THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Guangzhou Pharmaceutical Company Limited (the "**Company**"), you should at once hand this circular and the accompanying forms of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The circular appears for information purpose only and does not constitute an invitation of offer to acquire, purchase or subscribe for securities of the Company.

廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock Code: 0874)

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS INVOLVING MAJOR ASSETS REORGANIZATION –
(A) ABSORPTION AND MERGER OF GUANGZHOU BAIYUNSHAN PHARMACEUTICAL CO., LTD.;
(B) ACQUISITION OF TARGET ASSETS FROM GUANGZHOU PHARMACEUTICAL HOLDINGS LIMITED; AND
(C) COMPENSATION FOR PROFIT SHORTFALL;
(II) TRADEMARK CUSTODY;
(III) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY;
AND
(IV) PROPOSED APPOINTMENT OF DIRECTOR

Financial Advisers to the Company

時富金融 CFSG

Goldman Sachs

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

South West Capital Limited
西南融資有限公司

Unless the context otherwise requires, all capitalized terms used in this circular have the meanings set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 11 to 66 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders on the terms of the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement) and the Trademark Custody Agreement is set out on pages 67 to 68 of this circular. A letter from South West Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders on the terms of the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement) and the Trademark Custody Agreement is set out on pages 69 to 112 of this circular.

The EGM will be held at 9:30 a.m., on Wednesday, 19 September 2012 at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC and the H Shares Class Meeting will be held immediately after the EGM. The notices convening the EGM and the H Shares Class Meeting, the forms of proxy for use at the EGM and the H Shares Class Meeting and the reply slips have been dispatched to the Shareholders on 3 August 2012 and also published on the websites of the Hong Kong Stock Exchange (http://www.hkexnew.hk) and the Company (http://www.equitynet.com.hk/0874/). Whether or not you are able to attend the said meetings, you are requested to complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM and the H Shares Class Meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM and the H Shares Class Meeting or any adjournment thereof should you so wish.

4 September 2012

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"2012 Enlarged Group Profit Forecast"	the profit forecast of the Enlarged Group for the year ending 31 December 2012
"2012 Profit Forecasts"	the 2012 Enlarged Group Profit Forecast and the 2012 Target Assets Profit Forecast
"2012 Target Assets Profit Forecast"	the profit forecast of the Target Assets for the year ending 31 December 2012
"2013 Enlarged Group Profit Forecast"	the profit forecast of the Enlarged Group for the year ending 31 December 2013
"2013 Profit Forecasts"	the 2013 Enlarged Group Profit Forecast and the 2013 Target Assets Profit Forecast
"2013 Target Assets Profit Forecast"	the profit forecast of the Target Assets for the year ending 31 December 2013
"A Shares Class Meeting"	meeting of the holders of GPC A Shares to be held on Wednesday, 19 September 2012 for the purposes of, inter alia, considering and, if thought fit, approving the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), together with the respective transactions contemplated thereunder
"Absorption and Merger Agreement"	the conditional agreement dated 29 February 2012 entered into between the Company and BYS in relation to the Proposed Merger
"Acceptance Period"	the period for BYS Shareholders to exercise the Cash Alternative, the exact acceptance period will be determined and announced by the Company and BYS
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Articles of Association"	the articles of association of the Company
"Assets Acquisition Agreement"	the conditional agreement dated 29 February 2012 entered into between the Company and GPHL in relation to the Proposed Assets Acquisition, as supplemented by a supplemental agreement dated 15 June 2012
"associate(s)"	has the meaning ascribed to it under the Listing Rules

"Baxter"	廣州百特醫療用品有限公司 (Baxter Healthcare (Guangzhou) Company Ltd.), a Sino-foreign equity joint venture established in the PRC and owned as to 12.50% by GPHL
"Board"	the board of the Directors
"business day"	a day (other than a Saturday and a Sunday) on which the Hong Kong Stock Exchange is open for trading and on which banks are open for business in Hong Kong
"BYS"	廣州白雲山製藥股份有限公司 (Guangzhou Baiyunshan Pharmaceutical Co., Ltd.), a company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
"BYS 2011 Final Dividend"	the final dividend of RMB0.55 (tax included) for every 10 BYS shares for the year ended 31 December 2011 proposed by the BYS Board on 5 March 2012 and approved by the BYS Shareholders on 20 April 2012
"BYS Board"	the board of directors of BYS
"BYS Group"	BYS and its subsidiaries
"BYS Share Average Price"	the average trading price per BYS Share as derived by dividing the total trading value of BYS Shares by the total trading volumes of BYS Shares during the 20 trading days prior to 28 March 2012, being the publication date of the announcement made by BYS in relation to the resolutions of the BYS Board meeting to approve the Proposed Merger as set out in the Preliminary Proposal, being RMB11.55 per BYS Share
"BYS Share Conversion Price"	the BYS Share Average price as adjusted with the BYS 2011 Final Dividend, being RMB11.50 per BYS Share (subject to ex-right or ex-dividend adjustment)
"BYS Share(s)"	Renminbi-dominated domestic share(s) in the ordinary share capital of BYS, with a nominal value of RMB1.00 each and is/are listed on the Shenzhen Stock Exchange
"BYS Shareholders"	the holders of BYS Shares

