at RMB 0.589 per share (tax included), RMB 957,591 thousand in total, based on the 1,625,790,949 outstanding shares at the year end of 2019.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Main businesses	61,450,355,469.37	51,176,775,675.08	64,682,984,312.29	52,668,577,481.74
Other businesses	223,346,980.64	56,550,440.16	268,793,329.54	60,664,775.70
Total	61,673,702,450.01	51,233,326,115.24	64,951,777,641.83	52,729,242,257.44

(2) Disclosure by category

Reporting segment	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	10,199,689,721.03	6,510,321,449.89	11,649,901,399.38	7,293,465,916.01
Great Health	7,858,917,249.10	4,096,517,144.40	10,478,863,955.00	5,543,930,007.83
Great Commerce	43,177,116,784.05	40,407,599,065.70	42,388,828,859.77	39,712,291,314.03
Others	214,631,715.19	162,338,015.09	165,390,098.14	118,890,243.87
Total	61,450,355,469.37	51,176,775,675.08	64,682,984,312.29	52,668,577,481.74

(3) Disclosure by primary operating region

Reporting segment	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	47,863,677,175.02	41,445,631,353.81	49,204,612,261.34	42,379,498,223.75
Eastern China Area	4,762,568,994.32	3,131,893,330.73	5,951,592,811.13	3,626,635,190.70
Northern China Area	2,385,185,138.18	1,617,774,013.37	2,596,095,619.64	1,643,583,652.20
Northeast Area	534,272,743.17	426,995,016.39	560,691,170.36	407,219,759.85
Southwest Area	3,937,559,252.51	2,922,092,203.46	4,301,813,416.33	3,004,039,003.04
Northwest Area	1,927,069,638.66	1,595,182,788.52	2,034,419,081.54	1,575,063,633.21
Export	40,022,527.51	37,206,968.80	33,759,951.95	32,538,018.99
Total	61,450,355,469.37	51,176,775,675.08	64,682,984,312.29	52,668,577,481.74



Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Operating Income and Operating Costs (Continued)

- (4) Total sales to the top five customers are RMB 4,829,147 thousand (Jan to December 2019: RMB 4,724,395 thousand), accounting for 7.86% of the Group's primary operating income for the current year. (Jan to December 2019: 7.30%)

Customer	Income	Proportion to total income (%)
Customer 1	1,460,316,201.85	2.38
Customer 2	1,268,792,514.39	2.06
Customer 3	788,162,583.21	1.28
Customer 4	692,844,190.11	1.13
Customer 5	619,031,697.53	1.01
Total	4,829,147,187.09	7.86

- (5) Other business income and other business cost

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Leases of assets	40,023,849.04	13,834,769.59	66,366,340.77	20,732,266.59
Consulting fee	24,128,581.61	8,254,399.53	58,438,253.87	-
License fee for franchise	15,831,442.49	-	40,265,255.98	-
Destruction of goods revenue	101,979.95	-	35,578,935.10	-
E-commerce platform and store service fee	65,112,756.05	368,958.00	-	-
Property management fee	8,900,342.27	6,040,066.59	10,983,123.67	307,061.14
Collection of utility on behalf of others	4,229,937.23	8,751,551.27	9,631,846.20	14,138,582.77
Sales of materials	6,708,487.00	3,467,406.45	6,520,293.58	610,354.04
Technical service income	2,377,629.95	1,497,054.49	3,968,368.12	2,460,402.31
Service income	1,399,113.00	1,847,079.45	3,306,300.32	4,963,371.28
Trademark fee income	2,046,547.23	-	1,980,306.02	-
Income from franchise store management fee	32,201,004.25	5,491,595.67	1,569,753.03	-
Others	20,285,310.57	6,997,559.12	30,184,552.88	17,452,737.57
Total	223,346,980.64	56,550,440.16	268,793,329.54	60,664,775.70

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Taxes and Surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	111,766,726.84	126,426,496.97
Education surcharge	48,276,310.31	54,483,662.32
Local education surcharge	32,156,509.35	36,295,556.83
House property tax	22,981,757.98	31,184,832.19
Vehicle and vessel use tax	181,368.77	177,779.49
Stamp duty	36,275,845.84	41,980,265.83
Land use tax	5,736,268.38	6,650,274.41
Others	218,543.03	888,303.21
Total	257,593,330.50	298,087,171.25

Note: Please refer to Note IV. Taxes for basic rates of the above taxes and surcharges.

49. Selling and distribution expenses

Item	Current year	Prior year
Employee benefits	2,493,384,661.33	2,677,008,492.38
Advertising and promotion fees	690,742,888.44	1,327,090,817.04
Sales and service fees	562,057,360.43	832,549,327.41
Depreciation expenses	223,537,807.70	182,950,824.95
Freight and miscellaneous charges	141,772,944.17	174,421,904.85
Traveling expenses	123,362,297.40	162,389,099.98
Conference expenses	76,456,810.33	92,093,157.37
Office expenses	42,060,143.25	52,241,434.75
Rental expenses	29,669,793.84	32,080,346.76
Consulting fees	5,887,509.89	15,910,416.63
Others	187,063,351.46	188,057,967.31
Total	4,575,995,568.24	5,736,793,789.43

Note: According to the "Accounting Standards for Business Enterprises No. 14-Revenue" revised by the Ministry of Finance and the supplementary "Revenue Standard Cases-Transportation Services", the transportation and miscellaneous expenses that meet the performance costs of this year and the previous year are included in the operating costs.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. General and administrative expenses

Item	Current year	Prior year
Employee benefits	1,200,350,427.11	1,227,244,003.48
Employee benefits	145,635,148.48	141,854,286.41
Amortization	94,505,775.01	85,625,928.94
Office expenses	67,595,428.42	70,788,472.96
Repairing expenses	38,701,019.93	40,341,258.95
Agency fees	24,374,392.29	17,658,015.25
Including: auditing fee	2,423,584.91	2,518,867.92
Trademark license fees	23,148,667.42	118,176,518.02
Utilities	19,273,993.66	20,550,541.14
Consulting	17,290,359.57	17,673,127.85
Traveling expenses	16,809,957.85	28,770,480.18
Freight and miscellaneous charges	14,495,774.94	16,267,666.80
Insurance premium	4,824,411.69	4,734,638.70
Conference expenses	5,454,233.28	10,629,827.13
Rental expenses	4,241,324.96	11,281,183.00
Others	167,722,753.23	167,274,533.57
Total	1,844,423,667.84	1,978,870,482.38

51. Research and development expenditures

Item	Current year	Prior year
Employee benefits	263,616,699.00	242,387,185.53
Raw materials	95,495,777.06	81,753,100.55
Special research and development	60,941,013.36	89,104,548.01
Trial production expenses	52,896,505.14	39,264,045.04
Depreciation expenses	29,512,388.52	29,550,673.18
Clinical trial expenses	11,788,373.12	4,802,996.42
Technique research expenses	10,221,909.27	23,562,947.30
Amortization cost	5,363,129.27	4,763,338.61
Others	82,099,134.68	61,322,188.59
Total	611,934,929.42	576,511,023.23

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52. Financial expenses

Item	Current year	Prior year
Interest expenses	296,607,388.31	339,474,858.32
Interest expenses of notes	26,931,895.22	19,426,189.97
Interest income	(373,868,381.65)	(303,216,899.66)
Exchange gains/(losses)	(2,099,614.08)	3,314,615.72
Service change of finance institutions	16,210,259.59	15,737,457.17
Cash discount	(1,505,483.16)	4,178,194.10
Interest expenses related to lease	39,804,395.45	34,749,257.59
Others	3,071,469.99	3,453,655.31
Total	5,151,929.67	117,117,328.52

53. Other Income

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year	Asset related/income related
Technology funds granted by the government	13,714,100.85	17,325,111.44	13,714,100.85	Asset related
Government discount	1,794,674.59	-	1,794,674.59	Asset related
Special project fund for environmental protection	198,603.28	415,308.67	198,603.28	Asset related
Construction funds for innovation platform and laboratory	448,093.09	594,965.78	448,093.09	Asset related
Support funds for industrial development	1,978,805.76	965,586.12	1,978,805.76	Asset related
Others	1,236,607.43	1,395,907.81	1,236,607.43	Asset related
Subtotal	<u>19,370,885.00</u>	<u>20,696,879.82</u>	<u>19,370,885.00</u>	
Technology funds granted by the government	51,449,841.94	40,928,762.36	51,449,841.94	Income related
Special fund for Technology export	-	2,458,136.12	-	Income related
Medical industrial research project funds	180,000.00	327,711.77	180,000.00	Income related
Special fund for innovative enterprises	9,902,356.01	5,232,074.49	9,902,356.01	Income related
Support funds for industrial development	173,683,070.99	322,109,068.49	173,683,070.99	Income related
Others	73,399,284.17	38,267,256.03	73,399,284.17	Income related
Subtotal	<u>308,614,553.11</u>	<u>409,323,009.26</u>	<u>308,614,553.11</u>	
Total	<u>327,985,438.11</u>	<u>430,019,889.08</u>	<u>327,985,438.11</u>	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Investment Income

Item	Current year	Prior year
Long-term equity investment income under equity method	355,657,716.27	144,486,150.48
Investment income from disposal of long-term equity investment	(3,890,970.64)	–
Investment income during the holding year of other non-current financial assets	27,746,164.93	19,874,391.11
Investment income during the holding year of other equity instrument investments	7,670,000.00	11,014,510.00
Investment income from disposal of available-for-sale financial assets	–	7,286,631.84
Interest income from finance products and structured deposits	7,203,605.95	29,270,707.52
Others	(50,215,537.05)	(13,473,408.71)
Total	344,170,979.46	198,458,982.24

55. Gains from changes in fair value

Sources of gains from change in fair value	Current year	Prior year
Other non-current financial assets	(8,469,244.97)	31,623,136.01
Total	(8,469,244.97)	31,623,136.01

56. Impairment Losses in respect of credit

Item	Current year	Prior year
Loss on bad debts of notes receivable	(3,142,551.51)	(1,176,997.42)
Loss on bad debts of accounts receivable	(100,124,870.86)	(103,420,213.73)
Loss on bad debts of receivables financing	(7,669,636.89)	–
Loss on bad debts of other receivables	(4,614,912.28)	(5,436,566.70)
Total	(115,551,971.54)	(110,033,777.85)

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57. Impairment loss in respect of assets

Item	Current year	Prior year
Loss on decline in value of inventories	(23,949,972.06)	(11,507,400.14)
Fixed asset impairment loss	–	21,996.28
Total	(23,949,972.06)	(11,485,403.86)

58. Gains from disposal of assets

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year
Gains on damaging and scrapping of non-current assets	2,954,109.08	1,274,043.27	2,954,109.08
Including: gains from disposal of fixed assets	39,412.99	1,101,424.84	39,412.99
Gains from disposal of intangible assets	2,271,312.97	19,304.78	2,271,312.97
Gains from disposal of right-of-use assets	643,383.12	153,313.65	643,383.12
Total	2,954,109.08	1,274,043.27	2,954,109.08

59. 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 year
Proceed from damage and scrapping of non-current assets	132,638.49	636,707.72	132,638.49
Government grant	132,077,223.67	52,209,823.46	132,077,223.67
Penalty income	436,416.35	767,268.62	436,416.35
Income from sale of scrap	3,686,243.05	4,496,355.94	3,686,243.05
Debt forgiveness	2,372,963.49	8,963,389.00	2,372,963.49
Compensation income	8,759,365.48	30,012,230.48	8,759,365.48
Remuneration of expatriates	708,269.12	1,817,509.48	708,269.12
Others	9,442,776.79	10,276,544.79	9,442,776.79
Total	157,615,896.44	109,179,829.49	157,615,896.44