"CASBE"	the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter
"Cash Alternative"	the cash alternative under the Proposed Merger granted to the BYS Shareholders (other than GPHL and its associates) who decide not to receive in whole or in part the GPC A Shares, at a price of RMB11.50 per BYS Share (subject to the ex-right or ex-dividend adjustment), subject to certain conditions, from the Cash Alternative Provider pursuant to the Absorption and Merger Agreement as required by the applicable PRC laws and regulations, details of which are set out in the paragraph headed "I. Major Assets Reorganization – A. The Absorption and Merger Agreement – 9. Cash Alternative for the BYS Shareholders" of the Letter from the Board in this circular
"Cash Alternative Exercise Date"	being the date on which the Cash Alternative Provider makes cash payment to the BYS Shareholders who exercised their rights under the Cash Alternative, and in exchange, the Cash Alternative Provider receives the BYS Shares from those BYS Shareholders, the exact date will be determined and announced by the Company and BYS
"Cash Alternative Provider"	an independent third party to be appointed by the Company and BYS, who shall, at the Cash Alternative Exercise Date, pay the BYS Shareholders in cash in exchange for the whole or part of BYS Shares held by such BYS Shareholders pursuant to the Absorption and Merger Agreement. The Cash Alternative Provider shall not be (i) connected person of the Company or GPHL or (ii) party acting in concert with GPHL or with the Put Option Provider
"Company"	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company established in the PRC and the H Shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Consideration Shares"	34,839,645 GPC A Shares to be issued and allotted by the Company to acquire the Target Assets pursuant to the Assets Acquisition Agreement
"controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"CSRC"	中國證券監督管理委員會 (the China Securities Regulatory Commission)
"Directors"	the directors of the Board of the Company
"EGM"	the extraordinary general meeting of the Company for all the Shareholders to be held on Wednesday, 19 September 2012 for the purposes of, inter alia, considering and, if thought fit, passing (i) the special resolutions in relation to the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), together with the respective transactions contemplated thereunder; (ii) the ordinary resolution in relation to the Trademark Custody Agreement and the transactions contemplated thereunder; (iii) the special resolution in relation to the proposed amendments to the Articles of Association; and (iv) the ordinary resolution in relation to the proposed appointment of Director
"Enlarged Group"	the Group as enlarged by the Major Assets Reorganization
"Exchange Ratio"	the ratio of 0.95 GPC A Shares to be issued by the Company in exchange for every 1 BYS Share (subject to the ex-right or ex-dividend adjustment) under the Proposed Merger
"Final Proposal"	the final proposal which sets out the final terms and details of the Major Assets Reorganization and was approved by the Board at the Second Board Meeting
"First Board Meeting"	the meeting of the Board held on 29 February 2012 to approve the Preliminary Proposal relating to the Major Assets Reorganization
"First Board Resolution Announcement"	the announcement of the Company dated 27 March 2012 in relation to the resolutions of the First Board Meeting

"GPC 2011 Final Dividend"	the final dividend of RMB0.10 (tax included) per GPC A Share and HK$0.12 (tax included) per H Share (determined based on the average of the exchange rates as announced by the People's Bank of China for the calendar week preceding the date of approval of the dividends by the Shareholders on 12 April 2012, being RMB1 to HK$1.232) for the year ended 31 December 2011 proposed by the Board on 16 February 2012 and approved by the Shareholders at the 2011 annual general meeting of the Company held on 12 April 2012
"GPC A Share(s)"	Renminbi-dominated domestic share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each and is/are listed on the Shanghai Stock Exchange
"GPC A Share Average Price"	the average trading price per GPC A Share derived by dividing the total trading value of GPC A Shares by the total trading volumes of GPC A Shares during the 20 trading days prior to the date of the First Board Resolution Announcement on 27 March 2012, being RMB12.20 per GPC A Share
"GPC A Share Conversion Price"	the GPC A Share Average Price as adjusted with the GPC 2011 Final Dividend, being RMB12.10 per GPC A Share (subject to the ex-right or ex-dividend adjustment)
"GPC Dissenting Shareholder(s)"	any GPC Shareholder(s) who has/have voted against the relevant resolutions in relation to the Proposed Merger at the GPC General Meetings
"GPC General Meetings"	the A Shares Class Meeting, the H Shares Class Meeting and the EGM
"GPHL"	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned company established in the PRC and the controlling Shareholder which held approximately 48.20% equity interest in the Company as at the Latest Practicable Date
"GPHL Group"	GPHL and its subsidiaries and their respective associates
"Group"	the Company and its subsidiaries

"H Share Average Price"	the average trading price per H Share derived by dividing the total trading value of H Shares by the total trading volumes of H Shares during the 20 trading days prior to the date of the First Board Resolution Announcement on 27 March 2012, being HK$5.54 per H Share
"H Share(s)"	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each and is/are listed on the Hong Kong Stock Exchange
"H Shares Class Meeting"	meeting of the holders of H Shares to be held on Wednesday, 19 September 2012 for the purposes of, inter alia, considering and, if thought fit, approving the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), together with the respective transactions contemplated thereunder
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent board committee of the Company (comprising Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, all being independent non-executive Directors) established for the purpose of considering the terms of the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), the Trademark Custody Agreement and the respective transactions contemplated thereunder
"Independent Financial Adviser" or "SWCL"	South West Capital Limited, a corporation licensed by the SFC which is engaged in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), the Trademark Custody Agreement and the respective transactions contemplated thereunder

"Independent Shareholders"	Shareholders other than GPHL and its associates
"Issue Price"	RMB12.10 per GPC A Share (subject to the ex-right or ex-dividend adjustment)
"Last Trading Day"	4 November 2011, being the last trading day prior to the date of the First Board Resolution Announcement
"Latest Practicable Date"	28 August 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Major Assets Reorganization"	the Proposed Merger, the Proposed Assets Acquisition and the compensation for profit shortfall under the Profit Compensation Agreement
"MOFCOM"	中華人民共和國商務部 (Ministry of Commerce of the PRC)
"Po Lian"	保聯拓展有限公司 (Po Lian Development Company Limited), a company incorporated in Hong Kong and a wholly-owned subsidiary of GPHL
"PRC" or "China"	The People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"Preliminary Proposal"	the preliminary proposal which set out the preliminary terms and details of the Major Assets Reorganization and was approved by the Board at the First Board Meeting
"Profit Compensation Agreement"	the conditional agreement dated 15 June 2012 entered into between the Company and GPHL in relation to the compensation measures arising from the difference which might arise between the actual net profits of the Target Properties and the Target Trademarks for the three financial years commencing from 1 January of the year in which completion of the Major Assets Reorganization takes place and the forecasted net profits of such Target Properties and the Target Trademarks for the same corresponding period as set out in the valuation report contained in Appendix VII(A) to this circular, which were used as bases to determine the Proposed Consideration of the Target Properties and the Target Trademarks
"Proposed Assets Acquisition"	the proposed acquisition of the Target Assets