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

59. Non-operating income (Continued)

(2) Government grant included in non-operating income

Item	Current year	Prior year	Asset related/income related
Demolition compensation	72,997.56	72,997.56	Asset related
Others	38,977.08	3,512,419.96	Asset related
Subtotal	111,974.64	3,585,417.52	
Demolition compensation	130,878,419.09	39,463,418.80	Income related
Others	1,086,829.94	9,160,987.14	Income related
Subtotal	131,965,249.03	48,624,405.94	
Total	132,077,223.67	52,209,823.46	

60. Non-operating expenses

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year
Losses on damage and scrapping of non-current assets	3,017,835.56	3,072,297.02	3,017,835.56
Public welfare donation expenditure	23,061,313.79	11,894,269.87	23,061,313.79
Penalty and overdue fines	463,784.86	1,017,465.05	463,784.86
Reward of family planning	293,188.35	624,820.83	293,188.35
Inventory Loss	8,230.33	3,453,437.44	8,230.33
Withdrawal based on judgment	12,015,000.00	6,000,055.41	12,015,000.00
Return the compensation received	-	5,674,307.49	-
Abnormal loss	8,430,669.30	-	8,430,669.30
Others	43,660,409.14	3,922,162.24	43,660,409.14
Total	90,950,431.33	35,658,815.35	90,950,431.33

61. Income Tax Expenses

(1) Income tax expenses details

Item	Current year	Prior year
Current tax expenses	784,384,090.73	695,509,097.36
Deferred tax expenses	(136,930,217.90)	(8,262,822.98)
Total	647,453,872.83	687,246,274.38

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Income Tax Expenses (Continued)

(2) Adjustment processes of accounting profit and income tax expenses

Item	Current year
Total profit	3,739,081,712.29
Income tax expenses calculated at statutory/applicable rates	560,862,256.83
Tax effect of different rates applicable to subsidiaries	91,602,092.57
Adjustment effect of income tax of prior year	10,321,389.84
Tax effect of non-taxable income	(54,235,710.72)
Tax effect of costs, expenses and losses not deductible for tax purposes	43,257,953.22
Tax effect of use of deductible loss of previously unrecognized DTA	(2,553,838.25)
Tax effect of deductible temporary differences or deductible loss of unrecognized DTA in the current year	54,833,600.99
Tax effect of R&D expenditure deduction	(56,633,871.65)
Tax rate adjustment leads to the change of deferred income tax asset/liability balance at the beginning of the year	-
Income tax expenses	647,453,872.83

62. Other comprehensive income

Please refer to Note V. 44.

63. Earnings per share (EPS)

(1) Basic EPS

① Weighted average basic EPS

	For the twelve months ended 31 December 2020	For the twelve months ended 31 December 2019
Net consolidated profit attributable to ordinary shareholders of the parent company	2,915,244,576.05	3,188,884,638.91
The number of weighted average outstanding ordinary shares at the year end	1,625,790,949	1,625,790,949
Weighted average basic EPS	1.793	1.961

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63. Earnings per share (EPS) (Continued)

(1) Basic EPS (Continued)

② EPS based on the number of shares as at the year end

	For the twelve months ended 31 December 2020	For the twelve months ended 31 December 2019
Net consolidated profit attributable to ordinary shareholders of the parent company	2,915,244,576.05	3,188,884,638.91
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 year end	<u>1.793</u>	<u>1.961</u>

(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 year from January to December 2020, the Company had no dilutive potential ordinary share (for January to December of year 2019: NIL). The diluted EPS is equal to basic EPS.

64. 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	769,234,064.73	640,451,555.86
Interest income	373,868,381.65	303,216,899.66
Other operating income	223,346,980.64	268,793,329.54
Non-operating income	24,509,706.11	56,226,526.87
Deposit received and other items	737,348,654.38	45,618,104.15
Total	<u>2,128,307,787.51</u>	<u>1,314,306,416.08</u>
Cash paid for other operating activities		
Cash paid for selling and distribution expenses	3,201,227,758.26	4,518,858,437.24
Cash paid for general and administrative expenses	723,044,033.69	282,410,946.72
Financial expenses—bank charges	16,210,259.59	19,682,682.46
Others	305,826,862.74	153,268,036.04
Total	<u>4,246,308,914.28</u>	<u>4,974,220,102.46</u>

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

64. Items in the Cash Flow Statement (Continued)

(2) Cash received from or paid to other investing activities

Item	Current year	Prior year
Cash received from other investing activities		
Interest received	36,487.70	45,408.50
Other	64,676.13	—
Total	101,163.83	45,408.50
Cash paid for other investing activities		
The balance of book currency funds when the subsidiary is no longer included in the scope of consolidation	34,745,591.46	—
Total	34,745,591.46	—

(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	2,918,786,199.38	2,323,388,828.59
Total	2,918,786,199.38	2,323,388,828.59
Cash paid to other financing activities		
Deposit for notes paid	2,793,808,570.76	2,754,146,331.50
Lease payment	278,103,712.87	252,717,340.47
Other	2,624,788.11	—
Total	3,074,537,071.74	3,006,863,671.97

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

65. 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	3,091,627,839.46	3,441,287,198.23
Add: Provision for assets impairment	23,949,972.06	11,485,403.86
Impairment loss in respect of credit	115,551,971.54	110,033,777.85
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets	326,194,531.64	323,192,900.91
Depreciation of right-of-use assets	255,265,180.63	211,388,044.33
Amortization of intangible assets	62,737,295.31	57,311,215.67
Amortization of long-term prepaid expenses	35,353,507.03	33,890,907.49
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" refers to income)	(2,954,109.08)	(1,274,043.27)
Losses on scrapping of fixed assets ("-" refers to income)	2,885,197.07	2,435,589.30
Loss on changes in fair value ("-" refers to income)	8,469,244.97	(31,623,136.01)
Financial expenses ("-" refers to income)	336,411,783.76	370,278,890.62
Investment losses ("-" refers to income)	(344,170,979.46)	(198,458,982.24)
Decrease in deferred tax assets ("-" refers to income)	(156,730,211.08)	(25,847,332.51)
Increase in deferred tax liabilities ("-" refers to income)	19,450,322.98	17,146,522.92
Decrease in inventories ("-" refers to income)	(265,442,697.42)	(221,361,482.57)
Decrease of operating receivables ("-" refers to income)	(572,165,282.57)	(1,868,309,338.83)
Increase of operating payables ("-" refers to income)	(2,351,248,543.75)	2,790,790,746.59
Others ("-" refers to income)	-	-
Net cash flow from operating activities	585,185,023.09	5,022,366,882.34
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	1,729,825,100.39	2,295,606,613.96
3. Net changes in cash and cash equivalents		
Cash at the end of year	17,765,132,774.10	16,833,622,508.23
Less: Cash at the beginning of year	16,833,622,508.23	15,071,612,198.38
Add: Cash equivalents at the end of the year	-	-
Less: Cash equivalents at the beginning of the year	-	-
Net increase in cash and cash equivalents	931,510,265.87	1,762,010,309.85

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

65. 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	17,765,132,774.10	16,833,622,508.23
Including: Cash on hand	814,579.91	883,955.59
Bank deposits that are readily available for payment	17,738,141,398.59	16,829,618,823.88
Other cash that are readily available for payment	26,176,795.60	3,119,728.76
II. Cash equivalents	–	–
Including: Debt investment maturing within three months	–	–
III. Closing balance of cash and cash equivalents	17,765,132,774.10	16,833,622,508.23
Including: Cash and cash equivalents in the parent or 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)

66. Assets with Restriction on Ownership or Use Right

Item	Closing balance of book value	Reason for restriction
Cash at bank and on hand	1,705,143 thousand	The Group's deposit of notes payable is RMB 1,137,189 thousand, term deposit of RMB 445,000 thousand, guarantee deposit of RMB 9,164 thousand, frozen account funds of RMB 64,530 thousand, L/C deposit of RMB 42,298 thousand, housing fund is RMB 925 thousand, others RMB 37 thousand.
Accounts receivable	898,489 thousand	The Group's short-term borrowings of RMB 898,489 thousand is derived from accounts receivable as pledge or factoring.
Notes receivable	343,074 thousand	The Group's notes receivable pledged is RMB 17,210 thousand. Notes receivable endorsed but not yet due is RMB 324,664 thousand. Notes receivable discounted but not yet due is RMB 1,200 thousand.
Fixed assets	5,147 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 6,116 thousand(Converted to RMB 5,147 thousand), the original value of the investment properties of HKD 6,843 thousand, the net value of HKD 4,622 thousand(Converted to RMB 3,891 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 259 thousand, USD 371 thousand from the Bank of China (Hong Kong) co., Ltd.
Investment properties	3,891 thousand	
Total	<u>2,955,744 thousand</u>	

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

67. 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	11,192,299.63	6.5249	73,028,635.88
HKD	19,587,022.65	0.8416	16,485,221.74
AUD	28,145.46	5.0163	141,186.07
JPY	33.00	0.0632	2.09
Accounts receivable			
Including: USD	123.89	6.5249	808.37
HKD	14,495,591.44	0.8416	12,200,069.58
Other receivables			
Including: USD	75,000.00	6.5249	489,367.50
HKD	598,021.24	0.8416	503,318.60
Accounts payable			
Including: USD	1,975,969.34	6.5249	12,893,002.35
EUR	41,800.00	8.0250	335,445.00
HKD	28,609,492.83	0.8416	24,078,893.55
AUD	59,396.00	5.0163	297,948.15
JPY	10,857,000.00	0.0632	686,553.25
Shor-term borrowings			
Including: HKD	40,420,993.52	0.8416	34,019,924.99
Other payables			
Including: HKD	3,808,232.61	0.8416	3,205,160.89

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Business combination not under the common control during the year

Nil

2. Business combination under the common control during the year

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 6 companies and decrease of 5 company in scope of consolidation comparing to the prior year are as follows:

- (1) In January of this year, Guangyao Qihua Medical Equipment Co., Ltd., an indirect holding company of the Company, cancelled its holding subsidiary Guangzhou Wankang Orthopedic Medical Equipment Co., Ltd..
- (2) In February of this year, Medical Instrument Investment Company, a wholly-owned subsidiary of the Company, established Guangzhou Baiyunshan Yihu Health Technology Co., Ltd. with a registered capital of RMB 5 million, of which the capital contribution actually paid by Medical Equipment Investment Company accounts for 60% of the registered capital.
- (3) In March of this year, Guangzhou Hanfang, a wholly-owned subsidiary of the Company, established Guangyao Hanfang (Zhuhai Hengqin) Pharmaceutical Co., Ltd., and injected capital to the Company in July with a registered capital was RMB 2,000 thousand, of which Guangzhou Hanfang's actual capital contribution accounts for 100% of the registered capital.
- (4) In April of this year, WLJ Great Health, a wholly-owned subsidiary of the Company, established Guizhou Wanglaoji Ci Ningji Industry Development Co., Ltd. with a registered capital of RMB 1 million, of which the capital contribution actually paid 100% by WLJ Great Health.
- (5) In June of this year, Guangzhou Pharmaceutical Pharmacy Co., Ltd., an indirect holding company of the Company, cancelled its holding subsidiary Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.
- (6) In August of this year, Guangzhou Baiyunshan Yihu Health Technology Co., Ltd., an indirect holding company of the Company, established Guangzhou Baiyunshan Health Care Medical Products Co., Ltd., with a registered capital of RMB 2,000 thousand, of which Guangzhou Baiyunshan Yihu Health Technology Co., Ltd.'s paid-in capital contribution accounts for 51% of the registered capital.
- (7) In August of this year, the Company's subsidiary Pharmaceutical Company disposed of its holding subsidiary Hubei Guangyao Jida Pharmaceutical Co., Ltd.
- (8) In September of this year, the Company established Guangzhou Baiyunshan International Pharmaceutical and Health Industry Co., Ltd. With a registered capital RMB 500,000 thousand, and the Company's subscribed capital accounts for 100% of the registered capital.
- (9) In October of this year, the Company established Guangzhou Baiyunshan Huacheng Technology Co., Ltd. The registered capital of this company is RMB 70,000 thousand, and the capital contribution subscribed by the Company accounts for 100% of the registered capital.
- (10) In October of this year, Caizhilin Pharmaceutical, a wholly-owned subsidiary of the Company, cancelled its holding subsidiary Jingyu Guangyao Dong'e Chinese Medicinal Materials Development Co., Ltd.
- (11) In December of this year, the Company's wholly-owned subsidiary Wanglaoji Great Health Company cancelled its holding subsidiary Guangzhou Wanglaoji Industry Co., Ltd.

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

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
Guangyao Hanfang (Zhuhai Hengqin) Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical manufacturing	2,000.00	–	100	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
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	96.09	–	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 Wang Lao Ji (Bijie) Industry Co., Ltd.	Bijie	Bijie	Wholesale and retail	1,000.00	–	96.09	Establishment or Investment
GP Corp.	Guangzhou	Guangzhou	Pharmaceutical trading	2,449,305.50	72.74	–	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	86,000.00	–	72.74	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 Jian Min Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	8,000.00	–	72.74	Business combination not under common control
Guangyao Qi Hua Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	44,880.00	–	72.74	Business combination not under common control
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Fuzhou	Fuzhou	Pharmaceutical trading	30,100.00	–	37.82	Business combination not under common control
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	60,00.00	–	37.10	Business combination not under common control
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	552,000.00	–	72.74	Business combination not under common control
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	123,000.00	–	72.74	Business combination not under common control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	13,500.00	–	72.74	Business combination not under common control
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Shenzhen	Shenzhen	Pharmaceutical trading	90,000.00	–	72.74	Business combination not under common control
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Changsha	Changsha	Pharmaceutical trading	85,000.00	–	72.74	Business combination not under common control
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	3,000.00	–	72.74	Business combination not under common control
Hainan Guangyao Chenfei Pharmacy Chain Co., Ltd.	Haikou	Haikou	Wholesale and retail	20,000.00		72.74	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	
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Xi'an	Xi'an	Pharmaceutical trading	87,500.00	-	72.74	Business combination not under common control
Guangdong Meixian Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	14,000.00	-	72.74	Business combination not under common control
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Jiangmen	Jiangmen	Pharmaceutical trading	80,000.00	-	72.74	Business combination not under common control
Guangyao Sichuan Pharmaceutical Co., Ltd.	Chengdu	Chengdu	Pharmaceutical trading	50,000.00	-	72.74	Business combination not under common control
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Nanning	Nanning	Pharmaceutical trading	50,000.00	-	50.92	Business combination not under common control
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	5,000.00	-	72.74	Business combination not under common control
Jian Min International Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	HKD300.00	-	72.74	Business combination not under common control
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	13,210.00	-	72.74	Business combination not under common control
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	5,700.00	-	72.74	Business combination not under common control
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	60,000.00	-	72.74	Business combination not under common control
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Guangzhou	Guangzhou	Service	60,000.00	-	72.74	Establishment or Investment
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Zhongshan	Zhongshan	Pharmaceutical trading	6,000.00	-	72.74	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 (Qingyuan) Pharmaceutical Co., Ltd.	Qingyuan	Qingyuan	Wholesale and retail	7,000.00	–	72.74	Establishment or Investment
Qingyuan Guangyao Zheng Kang Pharmaceutical Co., Ltd.	Qingyuan	Qingyuan	Wholesale and retail	6,450.00	–	72.74	Establishment or Investment
Guangyao (Zhuhai Hengqin) Pharmaceutical Import & Export Co., Ltd.	Zhuhai	Zhuhai	Wholesale and retail	8,000.00	–	72.74	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	2,940.00	–	72.74	Establishment or Investment
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,680.00	–	72.74	Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	32,202.00	100.00	–	Establishment or Investment
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
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	–	100.00	Establishment or Investment
Guangzhou Cai Zhi Lin National Medical Museum Co., Ltd.	Guangzhou	Guangzhou	Health and social work	10,000.00	–	51.00	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.	Linzhi	Linzhi	Pharmaceutical trading	2,000.00	–	54.82	Establishment or Investment
WLJ Great Health	Guangzhou	Guangzhou	Food manufacturing	900,000.00	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 (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
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
Guizhou Wang Lao Ji Ci Ningji Industry Dev. Co., Ltd	Qiannan	Qiannan	Commercial services	1,000.00	-	100.00	Establishment or Investment
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	Technical Service Industry	800.00	-	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	
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,285.00	84.48	–	Business combination under common control
Guang Hua Health	Guangzhou	Guangzhou	Food 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
Guangyao International (Zhuhai Hengqin) Chinese Medicine Industry Co., Ltd.	Zhuhai	Zhuhai	Wholesale and retail	100,000.00	–	100.00	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.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	100,000.00	–	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

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	
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
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 Yihu Health Technology	Guangzhou	Guangzhou	Commercial services	5,000.00	–	60.00	Establishment or Investment
Guangzhou Baiyunshan Health Care Medical Products Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,000.00	–	51.00	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	Leasing and commercial services	10,000.00	100.00	–	Establishment or Investment
Guangyao (Zhuhai Hengqin) Pharmaceutical Industry Park Co., Ltd.	Zhuhai	Zhuhai	Leasing and commercial services	9,000.00	100.00	–	Establishment or Investment
Guangzhou Baiyunshan International Pharmaceutical and Health Industry Co., Ltd.	Guangzhou	Guangzhou	Commercial services	500,000.00	100.00	–	Establishment or Investment
Guangzhou Baiyunshan Hua Cheng Technology Co., Ltd.	Guangzhou	Guangzhou	Wholesale	70,000.00	100.00	–	Establishment or Investment

Note: In this year, the holding subsidiary of the group "Guangzhou Pharmaceutical Co., Ltd." was renamed "Guangzhou Pharmaceutical Holdings Co., Ltd.", and "Guangzhou Qihua Medical Equipment Co., Ltd." was renamed "Guangyao Qihua Medical Equipment Co., Ltd." "Shanxi Guangyao Kangjian Pharmaceutical Co., Ltd." was renamed "Guangyao Shanxi Pharmaceutical Co., Ltd.", "Guangzhou Caizhilin Pharmaceutical Chain Store" was renamed "Guangzhou Caizhilin Pharmaceutical Chain Co., Ltd."

② Significant non-wholly owned subsidiaries

Subsidiary	Shareholding of minority shareholders (%)	Profit or loss attributable to minority shareholders in the current year	Dividend paid to minority shareholders in the current year	Closing balance of minority shareholders' equity
GP Corp.	27.26	265,261,279.14	–	1,494,844,012.53

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.	24,277,456,470.22	2,137,048,078.42	26,414,504,548.64	20,659,476,369.61	468,976,719.16	21,126,453,088.77

Subsidiary	Current assets	Non-current assets	Opening 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

Subsidiary	Operating income	Current year		Operating cash flows
		Net profit	Total comprehensive income	
GP Corp.	42,663,817,872.97	379,194,832.72	372,864,810.51	374,276,391.77

Subsidiary	Operating income	Previous year		Operating cash flows
		Net profit	Total comprehensive income	
GP Corp.	41,130,000,349.61	339,780,124.98	339,306,928.73	520,743,360.21

Notes to the Financial Statements

(Unless otherwise stated, amount shall be expressed in RMB.)

VII. EQUITY IN OTHER ENTITIES (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	656,044,705.41	432,357,047.91
Calculated by rate of interests held:		
– Net profit	291,694,516.81	99,797,151.45
– Total comprehensive income	291,694,516.81	99,797,151.45
Associates		
Total book balance of investments	1,209,821,466.19	1,166,668,144.51
Calculated by rate of interests held:		
– Net profit	60,663,236.54	46,296,167.83
– Other comprehensive income	–	–
– Total comprehensive income	60,663,236.54	46,296,167.83

- 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 no 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 2020, 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	89,655,045.78	75,150,547.24
Accounts receivable	12,200,877.95	23,637,384.85
Other receivables	992,686.10	3,369,763.67
Total financial assets in foreign currency	102,848,609.82	102,157,695.76
Short-term borrowings	34,019,924.99	42,173,211.38
Accounts payable	38,291,842.30	32,457,153.90
Other payables	3,205,160.89	2,962,797.98
Total financial liabilities in foreign currency	75,516,928.18	77,593,163.26

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.

As on 31 December 2020, for all types of financial assets and financial liabilities of the Group in foreign currency, if the RMB appreciates or depreciates against the foreign currency by 10% and other factors remain unchanged, the Group's net profit will increase or decrease by approximately RMB 2,050 thousand (As on 31 December 2019: approximately RMB 1,842 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 2020, the Group's long-term interest-bearing debt balance was RMB 497,550 thousand. If the annual interest rate decreased by 50 basis points and other factors remained unchanged, the Group's net profit will decrease by RMB 3,488 thousand (As on 31 December 2019: RMB 150 thousand).

(3) Other price risks

The equity investments in listed companies held by the Company are as below:

Item	Closing Balance	Opening Balance
Other equity instruments investments	–	–
Other non-current financial assets	<u>165,821,377.99</u>	<u>174,290,622.96</u>
Total	<u>165,821,377.99</u>	<u>174,290,622.96</u>

As on 31 December 2020, 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 RMB 16,582 thousand (As on 31 December 2019: net profit will increase or decrease by RMB 17,429 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

The subsidiaries of the Group are responsible for their own cash flow forecasts to ensure that they maintain sufficient cash reserves and marketable securities that can be realized at any time 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:

Item	Closing 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	19,470,276,224.53	-	-	-	-	19,470,276,224.53
Notes receivable	1,134,815,993.39	-	-	-	-	1,134,815,993.39
Accounts receivable	12,389,655,576.61	-	-	-	-	12,389,655,576.61
Accounts receivable financing	2,164,978,925.29	-	-	-	-	2,164,978,925.29
Other receivables	765,711,481.37	-	-	-	-	765,711,481.37
Subtotal	<u>35,925,438,201.19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,925,438,201.19</u>
Financial liabilities:						
Short-term borrowings	8,265,729,653.03	-	-	-	-	8,265,729,653.03
Current portion of non-current liabilities	236,106,690.45	-	-	-	-	236,106,690.45
Notes payable	3,284,549,237.79	-	-	-	-	3,284,549,237.79
Accounts payable	10,874,808,379.60	-	-	-	-	10,874,808,379.60
Lease liability	-	191,983,432.70	199,169,238.85	170,671,782.73	-	561,824,454.28
Other payables	4,013,915,065.13	-	-	-	-	4,013,915,065.13
Long-term payables	-	-	-	22,846,772.00	-	22,846,772.00
Subtotal	<u>26,675,109,026.00</u>	<u>191,983,432.70</u>	<u>199,169,238.85</u>	<u>193,518,554.73</u>	<u>-</u>	<u>27,259,780,252.28</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 (Continued)

Item	Within 1 year	1-2 years	Opening balance		No fixed maturity date	Total
			2-5 years	Over 5 years		
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
Lease liability	-	178,165,204.97	208,233,296.84	160,596,052.40	-	546,994,554.21
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>178,165,204.97</u>	<u>208,233,296.84</u>	<u>185,825,094.40</u>	<u>-</u>	<u>23,579,357,508.67</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	-	-	4,000,000.00	4,000,000.00
2. Financial assets designated at FVTPL	-	-	-	-
B. Other debt investments	-	-	-	-
C. Other equity instrument investments				
(1) Equity instrument investments	-	-	116,367,414.84	116,367,414.84
D. Other non-current financial assets				
(1) Equity instrument investments	165,821,377.99	-	84,179,296.14	250,000,674.13
(2) Others	-	-	13,527,393.73	13,527,393.73
E. Investment properties	-	-	-	-
F. Biological assets	-	-	-	-
Total assets continuously measured at fair value	<u>165,821,377.99</u>	<u>-</u>	<u>218,074,104.71</u>	<u>383,895,482.70</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 year.