"Proposed Consideration"	the proposed consideration for the Proposed Assets Acquisition, basis of which is set out in the paragraph headed "I. Major Assets Reorganization – B. The Assets Acquisition Agreement – 4. Consideration" of the Letter from the Board in this circular
"Proposed Merger"	the proposed absorption and merger of the entire issued share capital of BYS by the Company pursuant to the terms of the Absorption and Merger Agreement through the proposed issue of GPC A Shares by the Company at the Exchange Ratio to exchange for BYS Shares
"Put Option"	the put option under the Proposed Merger granted to the GPC Dissenting Shareholders to require the Put Option Provider to acquire their Shares at prices of RMB12.10 per GPC A Share or HK$5.42 per H Share (both are subject to the ex-right or ex-dividend adjustment), subject to certain conditions, pursuant to the Absorption and Merger Agreement as required by the applicable PRC laws and regulations, details of which are set out in the paragraph headed "I. Major Assets Reorganization – A. The Absorption and Merger Agreement – 10. Put Option for the GPC Dissenting Shareholders" of the Letter from the Board in this circular
"Put Option Exercise Date"	being the date on which the Put Option Providers make cash payment to the Shareholders who exercised their rights under the Put Option, and in exchange, the Put Option Providers receive the GPC A Shares and/or H Shares from those Shareholders, the exact date will be determined and announced by the Company
"Put Option Provider"	an independent third party to be appointed by the Company and BYS, who shall, at the Put Option Exercise Date, pay the GPC Dissenting Shareholders in cash in exchange for the GPC A Shares and/or H Shares held by the GPC Dissenting Shareholders pursuant to the Absorption and Merger Agreement. The Put Option Provider(s) shall not be (i) connected person of the Company or GPHL or (ii) party acting in concert with GPHL or with the Cash Alternative Provider
"Real Estate Title Certificates"	房地產權證 (real estate title certificates*), a type of ownership certificate which combines both 土地使用權證 (state-owned land use certificate*) and 房屋所有權證 (building ownership certificate*)

"Registration Period"	the period for GPC Dissenting Shareholders to exercise the Put Option, the exact registration period will be determined and announced by the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Second Board Meeting"	the meeting of the Board held on 15 June 2012 to approve the Final Proposal relating to the Major Assets Reorganization
"Second Board Resolution Announcement"	the announcement of the Company dated 18 June 2012 in relation to the resolutions of the Second Board Meeting
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of RMB1.00 each in the capital of the Company, including both the GPC A Shares and the H Shares
"Share Conversion Date"	being the date on which the new GPC A Shares, as consideration for the Proposed Merger, issued to and registered under the names of BYS Shareholders, the exact date will be determined and announced by the Company and BYS
"Shareholder(s)"	holder(s) of Shares
"sq.m."	square meters
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Assets"	the assets (being (i) the Target Properties; (ii) the Target Trademarks; (iii) 100% equity interest in Po Lian; and (iv) 12.50% equity interest in Baxter) to be acquired by the Company from GPHL pursuant to the Assets Acquisition Agreement
"Target Properties"	the properties owned by GPHL and to be acquired by the Company pursuant to the Assets Acquisition Agreement. Details of the Target Properties are set out in the paragraph headed "I. Major Assets Reorganization – B. The Assets Acquisition Agreement – 9. Information on the Target Assets" of the Letter from the Board in this circular

"Target Trademarks"	the trademarks owned by GPHL and to be acquired by the Company pursuant to the Assets Acquisition Agreement. Details of the Target Trademarks are set out in the paragraph headed "I. Major Asset Reorganization – B. The Assets Acquisition Agreement – 9. Information on the Target Assets" of the Letter from the Board in this circular
"Third Board Meeting"	the meeting of the Board held on 24 August 2012 to approve, among other things, the 2013 Profit Forecasts
"Trademark Custody Agreement"	the conditional agreement dated 29 February 2012 entered into between the Company and GPHL in relation to the provision of custody services by the Company to GPHL for the WangLaoJi Trademarks, as supplemented by a supplemental agreement dated 15 June 2012
"USD"	United States dollars, the lawful currency of the United States
"WangLaoJi Trademarks"	the trademarks in WangLaoJi*（王老吉）series owned by GPHL and to be in custody of the Company pursuant to the Trademark Custody Agreement
"%"	per cent

Certain English translation of Chinese names or words marked with "" in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency between the Chinese names and their English translations in this circular, the Chinese names shall prevail.*

广州药业股份有限公司

Guangzhou Pharmaceutical Company Limited

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock Code: 0874)

Executive Directors:
Mr. Yang Rongming
Mr. Li Chuyuan
Mr. Wu Changhai

Independent Non-Executive Directors:
Mr. Liu Jinxiang
Mr. Li Shanmin
Mr. Zhang Yonghua
Mr. Wong Lung Tak Patrick
Mr. Qiu Hongzhong

Registered office and principal place of business:
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
the PRC

Place of business in Hong Kong:
Room 2005, 20th Floor
Tower Two Lippo Center
89 Queensway
Hong Kong

4 September 2012

To the Shareholders

Dear Sir or Madam,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS INVOLVING MAJOR ASSETS REORGANIZATION –

(A) ABSORPTION AND MERGER OF GUANGZHOU BAIYUNSHAN PHARMACEUTICAL CO., LTD.;

(B) ACQUISITION OF TARGET ASSETS FROM GUANGZHOU PHARMACEUTICAL HOLDINGS LIMITED; AND

(C) COMPENSATION FOR PROFIT SHORTFALL;

(II) TRADEMARK CUSTODY;

(III) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY;

AND

(IV) PROPOSED APPOINTMENT OF DIRECTOR

INTRODUCTION

References are made to the announcements of the Company dated 27 March 2012, 18 June 2012 and 24 August 2012.

The purpose of this circular is, among other things, to provide you with more information in relation to the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement) and the Trademark Custody Agreement in order to enable you to make an informed decision on whether to vote for or against those resolutions at the EGM and the H Shares Class Meeting.

This circular also provides you with information regarding (i) the special resolution relating to the proposed amendments to the Articles of Association; and (ii) the ordinary resolution relating to the proposed appointment of Director to be proposed at the EGM.

I. MAJOR ASSETS REORGANIZATION

On 29 February 2012, being the date of the First Board Meeting, the Board resolved to (a) approve the Preliminary Proposal relating to the Major Assets Reorganization, comprising the Proposed Merger and the Proposed Assets Acquisition; (b) enter into the Absorption and Merger Agreement with BYS in relation to the Proposed Merger; and (c) enter into the Assets Acquisition Agreement with GPHL in relation to the Proposed Assets Acquisition.

Pursuant to the respective board resolutions passed during the First Board Meeting, on 29 February 2012, (i) the Company and BYS entered into the Absorption and Merger Agreement in relation to the Proposed Merger; and (ii) the Company and GPHL entered into the Assets Acquisition Agreement in relation to the Proposed Assets Acquisition.

On 15 June 2012, being the date of the Second Board Meeting, the Board resolved to (a) approve the Final Proposal, which sets out the finalized terms of the Major Assets Reorganization; (b) enter into the supplemental agreement to the Assets Acquisition Agreement with GPHL; (c) enter into the Profit Compensation Agreement with GPHL; and (d) approve the 2012 Profit Forecasts.

Pursuant to the above board resolutions passed during the Second Board Meeting, on 15 June 2012, the Company and GPHL entered into (a) the supplemental agreement to the Assets Acquisition Agreement; and (b) the Profit Compensation Agreement respectively.

On 24 August 2012, being the date of the Third Board Meeting, the Board resolved to approve, among other things, the 2013 Profit Forecasts.

Mr. Yang Rongming and Mr. Li Chuyuan, being executive Directors and directors of GPHL, and Mr. Shi Shaobin, being the then executive Director (resigned on 18 June 2012) and the then director of GPHL (resigned on 15 June 2012), abstained from voting at the First Board Meeting and the Second Board Meeting approving the relevant resolutions in relation to the Major Assets Reorganization. Mr. Yang Rongming and Mr. Li Chuyuan also abstained from voting at the Third Board Meeting approving the 2013 Profit Forecasts.

The Proposed Merger and the Proposed Assets Acquisition are inter-conditional to each other and are subject to the satisfaction of certain conditions precedent as detailed below in this circular.

A. THE ABSORPTION AND MERGER AGREEMENT

1. Date:

29 February 2012.

2. Parties:

(i) The Company, as the acquirer; and

(ii) BYS, as the target company, is a company established in the PRC and its shares are listed on the Shenzhen Stock Exchange. As at the Latest Practicable Date, GPHL, the controlling Shareholder, holds approximately 35.58% of the issued share capital of BYS. Accordingly, BYS is a connected person of the Company.

3. The Proposed Merger:

Pursuant to the Absorption and Merger Agreement, the Company and BYS have conditionally agreed the proposed absorption and merger of the entire issued share capital of BYS by the Company through the proposed exchange of new GPC A Shares to be issued by the Company for all BYS Shares in issue at the Exchange Ratio of 0.95 GPC A Shares for 1 BYS Share (subject to the ex-right or ex-dividend adjustment). After the completion of the Major Assets Reorganization which includes, inter alia, the Proposed Merger, the legal person status of BYS will be deregistered and all assets, liabilities, rights, business and staff (including their rights and obligations before the completion of the Absorption and Merger Agreement) of BYS will be taken up by the Company.

4. Consideration:

Based on the existing issued share capital of BYS of 469,053,689 BYS Shares as at the Latest Practicable Date, the Company will issue an aggregate of approximately 445,601,005 GPC A Shares (having the same voting right as the existing issued GPC A Shares and, representing approximately 54.95% of the existing issued share capital of the Company and approximately 34.51% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganization) to BYS Shareholders at the Exchange Ratio in exchange for the BYS Shares held by them on the Share Conversion Date. Based on the GPC A Share Conversion Price of RMB12.10 per GPC A Share (subject to the ex-right or ex-dividend adjustment) and 445,601,005 GPC A Shares to be issued under the Proposed Merger, the aggregate value of the consideration for the Proposed Merger is approximately RMB5,391,772,161. Details of the Exchange Ratio are set out in the paragraph headed "8. The Exchange Ratio" below.

Based on the equity interest of GPHL in 166,900,000 BYS Shares as at the Latest Practicable Date, a total of approximately 158,555,000 GPC A Shares, representing approximately 19.55% of the existing issued share capital of the Company and approximately 12.28% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganization, will be issued to GPHL by the Company at the Exchange Ratio upon the completion of the Proposed Merger.

The BYS Shareholders (other than GPHL and its associates) who decide not to receive in whole or in part the GPC A Shares can elect to accept the Cash Alternative provided by the Cash Alternative Provider. The Cash Alternative will be provided to such BYS Shareholders at the price of RMB11.50 per BYS Share (subject to the ex-right or ex-dividend adjustment) on the Cash Alternative Exercise Date. Details of the Cash Alternative are set out in the paragraph headed "9. Cash Alternative for the BYS Shareholders" below.

The new GPC A Shares to be issued pursuant to the Absorption and Merger Agreement will be listed on the Shanghai Stock Exchange and will rank *pari passu* in all respects with the GPC A Shares then in issue.

5. Conditions Precedent:

The Absorption and Merger Agreement shall become effective subject to the following conditions precedent:

(i) the approvals of the Absorption and Merger Agreement and the transactions contemplated thereunder by the Shareholders and the BYS Shareholders at their respective general meetings and (for the case of the Company) at the A Shares Class Meeting and the H Shares Class Meeting of the Company having been obtained;

(ii) the Assets Acquisition Agreement having become effective;

(iii) the approvals of the Major Assets Reorganization having been obtained from relevant Stated-owned Assets Supervision and Administration Departments* (國有資產監督管理部門);

(iv) the approvals of the Major Assets Reorganization having been obtained from the CSRC;

(v) (if applicable) a whitewash waiver having been granted by the SFC to GPHL and parties acting in concert with it from making a general offer pursuant to the Takeovers Code;

(vi) the approval from the MOFCOM having been obtained after its examination on the Major Assets Reorganization in accordance with the Measures for the Undertaking Concentration Examination* (經營者集中審查辦法); and

(vii) the approvals in relation to the Major Assets Reorganization having been obtained from the relevant government and regulatory authorities.

None of the above conditions precedent can be waived and there is no long-stop date for the fulfillment of the above conditions precedent under the Absorption and Merger Agreement.

With regard to condition (i) above relating to the Shareholders' approval of the Proposed Merger, it has been further set out in the Preliminary Proposal and the Final Proposal that at each of the A Shares Class Meeting, the H Shares Class Meeting and the EGM, the Major Assets Reorganization, including the Proposed Merger, must be approved by the passing of special resolutions, i.e. approved by more than two-thirds of the holders of GPC A Shares and/or the H Shares, as the case may be, who vote in person or by proxy at the relevant meetings.

As at the Latest Practicable Date, the approvals from the Board and the BYS Board in relation to the Absorption and Merger Agreement and the transactions contemplated thereunder were obtained; and none of the above conditions precedent to the Absorption and Merger Agreement has been fulfilled.

6. Completion:

Upon the completion of the Proposed Merger, which will be announced by the Company by way of further announcement(s), (i) new GPC A Shares will be issued to the BYS Shareholders in exchange for their BYS Shares on the Share Conversion Date; and (ii) BYS shall hand over all of its assets, liabilities, rights, business and staff (including their rights and obligations before completion of the Absorption and Merger Agreement), etc., to the Company or its nominee(s). An asset transfer settlement statement shall be signed by BYS and the Company on the date of completion as the confirmation of completion of the transfer.

Both BYS and the Company shall cooperate to complete the procedures for the transfer of all relevant assets, liabilities, rights, business and staff, etc. of BYS, as soon as possible after the Absorption and Merger Agreement comes into effect.