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
Financial assets held for trading	4,000,000.00	Cost method	Lack of liquidity	-
Equity instrument investment	116,367,414.84	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity
Other non-current financial assets	97,706,689.87	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	Increase in this year	Decrease in this year	Transferred to the third hierarchy	Transferred from the third hierarchy	Total amount of profit or loss for the current year		Closing balance	Gains and losses recognized through profit or loss at the year end of assets held at the year end
						Recognized in profit or loss	Recognized in other comprehensive income		
Financial assets held for trading	-	4,000,000.00	-	-	-	-	-	4,000,000.00	-
Other equity instrument investments	81,977,960.04	37,275,000.00	-	-	-	-	(2,885,545.20)	116,367,414.84	-
Other non-current financial assets	229,473,601.21	13,527,393.73	4,000,000.00	-	135,160,116.00	(6,134,189.07)	-	97,706,689.87	-

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
HWBYS	Joint venture
Baxter Qiao Guang	Joint venture
Nuo Cheng	Joint venture
Baiyunshan Yi Xin Tang	Associates
Yunnan Yi Xin Tang	Associates
Chuangmei Medicines	Associates
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd. (hereinafter referred to as "Southern Anti-tumor Biological")	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 Baiyunshan 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:							
HWBYS	Purchase of goods	Medicinal material or medicine	Market price	232,715,250.95	0.45	186,691,863.95	0.30
Baxter Qiao Guang	Purchase of goods	Medicinal material or medicine	Market price	60,091,806.12	0.12	36,877,986.23	0.06
Chuang Mei	Purchase of goods	Medicinal material or medicine	Market price	31,835,385.77	0.06	26,668,554.47	0.04
Hua Cheng	Purchase of goods	Medicinal material or medicine	Market price	18,196,415.58	0.04	10,962,599.79	0.02
Baiyunshan Yi Xin Tang	Purchase of goods	Medicinal material or medicine	Market price	7,675.59	0.00	-	-
Yunnan Yi Xin Tang	Purchase of goods	Medicinal material or medicine	Market price	-	-	(5,362.18)	0.00
Subtotal				<u>342,846,534.01</u>	<u>-</u>	<u>261,195,642.26</u>	<u>-</u>
Receiving of services:							
HWBYS	Acceptance of service	Publicity fee	Market price	11,933,487.07	1.73	21,754,857.41	1.64
Yunnan Yi Xin Tang	Acceptance of service	Publicity fee	Market price	897,996.23	0.13	-	-
Subtotal				<u>12,831,483.30</u>	<u>-</u>	<u>21,754,857.41</u>	<u>-</u>
Total				<u>355,678,017.31</u>	<u>-</u>	<u>282,950,499.67</u>	<u>-</u>
Sales of good:							
Southern Anti-tumor Biological	Sales of good	Medicinal material or medicine	Market price	8,405.31	0.00	-	-
GPHL	Sales of good	Medicinal material or medicine	Market price	201,292.04	0.00	-	-
HWBYS	Sales of good	Medicinal material or medicine	Market price	195,953,801.67	0.32	166,330,387.49	0.26
Nuo Cheng	Sales of good	Medicinal material or medicine	Market price	43,773.44	0.00	56,324.31	0.00
Baxter Qiao Guang	Sales of good	Medicinal material or medicine	Market price	2,156,915.34	0.00	8,169,557.15	0.01
Chuang Mei	Sales of good	Medicinal material or medicine	Market price	558,789,479.66	0.91	444,589,522.29	0.69
Hua Cheng	Sales of good	Medicinal material or medicine	Market price	79,795,293.53	0.13	112,698,920.72	0.17
Baiyunshan Yi Xin Tang	Sales of good	Medicinal material or medicine	Market price	31,728,479.83	0.05	6,359,076.28	0.01
Yunnan Yi Xin Tang	Sales of good	Medicinal material or medicine	Market price	85,635,383.10	0.14	75,140,176.39	0.12
Subtotal				<u>954,312,823.92</u>	<u>-</u>	<u>813,343,964.63</u>	<u>-</u>
GPHL	Rendering of services	Advertising agency service	Market price	1,408,462.72	2.28	951,315.76	1.89

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)
HWBYS	Rendering of services	Advertising agency service	Market price	41,036,504.39	66.47	36,911,851.96	73.41
Baxter Qiao Guang	Rendering of services	Advertising agency service	Market price	40,881.13	0.07	35,973.59	0.07
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	15,434,688.58	25.00	8,924,519.56	17.75
Baiyunshan Yi Xin Tang	Rendering of services	Advertising agency service	Market price	-	-	-	-
Subtotal				57,920,536.82	-	46,843,910.87	-
HWBYS	Rendering of services	Consigned processing	Market price	5,690,575.89	3.22	2,765,338.60	1.82
Hua Cheng	Rendering of services	Consigned processing	Market price	20,491,861.82	11.58	25,037,726.83	16.51
Yunnan Yi Xin Tang	Rendering of services	Consigned processing	Market price	-	-	531,711.10	0.35
Subtotal				26,182,437.71	-	28,334,776.53	-
HWBYS	Collecting trademark fee	Right to use trademark	Market price	945,941.87	46.22	1,055,878.12	73.42
Hua Cheng	Collecting trademark fee	Right to use trademark	Market price	342,372.70	16.73	382,269.43	26.58
Subtotal				1,288,314.57	-	1,438,147.55	-
HWBYS	Rendering of services	Research and development services	Market price	29,716.98	0.25	-	-
Hua Cheng	Rendering of services	Research and development services	Market price	339,622.64	2.85	-	-
Subtotal				369,339.62	-	-	-
GPHL	Rendering of services	Other	Market price	28,612.00	0.00	-	-
HWBYS	Rendering of services	Other	Market price	636,880.81	0.00	-	-
Nuo Cheng	Rendering of services	Other	Market price	1,176,086.26	0.00	-	-
Hua Cheng	Rendering of services	Other	Market price	96,726.33	0.00	-	-
Southern Anti-tumor Biological	Rendering of services	Other	Market price	32,830.20	0.00	-	-
Baxter Qiao Guang	Rendering of services	Other	Market price	5,849,244.43	0.01	-	-
Subtotal	-	-	-	7,820,380.03	-	-	-
Total	-	-	-	1,047,893,832.67	-	889,960,799.58	-

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 year.

(3) Related 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 RMB 342 thousand from January to December in 2020 (January-December 2019: RMB 403 thousand).

B. Warehouse and Office Building Tenancy Agreement

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 Company agreed to lease the real estate located at No.14, Baohua Zhengzhong, Baohua Road, Liwan District, Guangzhou to Baxter Qiao Guang for the approved use. The annual rental fee is charged according to the agreement. The lease agreement is from December 16, 2020 to December 31, 2025. From January to December 2020, the Company shall charge Baxter Qiao Guang the above-mentioned venue rental rent of RMB 3,463 thousand (January to December 2019: RMB 5,087 thousand).

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 RMB 3,047 thousand for the year January-December 2020 (January-December 2019: RMB 3,049 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)* **(Continued)**

(3) Related 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 original contract has expired. According to the newly signed lease contract, the new lease period is from January 1, 2020 to December 31, 2022. In January 2020, the Company confirmed the right-of-use asset of RMB 2,528 thousand. From January to December 2019, it was used as a short-term lease, and the rent was RMB 6,106 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 standard, operating leases must be handled through the "right-of-use asset", and the right-of-use asset is confirmed as RMB 13,235 thousand in 2019.

(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 RMB 7,722 thousand for January to December 2020 (January to December 2019: RMB 6,129 thousand). The Group's key management personnel of current year include 9 persons, such as director, general manager, deputy general manager, and secretary to the Board of Director (January to December 2019: 9 persons). Among them, 7 received their salaries from the Company (January to December 2019: 6 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)* *(Continued)*

(8) Other related party transactions

① License Agreement

Since May 1, 2019, the Company has obtained the exclusive right to use the “Wang Lao Ji” series of trademarks.

- (a) The Company should receive license fee of “Wang Lao Ji” amounted to RMB 204,876 thousand for January to December 2020 (January to December 2019 : RMB 270,231 thousand) and pay to GPLH RMB 0 thousand (January to December 2019: RMB 96,348 thousand).
- (b) The Company should receive license fee of “Wang Lao Ji” amounted to RMB 556 thousand from Xing Qun for January to December of 2020. (January to December 2019: RMB 177 thousand) and pay to GPLH RMB 0 thousand (January to December 2019: RMB 84 thousand).
- (c) The company shall receive a total of RMB 946 thousand (January-December 2019: RMB 1,056 thousand) for the use of the “Wang Lao Ji” series of trademark licenses from Hehuang Great Health for January to December 2020, and shall pay RMB 0 to GPLH (January to December 2019: RMB 356 thousand).
- (d) The Company should receive license fee of “Wang Lao Ji” amounted to RMB 313 thousand from Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. for January to December of 2020. (January to December 2019: RMB 1,053 thousand) and pay to GPLH RMB 0 thousand (January to December 2019: RMB 554 thousand).
- (e) The Company should receive license fee of “Wang Lao Ji” amounted to RMB 342 thousand from Hua Cheng for January to December of 2020. (January to December 2019: RMB 382 thousand)



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	31,038,038.38	-	14,429,259.30	-
Hua Cheng	-	-	106,760.73	-
Yunnan Yi Xin Tang	-	-	250,559.98	-
Total	31,038,038.38	-	14,786,580.01	-
Accounts receivable financing:				
Chuangmei Medicines	113,681,083.67	-	70,282,749.32	-
Yunnan Yi Xin Tang	3,783,987.05	-	3,177,623.26	-
Hua Cheng	966,590.49	-	-	-
Total	118,431,661.21	-	73,460,372.58	-
Accounts receivable:				
Chuangmei Medicines	102,549,973.07	1,025,499.73	68,141,619.08	681,416.19
HWBYS	46,487,138.28	464,871.38	29,844,457.94	298,444.58
Hua Cheng	22,898,108.96	228,981.09	38,283,096.08	382,830.96
Yunnan Yi Xin Tang	17,180,565.94	180,305.35	13,205,593.86	144,509.59
Baiyunshan Yi Xin Tang	2,931,428.71	29,314.29	986,106.19	9,378.02
Baxter Qiao Guang	1,397,792.15	13,977.92	137,980.00	1,379.80
GPHL	94,338.00	943.38	98,894.00	988.94
Total	193,539,345.11	1,943,893.14	150,697,747.15	1,518,948.08
Advances to suppliers:				
HWBYS	26,415,223.41	-	27,069,261.96	-
Chuangmei Medicines	4,693,451.50	-	665.60	-
Hua Cheng	4,231,662.79	-	1,011,904.17	-
GPHL	621.00	-	-	-
Total	35,340,958.70	-	28,081,831.73	-
Dividends receivable:				
Nuo Cheng	37,938,523.45	-	37,938,523.45	-
HWBYS	-	-	278,767,530.00	-
Total	37,938,523.45	-	316,706,053.45	-
Other receivables:				
GPHL	8,859,503.11	-	1,724,900.04	-
HWBYS	2,728,464.67	-	2,519,287.00	-
Hua Cheng	1,971,036.40	-	2,345,655.31	-
Baxter Qiao Guang	731,890.00	-	363,947.16	-
Guangzhou South China Medical Instruments Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Total	14,390,894.18	100,000.00	7,053,789.51	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	53,000,565.58	42,351,939.87
Baxter Qiao Guang	–	4,573,709.80
Total	53,000,565.58	46,925,649.67
Accounts payable:		
HWBYS	10,362,885.61	9,817,750.54
Baxter Qiao Guang	8,830,790.10	4,029,898.92
Chuangmei Medicines	1,459,110.29	1,959,157.13
Hua Cheng	218,892.13	16,133,712.70
Total	20,871,678.13	31,940,519.29
Contract liabilities:		
Chuangmei Medicines	62,530,674.36	35,535,869.27
HWBYS	3,448,096.77	4,114,818.73
Baiyunshan Yi Xin Tang	313,073.44	–
Baxter Qiao Guang	285,868.14	–
Hua Cheng	67,709.95	19,911.51
Yunnan Yi Xin Tang	1.12	28,471.90
Total	66,645,423.78	39,699,071.41
Other payables:		
GPHL	28,112,222.08	53,696,080.30
HWBYS	10,952,552.76	11,370,835.00
Chuangmei Medicines	20,000.00	170,000.00
Total	39,084,774.84	65,236,915.30
Other current liabilities:		
Chuangmei Medicines	7,939,464.90	4,619,662.99
HWBYS	285,164.08	318,477.83
Baiyunshan Yi Xin Tang	40,699.54	–
Baxter Qiao Guang	37,162.86	–
Hua Cheng	8,802.29	2,588.50
Yunnan Yi Xin Tang	0.09	1,304.60
Total	8,311,293.76	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	1,810,400,417.44	3,631,474,882.45
– Large amount contract	–	–
– Commitments on external investment	–	–
Total	<u>1,810,400,417.44</u>	<u>3,631,474,882.45</u>