All BYS Shares will then be cancelled and the legal person status of BYS will be deregistered. As a result of and upon the completion of the Major Assets Reorganization, the assets of BYS will be absorbed into and the liabilities of BYS will be assumed by the Company and BYS will cease to exist after completion of the necessary procedures pursuant to the applicable law.

7. Profit Distribution:

The accrued and undistributed profits of both the Company and BYS prior to the completion of the Proposed Merger will be shared among the Shareholders in accordance to their respective equity interests in the Company after the completion of the Proposed Merger.

The respective original shareholders of the Company and BYS shall be entitled to the dividends and bonus respectively declared by the Company and BYS prior to the signing of the Absorption and Merger Agreement.

If ex-right or ex-dividend on the Shares and/or the BYS Shares occurs, the GPC A Share Conversion Price, BYS Share Conversion Price, the price of the BYS Shares offered in the Cash Alternative, the prices of GPC A Shares and H Shares offered in the Put Option and/or the Issue Price will be adjusted according to the formula below:

(1)	For any distribution of scrip dividend or capitalization issue from the capital reserve:	$P_1 = P_0 / (1 + n)$
(2)	For any right issue:	$P_1 = (P_0 + A \times k) / (1 + k)$
For carrying out actions (1) and (2) simultaneously:		$P_1 = (P_0 + A \times k) / (1 + n + k)$
(3)	For any distribution of cash dividend:	$P_1 = P_0 - D$
For carrying out actions (1), (2) and (3) simultaneously:		$P_1 = (P_0 - D + A \times k) / (1 + n + k)$

Where:

P_0	represents	the GPC A Share Conversion Price, the BYS Share Conversion Price, the price of the BYS Shares offered in the Cash Alternative, the prices of GPC A Shares and H Share offered in the Put Option and/or the Issue Price before the adjustment (as the case may be)
n	represents	the scrip dividend rate or the capitalization rate
k	represents	the ratio of the right issue
A	represents	the price of the right issue
D	represents	the cash dividend per GPC A Share, the H Share and/or BYS Share (as the case may be)
P_1	represents	the new GPC A Share Conversion Price, the BYS Share Conversion Price, the price of the BYS Shares offered in the Cash Alternative, the prices of GPC A Shares and H Share offered in the Put Option and/or the Issue Price after the adjustment (as the case may be)

As at the Latest Practicable Date, apart from the GPC 2011 Final Dividend and the BYS 2011 Final Dividend (details of which were set out in their respective announcements dated 12 April 2012 and 20 April 2012), there is no other planned dividend or bonus declared by the Company or BYS.

Details of the effect of the GPC 2011 Final Dividend and BYS 2011 Final Dividend on the GPC A Share Conversion Price, BYS Share Conversion Price, the price of the BYS Shares offered in the Cash Alternative and the prices of GPC A Shares and H Shares offered in the Put Option are set out in the paragraphs headed "8. The Exchange Ratio", "9. Cash Alternative for the BYS Shareholders" and "10. Put Option for the GPC Dissenting Shareholders" below respectively.

Details of the effect of the GPC 2011 Final Dividend on the Issue Price are set out in the paragraph headed "I. Major Assets Reorganization" – B. The Assets Acquisition Agreement – 4. Consideration" below.

8. The Exchange Ratio:

The Exchange Ratio as announced in the announcement of the Company dated 27 March 2012 (subject to the ex-right or ex-dividend adjustment) was determined based on:

(i) the BYS Share Average Price of RMB11.55 per BYS Share (subject to the ex-right or ex-dividend adjustment), representing:

1. a discount of approximately 4.47% to the average of the trading prices of the BYS Shares as quoted on the Shenzhen Stock Exchange on the Last Trading Day, being approximately RMB12.09 per BYS Share;

2. a discount of approximately 2.78% to the average of the trading prices of the BYS Shares as quoted on the Shenzhen Stock Exchange for the last 5 trading days up to and including the Last Trading Day, being approximately RMB11.88 per BYS Share;

3. the same price as the average of the trading prices of the BYS Shares as quoted on the Shenzhen Stock Exchange for the last 10 trading days up to and including the Last Trading Day, being approximately RMB11.55 per BYS Share;

4. a premium of approximately 0.52% over the average of the trading prices of the BYS Shares as quoted on the Shenzhen Stock Exchange for the last 15 trading days up to and including the Last Trading Day, being approximately RMB11.49 per BYS Share; and

5. a discount of approximately 47.26% to the average of the trading prices of the BYS shares as quoted on the Shenzhen Stock Exchange on the Latest Practicable Date, being approximately RMB21.90 per BYS Share.

(ii) the GPC A Share Average Price of RMB12.20 per GPC A Share (subject to the ex-right or ex-dividend adjustment), representing:

1. a discount of approximately 7.29% to the average of the trading prices of the GPC A Shares as quoted on the Shanghai Stock Exchange on the Last Trading Day, being approximately RMB13.16 per GPC A Share;

2. a discount of approximately 4.24% to the average of the trading prices of the GPC A Shares as quoted on the Shanghai Stock Exchange for the last 5 trading days up to and including the Last Trading Day, being approximately RMB12.74 per GPC A Share;

3. a discount of approximately 1.29% to the average of the trading prices of the GPC A Shares as quoted on the Shanghai Stock Exchange for the last 10 trading days up to and including the Last Trading Day, being approximately RMB12.36 per GPC A Share;

4. a discount of approximately 0.16% to the average of the trading prices of the GPC A Shares as quoted on the Shanghai Stock Exchange for the last 15 trading days up to and including the Last Trading Day, being approximately RMB12.22 per GPC A Share; and

5. a discount of approximately 51.02% to the average of the trading prices of the GPC A Shares as quoted on the Shanghai Stock Exchange on the Latest Practicable Date, being approximately RMB24.91 per GPC A Share.

Accordingly, the Exchange Ratio was determined at 1:0.95 whereby the BYS Shareholders will exchange 1 BYS Share for 0.95 GPC A Shares. The Exchange Ratio will not be adjusted unless (i) ex-right or ex-dividend on the Shares and/or the BYS Shares occurs; (ii) required by the relevant laws and regulations; or (iii) requested by regulatory authorities prior to the Share Conversion Date.

If ex-right or ex-dividend on the Shares and/or the BYS Shares occurs, the Exchange Ratio will be adjusted according to the adjusted GPC A Share Conversion Price and/ or the adjusted BYS Share Conversion Price based on the formulas set out in the paragraph headed "7. Profit Distribution" above. In view of the GPC 2011 Final Dividend and BYS 2011 Final Dividend, the GPC A Share Conversion Price and the BYS Share Conversion Price were adjusted to RMB12.10 per GPC A Share and RMB11.50 per BYS Share respectively, rendering the same Exchange Ratio (i.e. every 1 BYS Share will be exchanged for 0.95 GPC A Shares).