(2) As on 31 December 2020, 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	–	–

② *Capital expenditures commitments authorized by the management but are not yet contracted for:*

Item	Closing balance	Opening balance
Buildings, machineries and equipment	1,556,547,175.17	1,986,647,470.17
Commitments on external investments	320,000,000.00	320,000,000.00
Total	<u>1,876,547,175.17</u>	<u>2,306,647,470.17</u>

③ *Fulfillment of commitments for the prior year*

The Group has fulfilled the capital expenditures and operating lease commitments as on 31 December 2020.

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

No

XIII. OTHER SIGNIFICANT MATTERS

1. Lease

(1) Rental information

① *operating lease*

Item	Amount
① Income situation	
Rental income	40,023,849.04
Revenue related to variable lease payments not included in lease receipts	312,418.67
② Undiscounted lease receipts to be received each year for five consecutive fiscal years after the balance sheet date	–
The First year	44,840,015.90
The Second year	35,769,285.19
The Third year	23,788,668.08
The Fourth year	19,799,146.92
The Fifth year	18,630,651.11
③ Total undiscounted lease payments to be received for the remaining years	<u>2,129,359.11</u>

(2) Lease situation

① *Tenant Information Disclosure*

Item	Amount
Short-term lease expenses included in the current profit and loss	35,764,873.91
Lease fees for low-value assets	3,391,441.11
Variable lease payments not included in lease liability measurement	822,152.49
Income from sublease of right-of-use assets	888,779.15
Total lease-related cash outflows	295,865,312.54
Related profit or loss from sale and leaseback transactions	<u>–</u>

Information about the right-of-use asset can be found in Note V. (18), and interest expenses on lease liabilities can be found in Note V. (52) ; The rent reduction related to the New Crown Virus epidemic this year is RMB 2,413 thousand.

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 January to December 2020 and as of 31 December 2020 is as follows :

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	10,289,678,725.73	7,894,336,646.72	43,274,548,762.80	215,138,314.76	-	61,673,702,450.01
Inter-segment revenue	3,232,719,472.39	65,829,757.65	6,268,150,964.62	283,356,864.04	(9,850,057,058.70)	-
Interest income	(119,249,231.36)	(151,376,786.92)	(36,260,204.25)	(66,993,094.22)	10,935.10	(373,868,381.65)
Interest expenses	24,557,968.01	2,590,903.79	379,405,018.99	16,732,070.65	(61,447,765.62)	361,838,195.82
Income from investments in associates and joint ventures	(17,509,181.09)	-	3,485,484.58	369,886,615.80	(205,203.02)	355,657,716.27
Impairment losses in respect of credit	(2,213,655.28)	(70,178.99)	(105,962,387.83)	(7,698,429.54)	392,680.10	(115,551,971.54)
Impairment losses in respect of assets	(4,514,878.50)	-	(14,912,936.17)	(112,748.24)	(4,409,409.15)	(23,949,972.06)
Depreciation and amortization expenses	270,361,913.46	46,226,299.62	349,192,966.05	35,846,672.97	(22,362,513.84)	679,265,338.26
Total profit	1,219,157,068.25	1,518,897,087.61	542,492,124.83	1,427,320,712.38	(968,785,280.78)	3,739,081,712.29
Total assets	14,366,105,641.13	8,957,141,300.07	30,134,283,009.16	21,919,985,866.90	(15,617,452,938.14)	59,760,062,879.12
Total liabilities	7,689,574,328.70	3,032,263,839.23	24,283,858,483.50	3,012,743,433.40	(6,463,643,819.90)	31,554,796,264.93
Long-term equity investment in associates and joint ventures	283,486,206.15	-	63,131,675.84	1,519,248,289.61	-	1,865,866,171.60
Increase in other non-current assets excluding long-term equity investment	380,753,483.92	192,715,700.46	739,563,590.80	144,840,082.19	-	1,457,872,857.37

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 January to 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 credit	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 assets	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

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 year	Previous year
External revenue:		
PRC	61,633,679,922.50	64,918,017,689.88
Other countries/regions	40,022,527.51	33,759,951.95
Total	61,673,702,450.01	64,951,777,641.83

(cont.)

Item	Closing balance	Opening balance
Total non-current assets:		
PRC	11,217,481,695.33	10,135,780,517.31
Other countries/regions	14,345,306.66	16,697,391.35
Total	11,231,827,001.99	10,152,477,908.66

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	Current year	Previous year
Total	2,800,943.40	2,518,867.92

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								
Yang Jun								
Liu Juyan								
Cheng Ning								
Li Hong		442,141.00	84,649.00	914,245.00				1,441,035.00
Wu Changhai		430,637.00	91,753.00	850,894.00				1,373,284.00
Zhang Chunbo		369,433.00	73,945.00	703,313.00				1,146,691.00
Huang Xianrong	100,000.00							100,000.00
Wang Weihong	100,000.00							100,000.00
Chu Xiaoping	50,000.00							50,000.00
Jiang Wenqi	50,000.00							50,000.00
Chen Yajin	50,000.00							50,000.00
Huang Min	50,000.00							50,000.00
Supervisor name								
Cai Ruiyu	-	350,907.00	91,621.00	586,073.00	-	-	-	1,028,601.00
Gao Yanzhu (Note:4)	-	229,208.25	48,536.00	479,451.75	-	-	-	757,196.00
Cheng Jinyuan	-	249,969.25	66,841.00	484,563.75	-	-	-	801,374.00

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 (Continued)

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	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
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	-	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 Wengji	100,000.00	-	-	-	-	-	-	100,000.00
Supervisor name								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Li Jinyun	-	-	-	-	-	-	-	-
Gao Yanzhu	-	252,763.00	67,743.00	645,652.00	-	-	-	966,158.00
Cai Ruiyu	-	81,123.00	18,534.00	298,868.00	-	-	-	398,525.00

- Note: (1) At the Company's 2019 annual general meeting of shareholders held on June 29, 2020, Mr. Li Chuyuan, Mr. Yang Jun, Ms. Cheng Ning, Ms. Liu Juyan, Mr. Li Hong, Mr. Wu Changhai, and Mr. Zhang Chunbo were elected as the Company's No. Executive Director of the 8th Board of Directors; Mr. Huang Xianrong, Ms. Wang Weihong, Mr. Chen Yajin, and Mr. Huang Min were elected as independent non-executive directors of the Company's 8th Board of Directors. The term of office of the above directors is three years, from the date of election to the date of election of the new members of the board of directors. Ms. Gao Yanzhu and Mr. Cheng Jinyuan were elected as shareholder representative supervisors of the 8th Board of Supervisors of the Company. The term of office is from the day of election to the day when the members of the new board of supervisors are elected.
- (2) At the first meeting of the eighth board of directors of the Company held on June 29, 2020, Mr. Li Chuyuan was elected as the chairman of the Company's eighth board of directors; Mr. Yang Jun and Ms. Cheng Ning were elected as the Company's first meeting. Vice Chairman of the Eighth Board of Directors; Mr. Li Hong was appointed as the general manager of the Company; Mr. Wu Changhai was appointed as the executive deputy general manager of the Company; Mr. Zhang Chunbo, Mr. Huang Haiwen and Ms. Zheng Haoshan were appointed as the deputy general managers of the Company; Huang Xuezheng Ms. was appointed as the secretary of the Company's board of directors. The term of office is from the day of appointment to the day when the new members of the board of directors are elected. On the same day, the Company held the first meeting of the 8th Board of Supervisors. Mr. Cai Ruiyu was elected as the chairman of the 8th Board of Supervisors. The term of office is from the date of election to the day when the members of the new Board of Supervisors are elected.
- (3) At the fifth meeting of the eighth session of the Company's board of directors held on August 28, 2020, Mr. Zheng Jianxiong was appointed as the deputy general manager of the Company. The term of office is from the date of appointment to the election of the new board of directors.
- (4) The Company received a written resignation from the shareholder representative supervisor on November 23, 2020. Ms. Gao Yanzhu applied to resign as the shareholder representative supervisor of the Company due to reaching the legal retirement age. Ms. Gao Yanzhu would continue to perform the duties of shareholder representative supervisor before the by-election produces a new supervisor.

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, Chairman Li Chuyuan, Vice Chairman Yang Jun, Directors Liu Juyan, and Cheng Ning received remuneration of RMB 1,550,908.00, RMB 868,209.00, RMB 1,381,002.00, and RMB 1,389,526.00 respectively from the controlling shareholder of the Company. (2019: Chairman Li Chuyuan, Vice Chairman Yang Jun, Director Liu Juyan, and Cheng Ning received remuneration of RMB 1,411,031.00, RMB 0.00, RMB 1,278,393.00, and RMB 1,270,249.00 respectively from the controlling shareholder of the Company), part of which is for deeds Its remuneration for labor services provided to the Group. The directors considered that it was difficult to allocate the amount for the services provided to the Group and the services provided to the holding company and jointly controlled entities of the Company, so there was no apportionment of the remuneration.

During the year ended December 31, 2020, no directors waived or agreed to waive any remuneration arrangements (2019: none).

9. Top 5 highest paid

The top five highest paid of the Group in 2020 included three directors (2019: one director). The total amount of salary paid to the other 2 (2019: 4) shown below:

Item	2020	2019
Salary and subsidies	738,760.00	1,564,440.00
Contributions to pension plans	52,684.00	204,472.00
Bonus	2,518,554.00	3,895,605.00
Others	800.00	800.00
Total	3,310,798.00	5,665,317.00

Range of remuneration	Number of persons	
	2020	2019
0-1,000,000	0	0
Above 1,000,000	2	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 14, 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 RMB 10,135,700.00.

In August 2020, the Guangzhou Internet Court conducted a first-instance public judgment in accordance with the law. Both the Group and Beijing Kangyeyuan Investment Consulting Co., Ltd. filed appeals. The Guangzhou Intermediate People's Court has accepted the case and plans to open a trial in March 2021. The relevant content is detailed See the announcement numbered 2020-073 disclosed by the Company on the official website of the Shanghai Stock Exchange in August 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 RMB 36,880 thousand against the Group's Subsidiary A on 28 January 2015, and claimed compensation for the due payment and the overdue interest.

After the final judgment of the contract dispute, Guangsheng Metal Company again filed a lawsuit on the grounds of the private lending dispute. On January 4, 2021, Subsidiary A received the "Civil Judgment" issued by the Guangzhou Intermediate People's Court. The judgment: 1. To revoke the second item of the Tianhe District Court's first-instance judgment ; 2. Change the first item of the Tianhe District Court's first-instance judgment to: Yelian Company, Chen Xijiang, Ni Li, and Peng Beizhan returned the 36 million yuan loan of Guangsheng Metal Company and the interest during the capital occupation period ; 3. Subsidiary A shall bear 1/3 of the compensation for the part that Yelian Company and Chen Xijiang cannot return Responsibility ; 4. Dismiss other claims of Guangsheng Metal Company. The first-instance case acceptance fee was RMB 221,800.00, and the property preservation fee was 5,000.00 yuan. Guangsheng Metal Company was responsible for RMB 56,700.00, the medical out company was responsible for RMB 56,700.00, Yelian Company and Chen Xijiang jointly paid RMB 56,700.00, and Ni Li and Peng Beizhan jointly paid RMB 56,700.00. The second-instance case acceptance fee is RMB 221,800.00, which shall be borne by Guangsheng Metal Company of RMB 55,450.00, Subsidiary A shall bear RMB 55,450.00, Yelian Company and Chen Xijiang shall jointly bear RMB 55,450.00, and Ni Li and Peng Beizhan shall jointly bear RMB 55,450.00.

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)

(a) (Continued)

On January 13, 2021, Subsidiary A sent the "Application for Unfreezing, Sealing, and Seizure of Property" and the "Notification Letter of Yelian Company and Chen Xijiang Property Clues" to the Tianhe District Court, and at the same time sent the "Unfreezing, sealing up, and seizing of property" reminder letter" and "reporting letter of Yelian Company and Chen Xijiang's property clues".

On January 27, 2021, Subsidiary A sent to Guangsheng Metal Company the "Remove Freezing, Sealing, and Seizure of Property" and "Remedial Measures to Protect Rights" to inform Guangzhou Yeda Investment Co., Ltd. and other property clues.

On February 20, 2021, Subsidiary A received the "Civil Ruling" from the Guangzhou Intermediate People's Court. The ruling shows that because the case has been finalized, the preservation measures should be lifted for the assets of Subsidiary A that are beyond the scope of responsibility. Therefore, the Guangzhou Intermediate People's Court ruled to lift the freeze on Subsidiary A's bank deposits of RMB 29.06 million or the seizure of equivalent property, seizure.

As of the reporting date, the aforementioned cases are still being implemented. On the basis of full reference to the professional opinions of external lawyers, the management of Subsidiary A assessed the case and believed that Subsidiary A lost the case and the direct economic losses caused by the case were estimated to be approximately RMB 12.00 million. Therefore, the RMB 12.00 million was accrued as 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)

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 RMB 18,440 thousand on 4 February 2015, and required Subsidiary A to pay the due payment and the overdue interest.

After the final judgment of the contract dispute, Guangsheng Metal Company again filed a lawsuit on the grounds of the private lending dispute. On July 21, 2020, Subsidiary A received the second instance ruling from the Guangzhou Intermediate People's Court. The judgment was in absentia and a serious violation of legal procedures. Ruling: 1. Revocation of the first instance judgment made by Tianhe District Court ; 2. The case was sent back to Tianhe District Court for retrial.

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 RMB 6 million, with a provision of RMB 6 million.

- (c) Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a claim with the Court on the unreceived payment of RMB 47,400 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.

After the final judgment of the sale and purchase contract dispute, Guangsheng Energy Company again filed a lawsuit based on the loan contract dispute. On December 8, 2020, Subsidiary A received the "Civil Judgment" issued by the Haizhu District Court, and the first-instance judgment rejected all claims of the plaintiff Guangsheng Energy.

On March 3, 2021, the Haizhu District Court delivered the "Civil Appeal" submitted by Guangsheng Energy to Subsidiary A.

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)

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 RMB 10,315.70 thousand, and accounts receivable of Zhongyou Jieneng (Zhuhai) Petrochemical Co., Ltd. of RMB 10,541.80 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 RMB 8,364.9 thousand in accordance with the contract, requiring Subsidiary A to pay the due payment and overdue interest.

After the final judgment of the sale and purchase contract dispute, Linhai Company again filed a lawsuit based on the loan contract dispute. 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 third trial of the case was held on May 8, 2020 in the eighth court of the Nansha District Court.

On July 15, 2020, Subsidiary A received the judgment of the first instance sent by the Nansha District Court, and the judgment rejected all claims of Subsidiary A by Linhai Company. For Case No. 3947 (same as Case No. 3946), the Nansha District Court's first-instance judgment was as follows: 1. The defendant Lanhui Company returned to the plaintiff Linhai Company the loan principal of RMB 4,031.25 thousand ; 2. The defendant Lanhui Company compensated the plaintiff Linhai Company for interest losses ; 3. Other claims of the plaintiff Linhai Company were rejected. The case acceptance fee of RMB 68,814.30 was borne by the plaintiff Linhai Company and the defendant Lanhui Company. In addition, the Nansha District Court found that the reasons for the application to add Yongyi Company as a co-defendant were untenable and ruled to reject Subsidiary A's application.

On August 4, 2020, Linhai Company received the "Letter of Appeal" for this case.

On January 25, 2021, Subsidiary A received the "Subpoena" from the Guangzhou Intermediate People's Court. The case was inquired at 9: 15 on February 22, 2021.

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 Bestway Medical Polymer co., Ltd. in Liwan district people's court of Guangzhou for contract dispute, requiring the defendant to return the payment of RMB 7,310 thousand, the returned products of 4,550 thousand and the overdue liquidated damages of about RMB 1,657 thousand to Subsidiary A, totaling about RMB 13,512 thousand.

After Subsidiary A filed an appeal and applied for a retrial, the Guangdong Higher People's Court issued a "Civil Ruling" on December 28, 2020, ruling to revoke the first-instance ruling made by the Liwan District Court and the second-instance ruling made by the Guangzhou Intermediate People's Court. And instructed the Liwan District Court to open a case to accept the case.

On January 11, 2021, Subsidiary A filed a lawsuit with the Liwan District Court. At present, the Liwan District Court has accepted this case, and the case number is (2021) Guangdong 0103 Minchu 1184.

On January 21, 2021, Subsidiary A sent the "Application for Withdrawal of the Case" to the Taijiang District Court of Fuzhou City.

On February 22, 2021, Subsidiary A received the "Civil Ruling" from the Taijiang District Court, and the Taijiang District Court ruled to allow Subsidiary A to withdraw the lawsuit.

On March 4, 2021, Subsidiary A received the "Civil Ruling" and "Property Preservation Notice" issued by the Liwan District Court on property preservation, and ruled to seal, freeze, and detain the respondent Bestway with a value of RMB 15 million the property of. In fact, only 100% of the equity of Fuzhou Kanglite Medical Equipment Co., Ltd. held by Bestway was frozen, and the freezing of two bank accounts failed due to errors.

Subsidiary A received the "Subpoena" from the Liwan District Court. The case will be held in Liwan District Court for the first instance on March 15, 2021.

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 RMB 5,680 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

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 RMB 66,340 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 Keyun branch to the Subsidiary G. Ping'an Bank did not appeal. The current stage of the second instance is when the other defendant in the case disagrees with the judgment of the first instance (the judgment against him) and filed without involving the Subsidiary G. On November 4, 2020, the second-instance judgment of the court was received. The content of the judgment has nothing to do with Subsidiary G (as the first trial). The case has been closed.

The management of Subsidiary G has evaluated the situation of the case and combined with the opinions of external lawyers. It is believed that, on the one hand, Subsidiary G has never received Guangdong Huaqiang's notice of the transfer of claims on the accounts receivable of Subsidiary G. The company has also settled all the payments involved in the case to Guangdong Huaqiang on time. Therefore, the management of Subsidiary G believes that Subsidiary G is not responsible for the liabilities of Guangdong Huaqiang to Ping'an Bank. The first instance of the court rejected all claims of Ping'an Bank against Subsidiary G, and the second instance appeal did not involve Subsidiary G. Therefore, the management of Subsidiary G has not confirmed the 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)

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 RMB 27,725.1 thousand in arrears, requiring it to pay a total of RMB 37,124.8 thousand in payment for goods, interest owed and liquidated damages, and implementing property preservation before the lawsuit.

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 RMB 27,725.10 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 RMB 4 million distributed by the court. In July 2019, the remaining execution funds deducted by the court were RMB 7,342.10 thousand. Subsidiary G allocated a total of RMB 11,342.10 thousand for execution. On August 26, 2019, the Wuhan Intermediate People's Court issued [(2017) E 01 Zhi No. 316_7] "Execution Ruling", ruling to terminate the (2015) Wuhan Civil and Commercial Business The current execution procedure of the Civil Judgment Chuzi No. 00822. As of the reporting date, the first execution procedure has ended, and the execution will be applied when the other party is found to have executable property.

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.

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) 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 RMB 4,130.8 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 RMB 4,130.8 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 instance and the second instance won the case and the relevant assets were fully sealed up, but the sealed property was dilapidated and dilapidated and could not be auctioned. In November 2020, the People's Court of Liwan District of Guangzhou City issued a consumption restriction order against the person subject to execution in accordance with the law, and then ruled to terminate this execution.

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 RMB 4,130.8 thousand.

- (c) Sub-subsidiary J (whose parent company is Subsidiary G) filed a claim against Hebei Xinglin Pharmaceutical Co., Ltd. for arrear of RMB 2,797,654.40 together with relevant interest.

On July 15, 2019, Sub-subsidiary J received the "Civil Judgment" (2015) Qingmin Er Chu Zi No. 2158 from the People's Court of Qingxiu District, Nanning City, Guangxi Zhuang Autonomous Region, and the court supported all Sub-subsidiary J's litigation claims.

On July 27, 2019, Hebei Xinglin refused to accept the result of the first instance and filed an appeal. The court has seized RMB 2,842,153 of deposits in Hebei Xinglin Bank (freezing period until April 2, 2021). On May 18, 2020, the court rejected the appeal of Hebei Xinglin in the second-instance judgment and upheld the first-instance judgment. After the court sent the judgment into effect, Sub-subsidiary J applied for compulsory execution.

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)

(c) (Continued)

On September 9, 2020, Sub-subsidiary J has submitted its application for enforcement to the Qingxiu District Court. On December 23, 2020, the person subject to enforcement has fulfilled his obligations, and the lawyer has submitted the application for closing the case and receipt to the court. On December 29, 2020, Sub-subsidiary J has received the court repatriated RMB 3,621,428.00, of which the principal of the accounts receivable RMB 2,797,654.40, interest income RMB 823,773.60, so far this case has been closed.

According to the second-instance judgment, Hebei Xinglin was required to pay the purchase price and interest to Sub-subsidiary J. Sub-subsidiary J has applied for compulsory execution and freezing the corresponding property of Hebei Xinglin. On December 23, 2020, the person subject to execution has fulfilled its obligations. On December 29, 2020, Sub-subsidiary J received the payment.