The Exchange Ratio as announced in the announcement of the Company dated 27 March 2012 (subject to the ex-right or ex-dividend adjustment) was determined by making references to the GPC A Share Average Price and the BYS Share Average Price, representing slight deviations from the respective averages of the trading prices of GPC A Shares and BYS Shares on the Last Trading Day and during the 5, 10 and 15 trading days prior to a price fixing day, which is the date of the First Board

Resolution Announcement (i.e. 27 March 2012) in the case of the Proposed Merger. It is consistent with the market practices to determine the Exchange Ratio (subject to the ex-right or ex-dividend adjustment) with reference to the average trading price of A shares of a company during the 20 trading days prior to the relevant price fixing day.

Pursuant to the Absorption and Merger Agreement, any fractional GPC A Shares arising from exchanging the BYS Shares into the GPC A Shares at the Exchange Ratio will be dealt with in accordance with the relevant requirements of the Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited* (中國證券登記結算有限責任公司).

With reference to usual practice, the fractional GPC A Shares will be ranked in descending order according to the number of the fractional GPC A Shares and each Shareholder of those fractional GPC A Shares will be allocated with one GPC A Share according to the order until the actual number of GPC A Shares issued equal to the number of GPC A Shares proposed to be issued under the Proposed Merger. If the Shareholders hold the same number of fractional GPC A Shares and the remaining GPC A Shares are not enough to be allocated to each of them, the allocation of GPC A Shares will be balloted by computer.

9. Cash Alternative for the BYS Shareholders:

In order to provide full protection to the BYS Shareholders, it is agreed that subject to the Proposed Merger becoming unconditional, the Cash Alternative will be granted to the BYS Shareholders (other than GPHL and its associates) who decide not to receive in whole or in part the GPC A Shares. During the Acceptance Period, those BYS Shareholders may elect to be paid in cash for their BYS Shares at the price of RMB11.50 per BYS Share, being the BYS Share Average Price as adjusted by the BYS 2011 Final Dividend, by the Cash Alternative Provider on the Cash Alternative Exercise Date. The price of RMB11.50 will not be adjusted unless there is any ex-right or ex-dividend occurs on the BYS Shares prior to the Cash Alternative Exercise Date. In case of any further event which will cause the ex-right or ex-dividend on the BYS Shares, the BYS Share Average Price will be adjusted according to the formulas set out in the paragraph headed "7. Profit Distribution" above.

The Cash Alternative will be provided at RMB11.50, which is the BYS Share Average Price of RMB11.55 for each BYS Share as adjusted by the BYS 2011 Final Dividend and subject to further ex-right or ex-dividend adjustment (if any) given that (i) it is a common market practice by making reference to the average trading price per share during the 20 trading days prior to a price fixing day, which, for the case of BYS, is 28 March 2012, the publication date of the announcement made by BYS in relation to the resolutions of the first BYS Board meeting to approve the Proposed Merger; and (ii) it is the same price used for determining the Exchange Ratio. Details of comparison between the BYS Share Average Price of RMB11.55 and the market price of BYS Share are set out in the paragraph headed "8. The Exchange Ratio" above.

Subject to the Absorption and Merger Agreement becoming unconditional, the BYS Shareholders (other than GPHL and its associates) will either (i) exchange their BYS Shares into the new GPC A Shares at the Exchange Ratio; or (ii) elect the Cash Alternative provided by the Cash Alternative Provider, who will then exchange such BYS Shares received by it into the new GPC A Shares at the Exchange Ratio. For those BYS Shares held by the BYS Shareholders who (i) fail to complete the declaration procedures within the Acceptance Period, or (ii) are not otherwise entitled to elect the Cash Alternative (as described below), such BYS Shares held by them shall be exchanged into new GPC A Shares at the Exchange Ratio mandatorily. Thus, all of the existing issued BYS Shares shall be exchanged into new GPC A Shares upon completion of the Major Assets Reorganization.

On the assumption that all BYS Shareholders (other than GPHL and its associates) elect the Cash Alternative offered at RMB11.50 per BYS Share in respect of a total of 302,153,689 BYS Shares held by them, a total amount of approximately RMB3,474,767,424 in cash will be payable by the Cash Alternative Provider to the BYS Shareholders (other than GPHL and its associates) and a maximum of 287,046,005 GPC A Shares, representing approximately 35.40% of the existing issued share capital of the Company and approximately 22.23% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganization, will be issued and held by the Cash Alternative Provider pursuant to the Proposed Merger at the Exchange Ratio.

As at the Latest Practicable Date, no Cash Alternative Provider has been nominated and appointed. The selection criteria of the Cash Alternative Provider are that it (i) shall not be a connected person to the Company or to GPHL; (ii) shall not be a party acting in concert with GPHL or the Put Option Provider; (iii) shall not hold any interest in the Company as at the date of its appointment; and (iv) shall have sufficient financial resources to provide the Cash Alternative to the BYS Shareholders. The Cash Alternative Provider will also undertake that it and the parties acting in concert with it in aggregate will hold less than 30% of the issued share capital of the Company after the completion of the Major Assets Reorganization. In order to ensure the Cash Alternative Provider will not be party acting in concert with GPHL, GPHL undertakes to the Company that it will not enter into any agreement or understanding (whether formal or informal) with this provider to actively cooperate to obtain or consolidate the control of the Company through the acquisition by any of them of voting rights of the Company, which may trigger the obligation to make a mandatory offer under Rule 26 of the Takeovers Code. In the case of any uncertainty in whether the Cash Alternative Provider is a party acting in concert with GPHL in the course of its appointment, the Company will seek the advice from the SFC when necessary.

The appointment of Cash Alternative Provider will be announced by the Company and BYS by way of announcement(s) before convening the respective general meetings of the Company and BYS. Such appointment is not subject to Independent Shareholders' approval at such meetings. The Company and BYS will use its best endeavour to appoint the Cash Alternative Provider prior to the convening of the respective general meetings of the Company and BYS. In the event that the Company and BYS are unable to appoint the Cash Alternative Provider prior to such time in accordance with the Absorption and Merger Agreement, the progress of the Major Assets Reorganization may be delayed until the Cash Alternative Provider is appointed.

The Cash Alternative cannot be exercised in case the followings apply to the BYS Shares as at the closure date of the Acceptance Period:

(i) those BYS Shares held by the director(s), supervisor(s) and senior management of BYS, which are subject to selling restrictions;

(ii) those BYS Shares which are subject to any charges or third party's rights or are frozen as a result of any judicial proceedings;

(iii) those BYS Shares held by the BYS Shareholders who have undertaken to BYS to surrender their rights to exercise the Cash Alternative; and

(iv) those BYS Shares for which the Cash Alternative cannot be exercised according to laws in the PRC.

With regard to the BYS Shares which are subject to selling restrictions, charges, third party's rights or are frozen as a result of any judicial proceedings, such BYS Shares shall also be exchanged into new GPC A Shares at the Exchange Ratio mandatorily, with the same selling restrictions, charges, third party rights and freeze attached thereto. For those BYS Shares for which the declaration procedures are completed within the Acceptance Period but are subsequently subject to any charges or freeze as a result of any judicial proceedings or mandatory deduction during the period from the closure date of the Acceptance Period to the Cash Alternative Exercise Date, the declaration of those BYS Shares freezed as a result of any judicial proceedings or mandatory deduction or pledged shall be invalid and those BYS Shares will also be exchanged into new GPC A Shares at the Exchange Ratio mandatorily with the same charges and freeze attached thereto.

Information regarding the exercise of the Cash Alternative, including but not limited to the Cash Alternative Exercise Date, the Acceptance Period, the registration procedures and the clearing and settlement details, will be further announced by the Company and BYS by way of announcement(s).

10. Put Option for the GPC Dissenting Shareholders:

In order to provide full protection to the Shareholders, it is acknowledged by the Company and BYS that, subject to the Proposed Merger becoming unconditional, the Put Option will be granted by the Put Option Provider to the GPC Dissenting Shareholders who have voted against the Proposed Merger at the GPC General Meetings convened to be held for the purposes of, inter alia, considering and approving the Major Assets Reorganization. GPC Dissenting Shareholders holding GPC A Shares may dispose of their GPC A Shares to the Put Option Provider for GPC A Shares at the price of RMB12.10 per GPC A Share, being the GPC A Share Average Price as adjusted by the GPC 2011 Final Dividend, and the GPC Dissenting Shareholders holding H Shares may dispose of their H Shares to the Put Option Provider for H Shares at the price of HK$5.42 per H Share, being the H Share Average Price as adjusted by the GPC 2011 Final Dividend, on the Put Option Exercise Date. The respective prices of the GPC A Shares and H Shares payable under the Put Option will not be adjusted unless ex-right or ex-dividend on the Shares occurs prior to the Put Option Exercise Date.

If ex-right or ex-dividend on the GPC A Shares and the H Shares occurs, the prices of GPC A Shares and H Shares for the purpose of the Put Option will be adjusted according to the formulas set out in the paragraph headed "7. Profit Distribution" above.

The Put Option will be provided at the prices of RMB12.10 per GPC A Share and HK$5.42 per H Share, which are the GPC A Share Average Price and H Share Average Price as adjusted by the GPC 2011 Final Dividend respectively and both are subject to further ex-right or ex-dividend adjustment (if any), given that (i) it is a common market practice by making reference to the average trading price per share of a company during the 20 trading days prior to a price fixing day, which is the date of the First Board Resolution Announcement in the case of the Proposed Merger; and (ii) with regard to the GPC A Shares, the price payable under the Put Option is the same price used for determining the Exchange Ratio. Details of comparison between the GPC A Share Average Price payable under the Put Option and the market price of GPC A Shares are set out in the paragraph headed "8. The Exchange Ratio" above.

The H Share Average Price of HK$5.54 per H Share (subject to the ex-right or ex-dividend adjustment), representing:

1. a discount of approximately 10.21% to the average of the trading prices of the H Shares as quoted on the Hong Kong Stock Exchange on the Last Trading Day, being approximately HK$6.17 per H Share;

2. a discount of approximately 4.32% to the average of the trading prices of the H Shares as quoted on the Hong Kong Stock Exchange for the last 5 trading days up to and including the Last Trading Day, being approximately HK$5.79 per H Share;

3. a discount of approximately 4.32% to the average of the trading prices of the H Shares as quoted on the Hong Kong Stock Exchange for the last 10 trading days up to and including the Last Trading Day, being approximately HK$5.79 per H Share;

4. a discount of approximately 2.64% to the average of the trading prices of the H Shares as quoted on the Hong Kong Stock Exchange for the last 15 trading days up to and including the Last Trading Day, being approximately HK$5.69 per H Share; and

5. a discount of approximately 62.18% to the average of the trading prices of the H Shares as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date, being approximately HK$14.65 per H Share.

On the assumption that the GPC Dissenting Shareholders (i) holding 73,300,000 H Shares (being one-third of the total 219,900,000 H Shares held by the Independent Shareholders, and the maximum number of H Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of H Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option offered at HK$5.42 per H Share, a total amount of approximately HK$397,286,000 in cash will be payable by the Put Option Provider for H Shares to the Shareholders of H Shares and the Put Option Provider for H Shares will hold 73,300,000 H Shares in maximum (representing approximately 9.04% of the existing issued share capital of the Company and approximately 5.68% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization); and (ii) holding 66,722,203 GPC A Shares (being one-third of the total 200,166,609 GPC A Shares held by the Independent Shareholders, and the maximum number of GPC A Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of GPC A Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option offered at RMB12.10 per GPC A Share, a total amount of approximately RMB807,338,656 in cash will be payable by the Put Option Provider for GPC A Shares to the Shareholders of GPC A Shares and the Put Option Provider for GPC A Shares will hold 66,722,203 GPC A Shares in maximum (representing approximately 8.23% of the existing issued share capital of the Company and approximately 5.17% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization). The Put Option Providers will retain those GPC A Shares and H Shares acquired by it/them pursuant to the Put Option.

As at the Latest Practicable Date, no Put Option Provider has been nominated and appointed. The selection criteria of the Put Option Provider are that it (i) shall not be a connected person to the Company or to GPHL; (ii) shall not be a party acting in concert with GPHL or the Cash Alternative Provider; (iii) shall not hold any interest in the Company as at the date of its appointment; and (iv) shall have sufficient financial resources to provide the Put Option to the GPC Dissenting Shareholders. The Put Option Provider will also undertake that it and the parties acting in concert with it in aggregate will hold less than 30% of the issued share capital of the Company after the completion of the Major Assets Reorganization. In order to ensure the Put Option Provider will not be a party acting in concert with GPHL, GPHL undertakes to the Company that it will not enter into any agreement or understanding (whether formal or informal) with such provider to actively cooperate to obtain or consolidate the control of the Company through the acquisition by any of them of voting rights of the Company, which may trigger the obligation to make a mandatory offer under Rule 26 of the Takeovers Code. In the case of any uncertainties in whether the Put Option Providers are parties acting in concert with GPHL in the course of their appointment, the Company will seek the advice from the SFC when necessary.