- (d) 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 RMB 4,249,799.20. 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. Guangzhou Laitai did not appeal and the judgment of this case has come into effect. On May 26, 2020, the court notified Sub-subsidiary K that the defendant had entered the bankruptcy review in the Guangzhou Intermediate People's Court, so the court will make a ruling to terminate the Sub-subsidiary K's execution procedures. On June 29, 2020, the court requested a final transcript, and Sub-subsidiary K stated that it did not agree to the final version. In January 2021, Sub-subsidiary K applied to the court to resume execution.

The management of Sub-subsidiary K evaluated the situation of the case, combined with the opinions of external lawyers, and believed that the defendant had entered the bankruptcy review stage, and the uncertainty of the payment for the goods was high, and the bad debt provision should be made in full.

- (e) On January 19, 2020, Sub-subsidiary K (the parent company is a subsidiary of G) filed a case against Guangdong Kanglang Pharmaceutical Co., Ltd. for arrears of RMB 4,202,456.00. On August 12, 2020, the first instance opened and waited for the court's judgment.

As of the date of this report, the case has not yet been judged. The management of Sub-subsidiary K evaluated the situation of the case, combined with the opinions of external lawyers, and believed that the possibility of loss is unlikely. The management of Sub-subsidiary K made a 1% bad debt provision based on the principle of prudence based on the bad debt matrix of accounts receivable.

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) In July 2020, the Group's Subsidiary G filed a complaint with the People's Court of Liwan District, Guangzhou City, and filed a lawsuit against Guangxi New Era. At the same time, it submitted an application for property preservation and applied for the seizure of Guangxi Guangyao New Era held by Guangxi New Era. 30% equity and bank account of Pharmaceutical Co., Ltd.

On July 28, 2020, Subsidiary G received a civil ruling and a notice of property preservation issued by the People's Court of Liwan District, Guangzhou City, and successfully seized the equity and bank accounts held by Guangxi New Times. The first-instance case number is (2020) Guangdong 0103 Minchu No. 6790, requiring Guangxi New Times Pharmaceutical Co., Ltd. to pay RMB 18,049,400.00 for the goods and RMB 22,908,592.20 for the default penalty for late payment (the default penalty is 18,049,400.00 yuan as the principal amount, based on five ten thousandths of the day. According to the standard calculation, payment in installments from July 3, 2013, tentatively calculated to June 30, 2020, and requested to be counted until the date of actual payment by the defendant), attorney fees RMB 300,000.00 and other related expenses, the case is in 2020. The first hearing was held on September 30, and the second hearing was held on December 15, 2020. The court issued a civil judgment on December 22, 2020, supporting the purchase principal of RMB 18,049,400.00, partial liquidated damages and attorney fees of RMB 150,000.00, rejected in response to other claims, Guangxi New Times Pharmaceutical Co., Ltd. refused to accept the judgment of the first instance and filed an appeal.

As of the reporting date, the case has not yet been judged. Subsidiary G has frozen the corresponding equity and bank accounts to the court. The subsidiary company of G management has assessed the situation of the case and made a 100% provision for bad debts of accounts receivable based on the opinions of external lawyers.

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 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 JDB 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 JDB 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 JDB Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss of RMB 9,022,978.20 and reasonable rights protection fee of RMB 239,779.00. The court of the second trial upheld the judgment of the lower court except for the compensation of to RMB 6 million, which is paid to Wang Lao Ji Great Health. Wuhan JDB 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 JDB 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 JDB” 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 – JDB” ; (4) Hunan Fengcai Haorunjia Trading Co., Ltd. on the effective date of this judgment Immediately stop selling the JDB herbal tea with the slogan “National Leading Red Canned Herbal Tea – JDB” printed on the package ; (5) Wuhan JDB 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 RMB 1,000,000.00 ; (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 RMB 165,200.00, one part RMB 99,120.00 was paid by Wuhan JDB Beverage Co., Ltd., and Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. jointly paid one other part RMB 66,080.00.

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)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

(a) (Continued)

On August 29, 2019, JDB (China) Beverage Co., Ltd. applied to the Changsha Intermediate People's Court for compulsory execution in accordance with the (2017) Supreme Fa Min Zai No. 155 Civil Judgment. The case number is 2019 (Xiang) 01 Zhi 1825. Request Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. to pay compensation of RMB 5,239,779.00, pay interest of RMB 664,811.00 and bear the case acceptance fee of RMB 9,880.00 and application execution fee of RMB 56,972.00. On September 29, 2019, the Changsha Intermediate People's Court issued (2019) Xiang 01 Executive No. 1825 execution ruling: freezing and deducting bank deposits of RMB 5,971,442 under the names of the executors Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. or After sealing up, seizing, detaining, and withdrawing their assets of equal value, Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. filed an execution objection to the Changsha Intermediate People's Court. On November 14, 2019, Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. paid compensation and case acceptance fees and execution fees to Changsha Intermediate People's Court totaling RMB 5,306,631. On December 12, 2019, the Changsha Intermediate People's Court issued an execution ruling, case number 2019 (Xiang) 01 Dispute No. 183, dismissing the objections of Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. In December 2019, Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. submitted an application for reconsideration of enforcement objections to the Hunan Higher People's Court. On June 11, 2020, the Hunan Provincial Higher People's Court issued an enforcement ruling, with case number (2020) Xiang Zhi Fu No. 64, revoking the Changsha Intermediate People's Court (2019) Xiang 01 Zhi Yi No. 183 enforcement ruling and (2019) Xiang 01 executed the ruling on No. 1825.

On October 30, 2020, the Changsha City Intermediate People's Court issued an enforcement notice of 2019 (Xiang) 01 and No. 1825, requesting Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. to pay 421,252.04 yuan of interest on the implementation repayment. On November 10, 2020, Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. fulfilled the above payment obligations in accordance with the law. On December 25, 2020, the Changsha City Intermediate People's Court issued the 2019 (Xiang) 01 Zhi No. 1825 Case Closing Notice. So far, the obligations determined in the (2017) Supreme Fa Min Zai No. 155 Civil Judgment have been executed.

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 Respond to prosecution of other subsidiaries of the Group (Continued)

- (b) 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.

After several litigation and negotiation, both parties have settled and the settlement agreement has been fulfilled. Cai Song, one of the defendants in the latter two cases, filed a retrial application [Case No: (2018) Yuemin Shen No. 12750, 12751], Subsidiary B has submitted a defense opinion to the High Court. The court found that the second-instance judgment of this case confirmed that Haocheng Company should pay rent and interest to Subsidiary B, and Cai Song was jointly and severally liable for the debt : after the judgment of the second instance, Subsidiary B and Hao Cheng Company have reached a settlement agreement and has been fulfilled. The claims and debts between Subsidiary B and Hao Cheng Company in this case have been settled, and the debts have been eliminated. The guarantor does not have to bear the responsibility of guarantee. The second-instance judgment confirmed that Cai Song's joint liability for repayment no longer exists According to regulations, the Guangdong Higher People's Court ruled to terminate the review of Cai Song's retrial application on May 19, 2020.

In combination with the opinions of external lawyers, the management of Company B believes that the case has been closed and the possibility of loss is very small, so no corresponding estimated liabilities are provided.

- (c) 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 RMB 13,160,051.26 and the liquidated damages calculated to June 23, 2015 of RMB 13,216,059.26, which totaled RMB 26,376,110.52.

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 RMB 13,160,051.26 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)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

(c) (Continued)

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 RMB 13,160,051.26 and the penalty fee of RMB 13,216,059.26 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 RMB 13,160,051.26 and liquidated damages RMB 13,216,059.26 totaling RMB 26,376,110.52 and interest paid (since March 12, 2019, based on RMB 26,376,110.52 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. In the second instance of the case, the Guangzhou Intermediate People's Court made a judgment on April 3, 2020 (the judgment number is "Civil Judgment" (2020) Yue 01 Min Zhong No. 3668). It rejected the appeal request of Guangdong Construction Engineering Corporation and upheld the original judgment.

Subsidiary E has submitted an application for enforcement to the court. On June 4, 2020, the Yuexiu District Court opened a case to accept the application for enforcement. Since the Guangdong Provincial Construction Engineering Corporation Real Estate Development Company has no property available for execution and cannot complete the actual execution, the court has ruled that the execution is terminated on December 21, 2020.

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 *Respond to prosecution of other subsidiaries of the Group (Continued)*

- (d) On June 1, 2015, Guangzhou Ruigu enterprise management information consulting co., ltd. sued Subsidiary F of the group over a legal service contract dispute, requiring Subsidiary F to pay RMB 22,421,800.00 of legal service fee and overdue interest.

On March 16, 2020, Guangzhou Ruigu Enterprise Management Information Consulting Co., Ltd. sued the Group's Subsidiary F. The case was a complaint concerning a legal service contract dispute. The amount involved was RMB 18,069,450.00. Subsequently, the group's Subsidiary F proposed jurisdiction Objection, on April 15, 2020, the court ruled to reject the application of the Subsidiary F of the group ; on April 22, the Subsidiary F filed an appeal against jurisdiction.

On July 17, the Subsidiary F of the group received the judgment on the jurisdictional objection, and the Guangzhou Intermediate People's Court ruled that the case was transferred to the Nansha District Court for trial. Evidence exchange was conducted on November 24, 2020.

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.

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 Respond to prosecution of other subsidiaries of the Group (Continued)

- (e) In January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. requested the subsidiary I of the Group to pay the purchase price of RMB 81,408,500.00 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.

However, on April 24, 2020, Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a lawsuit against Yuexiu District Court for listing Subsidiary I as the fifth defendant. The reason for the lawsuit is that Guangdong Guangsheng Investment Group Energy Co., Ltd. has handed over the payment to the other defendants, demanding that the other defendants repay their loans of RMB52,745 thousand, and that Subsidiary I is directly at fault for its losses, and Subsidiary I is required to pay supplements liability for settlement. The case went to court on August 31, 2020 but no judgment.

The plaintiff claimed that Subsidiary I shall bear the general guarantee responsibility, and Subsidiary I does not have any guarantee relationship with the plaintiff and other borrowers. The management of the I subsidiary combined the opinions of external lawyers to assess the situation of the case, and the risk of loss is expected to be low.

- (f) On April 24, 2014 and May 26, 2014, Guangdong Guangsheng Investment Group Energy Co., Ltd. and a branch of the group signed the “Oil Products Purchase and Sale Contract”. Guangdong Guangsheng Investment Group Energy Co., Ltd. Since 2014, the branch has been sued to the Tianhe District People’s Court for disputes over the sale and purchase contract. In June 2018, the Provincial Higher People’s Court finally rejected the re-examination application of Guangdong Guangsheng Investment Group Energy Co., Ltd. On April 24, 2020, Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a lawsuit on the grounds of “claiming rights through legal channels based on the true rights and obligations formed in the transactions involved”.

The branch’s management combined with the opinions of external lawyers to assess the situation of the case, and it is expected that the possibility of losses caused by this lawsuit is relatively small.

(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	203,276,046.23	131,315,589.08
1 to 2 years	98,000.00	5,170.86
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	1,447,557.00
Over 5 years	4,352,743.52	2,940,186.52
Total book balance of accounts receivable	207,726,789.75	135,708,503.46
Less: Provision for bad debts	6,395,303.98	5,728,705.10
Total book value of accounts receivable	201,331,485.77	129,979,798.36

② Accounts receivable disclosed by category

Category	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)
Accounts receivable subject to separate provision	2,354,626.24	1.13	2,354,626.24	100.00
Accounts receivable subject to provision by portfolio	205,372,163.51	98.87	4,040,677.74	1.97
Including: portfolio 1	205,372,163.51	98.87	4,040,677.74	1.97
Total	207,726,789.75	100.00	6,395,303.98	3.08

(Cont.)

Category	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)
Accounts receivable subject to separate provision	2,674,626.24	1.97	2,674,626.24	100.00
Accounts receivable subject to provision by portfolio	133,033,877.22	98.03	3,054,078.86	2.30
Including: portfolio 1	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

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	Amount is expected to be unrecoverable.
Customer 3	315,508.74	315,508.74	100.00	Amount is expected to be unrecoverable.
Customer 4	69,117.50	69,117.50	100.00	Amount is expected to be unrecoverable.
Total	<u>2,354,626.24</u>	<u>2,354,626.24</u>	<u>—</u>	

B. Accounts receivable subject to provision by portfolio

Aging	Book balance	Closing balance Provision for bad debts	Expected credit loss ratio (%)
Within 1 year	203,276,046.23	2,032,760.46	1.00
1 to 2 years	98,000.00	9,800.00	10.00
2 to 3 years	—	—	—
3 to 4 years	—	—	—
4 to 5 years	—	—	—
Over 5 years	1,998,117.28	1,998,117.28	100.00
Total	<u>205,372,163.51</u>	<u>4,040,677.74</u>	<u>—</u>

Cont.

Aging	Book balance	Opening balance Provision for bad debts	Expected credit loss ratio (%)
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>	<u>—</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)

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	5,728,705.10	986,598.88	320,000.00	—	6,395,303.98
Total	5,728,705.10	986,598.88	320,000.00	—	6,395,303.98

③ Provision for bad debts accrued, recovered or reversed this year.

The amount of provision for bad debts this year is RMB 987 thousand ; the amount of bad debt provision recovered or transferred back this year is RMB 320 thousand.

Including: There are no significant receivables recovered or transferred back this year

④ There is no accounts receivables written off in the current year.

⑤ 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	192,956,066.87	92.89	1,929,560.67
Customer 2	2,413,112.00	1.16	24,131.12
Customer 3	1,500,000.00	0.72	1,500,000.00
Customer 4	1,412,557.00	0.68	1,412,557.00
Customer 5	1,350,000.00	0.65	13,500.00
Total	199,631,735.87	96.10	4,879,748.79

⑥ The Group had no accounts receivable derecognized due to transfer of financial assets for the current year.

⑦ The Group had no assets or liabilities arising from the transfer of and the continuing involvement of accounts receivable for 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)

2. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	165,044,898.43	463,226,705.58
Other receivables	548,386,040.25	1,481,230,655.20
Less: provision for bad debts	10,184,592.83	10,058,692.42
Total	<u>703,246,345.85</u>	<u>1,934,398,668.36</u>

(1) Dividends receivable

① Dividends receivable are as follows:

Item (or investee)	Closing balance	Opening balance
Tian Xin	–	104,502,080.90
Guang Hua	83,097,803.75	43,882,205.44
Ming Xing	43,882,205.44	36,074,889.24
HWBYS	–	278,767,530.00
Chen Liji	1,990,000.00	–
Zhong Yi	36,074,889.24	–
Total	<u>165,044,898.43</u>	<u>463,226,705.58</u>

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	399,069,033.94	72.77	1,468,890,589.44	99.16
1 to 2 years	138,847,348.09	25.32	2,044,140.00	0.14
2 to 3 years	325,596.20	0.06	296,940.52	0.02
3 to 4 years	219,754.52	0.04	2,478,497.34	0.17
4 to 5 years	2,452,911.07	0.45	403,590.42	0.03
Over 5 years	7,471,396.43	1.36	7,116,897.48	0.48
Total	<u>548,386,040.25</u>	<u>100.00</u>	<u>1,481,230,655.20</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)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Category of other receivables as per nature

Nature	Closing balance	Opening balance
Receivables due from related parties	482,699,744.07	1,444,294,507.40
Including: Entrusted loans	–	1,102,233,486.36
Other receivables due from related parties	482,699,744.07	342,061,021.04
Rental, margins, deposit, advances to employees	3,226,209.06	3,925,945.88
Others	62,460,087.12	33,010,201.92
Less: provision for bad debts	10,184,592.83	10,058,692.42
Total	538,201,447.42	1,471,171,962.78

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	947,814.57	–	9,110,877.85	10,058,692.42
Provision at current year	199,925.64	–	–	199,925.64
Reversal of bad debt provision at current year	–	–	74,025.23	74,025.23
Charge off at current year	–	–	–	–
Written off at current year	–	–	–	–
Other changes	–	–	–	–
Ending balance	1,147,740.21	–	9,036,852.62	10,184,592.83

④ The provision for bad debts was RMB 200 thousand this year, and there was RMB 74 thousand provision for recovering or reversing bad debts this year.

Including: There is no important recovery or reversal of other receivables in the current year.

⑤ 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)

⑥ 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	210,351,101.65	Within 1 year	38.36	–
Other receivables 2	Receivables due from related parties	135,454,520.90	Within 1 year 1 to 2 years	24.70	–
Other receivables 3	Receivables due from related parties	101,622,973.66	Within 1 year	18.53	–
Other receivables 4	Receivables due from related parties	27,800,000.00	Within 1 year	5.07	278,000.00
Other receivables 5	Receivables due from related parties	14,513,674.65	Within 1 year	2.65	–
Total		<u>489,742,270.86</u>		<u>89.31</u>	<u>278,000.00</u>

⑦ There is no receivables related to government grants for the current year.

⑧ There is no other receivables that had been derecognized due to transfer of financial asset for the current year.

⑨ 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	9,275,716,281.83	171,500,000.00	9,104,216,281.83	9,035,716,281.83	171,500,000.00	8,864,216,281.83
Investment in joint ventures and associates	1,515,569,954.61	–	1,515,569,954.61	1,225,204,503.41	–	1,225,204,503.41
Total	<u>10,791,286,236.44</u>	<u>171,500,000.00</u>	<u>10,619,786,236.44</u>	<u>10,260,920,785.24</u>	<u>171,500,000.00</u>	<u>10,089,420,785.24</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	255,517,109.58	-	-	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	169,685,900.00	6,000,000.00	-	175,685,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	190,795,812.38	7,000,000.00	-	197,795,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
GP Corp.	3,313,425,159.88	-	-	3,313,425,159.88	-	-
Wang Lao Ji	854,431,508.17	-	-	854,431,508.17	-	-
Wang Lao Ji Great Health	2,100,000,000.00	-	-	2,100,000,000.00	-	-
Yi Gan	33,000,000.00	-	-	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	4,000,000.00	-	28,000,000.00	-	-
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	123,000,000.00	-	218,381,794.18	-	-
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.	263,470,000.00	100,000,000.00	-	363,470,000.00	-	-
Guangyao Haima	26,500,000.00	-	-	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	9,035,716,281.83	240,000,000.00	-	9,275,716,281.83	-	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			Declaration of the payment of cash dividends or profits	Provision for impairment	Others	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					
I. Joint ventures											
HWBYS	124,258,711.89	-	-	307,059,208.07	-	-	(68,024,758.00)	-	-	363,293,161.96	-
Baxter Qiao Guang	47,518,816.60	-	-	3,014,593.23	-	-	-	-	-	50,533,409.83	-
Subtotal	171,777,528.49	-	-	310,073,801.30	-	-	(68,024,758.00)	-	-	413,826,571.79	-
II. Associates											
Golden Eagle Asset Management Co., Ltd.	63,796,881.10	-	-	5,030,503.67	-	-	-	-	-	68,827,384.77	-
Guangzhou Baiyunshan Weyi Medical Investment Management Co., Ltd.	2,033,367.82	-	-	18,435.54	-	-	-	-	-	2,051,803.36	-
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd.	71,772,551.47	-	-	(133,508.80)	-	-	-	-	-	71,639,042.67	-
Guangdong Guangyao Jinshen Equity Investment Fund Management Co., Ltd.	9,383,230.68	-	-	(1,712,687.15)	-	-	-	-	-	7,670,543.53	-
Yi Xin Tang	906,440,943.85	-	-	57,692,280.94	-	-	(12,578,616.30)	-	-	951,554,608.49	-
Subtotal	1,053,426,974.92	-	-	60,895,024.20	-	-	(12,578,616.30)	-	-	1,101,743,382.82	-
Total	1,225,204,503.41	-	-	370,968,825.50	-	-	(80,603,374.30)	-	-	1,515,569,954.61	-

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	3,774,690,510.32	2,264,655,635.85	4,594,492,684.81	3,153,372,168.57
Other businesses	321,409,266.97	25,818,201.53	432,586,221.77	37,912,949.63
Total	<u>4,096,099,777.29</u>	<u>2,290,473,837.38</u>	<u>5,027,078,906.58</u>	<u>3,191,285,118.20</u>

(2) Category by business

Reporting segments	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	3,774,690,510.32	2,264,655,635.85	4,594,485,035.92	3,153,367,460.05
Great Commerce	-	-	7,648.89	4,708.52
Total	<u>3,774,690,510.32</u>	<u>2,264,655,635.85</u>	<u>4,594,492,684.81</u>	<u>3,153,372,168.57</u>

(3) Category by major operating region

Reporting segments	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	2,251,576,000.90	1,234,871,372.26	2,599,026,685.74	1,967,998,916.77
Eastern China Area	793,844,365.53	539,284,244.92	1,053,043,141.56	612,813,566.39
Northern China Area	357,661,893.12	243,641,675.20	356,589,623.22	196,132,074.36
Northeast Area	39,657,689.69	28,590,012.26	70,419,259.48	45,898,195.80
Southwest Area	242,710,327.67	155,623,318.23	363,530,356.93	232,649,911.24
Northwest Area	89,240,233.41	62,645,012.98	151,883,617.88	97,879,504.01
Total	<u>3,774,690,510.32</u>	<u>2,264,655,635.85</u>	<u>4,594,492,684.81</u>	<u>3,153,372,168.57</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 RMB 1,727,738 thousand, which account for 45.78% of the Company's main business income for the year.

Customer	Main business income	Proportion of total income (%)
Customer 1	1,457,219,694.93	38.61
Customer 2	86,108,172.92	2.28
Customer 3	68,820,479.79	1.82
Customer 4	59,129,263.71	1.57
Customer 5	56,460,177.01	1.50
Total	<u>1,727,737,788.36</u>	<u>45.78</u>

5. Investment income

Item	Current year	Prior year
Investment Income from long-term equity investments under cost method	821,344,208.60	683,321,081.34
Investment Income from long-term equity investments under equity method	370,968,825.50	118,433,832.36
Investment income from the holding year of other non-current financial assets	27,611,659.50	19,751,424.92
Investment income during the holding year of other equity instruments	7,670,000.00	11,014,510.00
Interest income from financial products and structured deposits	5,576,111.40	28,388,931.95
Investment income generated by the disposal of transactional financial assets	–	7,286,631.84
Total	<u>1,233,170,805.00</u>	<u>868,196,412.41</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	(1,451,361.56)	
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	460,062,661.78	
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	(8,469,244.97)	
4. Reverse of provision for impairment of receivables under individual impairment test	2,602,890.37	
5. Other non-operating income and expenses except for the above-mentioned items	(47,387,598.69)	
6. Other non-recurring profit and loss items recognized by the China Securities Regulatory Commission	(50,215,537.05)	
7. Other profit and loss items that meet the definition of non-recurring gains and losses	–	
8. Amount of income tax influence	(65,580,297.42)	
9. Amount of minority equity impact	(2,007,528.49)	
Total	<u>287,553,983.96</u>	

2. Return on Equity and Earnings Per Share

Profits for the current year	Weighted Average Return on Equity (%)		Earnings per share			
			Basic EPS		Diluted EPS	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Net profit attributable to the ordinary shareholders of the Company	11.55	13.87	1.793	1.961	1.793	1.961
Net profit attributable to the ordinary shareholders after deducting the non-recurring profit or loss	10.41	11.94	1.616	1.689	1.616	1.689

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.