The appointment of Put Option Provider will be announced by the Company by way of announcement(s) before convening the GPC General Meetings. Such appointment is not subject to Independent Shareholders' approval at such meetings. The Company and BYS will use its best endeavour to appoint the Put Option Provider prior to the convening of the GPC General Meetings. In the event that the Company and BYS are unable to appoint the Put Option Provider prior to such time in accordance with the Absorption and Merger Agreement, the progress of the Major Assets Reorganization may be delayed until the Put Option Provider is appointed.

The Company and BYS also undertake that they will appoint sufficient Put Option Provider(s) for the exercise of the Put Option for both GPC A Shares and H Shares and announce the same by way of announcement(s).

The entitlement of a Shareholder to the Put Option shall be subject to the following conditions:

(i) the Shareholder having cast valid votes against the resolution(s) to approve the Absorption and Merger Agreement at the A Shares Class Meeting in respect of its GPC A Shares, the H Shares Class Meeting in respect of its H Shares, and the EGM in respect of all its Shares;

(ii) the Shareholder having retained its Shares from the date of registration ("**Registration Date**") for the GPC General Meetings convened to be held for the purposes of, inter alia, considering and approving the Absorption and Merger Agreement, up to the Put Option Exercise Date; and

(iii) the Shareholder having successfully completed the registration procedures for the Put Option during the Registration Period.

The number of Shares which may be exercised under the Put Option by a Shareholder shall be the lower of:

(i) the number of Shares in respect of which valid votes against the resolution(s) relating to the Absorption and Merger Agreement having been cast during the GPC General Meetings; and

(ii) the lowest number of Shares held during the period from the Registration Date up to the Put Option Exercise Date.

The Put Option may not be exercised in respect of the followings:

(i) those Shares held by the Director(s), supervisor(s) and senior management of the Company, which are subject to selling restrictions;

(ii) those Shares which are subject to any charges or third party's rights or are frozen as a result of any judicial proceedings;

(iii) those Shares held by the Shareholders who have undertaken to the Company to surrender their rights to exercise the Put Option;

(iv) those Shares that have already been sold by the GPC Dissenting Shareholders; and

(v) those Shares for which the Put Option cannot be exercised according to the applicable laws and regulations in the PRC (in respect of GPC A Shares) and/or in Hong Kong (in respect of H Shares).

Those GPC Dissenting Shareholders shall only exercise the Put Option to the Put Option Providers and not to the Company or any of its Shareholders who assent to the Proposed Merger.

Information regarding the exercise of the Put Option, including but not limited to the Put Option Exercise Date, the Registration Period, the registration procedures, clearing and settlement details, will be further announced by the Company by way of announcement(s).

11. Undertaking from GPHL

As at the Latest Practicable Date, a total of 50 properties consisting of 276 buildings with a total gross floor area of approximately 448,826.64 sq.m. were owned by BYS, among which, (i) the land-use rights of 7 properties owned by BYS (being the properties Nos. 1, 30 in Group A1, Nos. 36, 39, 42, 44 in Group A2 and No. 50 in Group A3 as set out in Appendix VIII to this circular) are classified as allocated land-use rights*（劃撥土地）, and (ii) Real Estate Title Certificates or State-owned Land Use Right Certificates of 33 buildings contained in 16 properties have not been applied for by BYS (contained in the properties Nos. 1, 12, 14, 15, 18, 20, 22, 24, 25, 29 to 32 in Group A1, and Nos. 35, 46 and 49 in Group A2 as set out in Appendix VIII to this circular). The above BYS properties with legal defects in titles are mainly used as industrial, storage and ancillary facilities with a total gross floor area of approximately 82,751.01 sq.m. and no commercial value was assigned to such properties as at 30 June 2012.

On 15 June 2012, GPHL (i) has undertaken to the Company that it would use its best endeavors to rectify such legal defects in titles of those BYS properties; (ii) has guaranteed to the Company that the Enlarged Group would be able to own and occupy such properties after the completion of the Proposed Merger and there would not be any material adverse impact on nor incurring of any additional cost by the Enlarged Group due to such legal defects; and (iii) has undertaken to the Company that it would compensate the Company within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name on the Real Estate Title Certificates and the relevant land premium in relation to the changes of the nature of the land-use rights of those BYS properties from non-granted land-use rights*（非出讓用地）to granted land-use rights*（出讓用地）) in case there are any penalties imposed on or losses incurred by the Company due to the legal defects in titles of those BYS properties. As at the Latest Practicable Date, the Company estimated that land premium and tax in relation to the rectification of the legal defects of those BYS properties will be approximately RMB21,971,900, which was calculated based on the gross floor area and standard land price of those BYS properties with legal defects as well as the relevant applicable tax rate for the change of registration names on Real Estate Title Certificates in the PRC.

To the best knowledge of the Company, whether the legal defects in titles of the above BYS properties (including the obtaining of the Real Estate Title Certificates) can be rectified is subject to the response of the relevant PRC authorities to which and when the application for the rectification of legal defects is made. However, based on the information provided by BYS, the Company expects that the legal defects of most BYS properties can be rectified without material legal obstacles except for five BYS properties, in which legal obstacles may exist in obtaining the Real Estate Title Certificates due to incomplete information for the relevant rectification process or the nature of the land-use rights or unauthorized building structure. Details of the abovementioned five BYS properties are as follows:

	Properties owner	**Site area of the land** *(sq. m)*	**Gross floor area of the building** *(sq. m)*	**Description of legal defects on title of properties**	**Existing use of the properties**	**Properties No. as set out in Appendix VIII to this circular**
1.	BYS	21,113.04	500.00	Real Estate Title Certificates were not obtained	Public facilities use	No.31 in Group A1
2.	BYS	12,149.19	312.00	Real Estate Title Certificates were not obtained	Commercial and ancillary use	No. 49 in Group A2
3.	BYS	13,441.95	8,019.85	Real Estate Title Certificates were not obtained	Industrial use	No. 32 in Group A1
4.	BYS	11,848.00	4,756.5	The nature of the land-use rights is classified as allocated land-use rights*（劃撥用地）and the Real Estate Title Certificates were not obtained	Storage use	No. 30 in Group A1
5.	a subsidiary of BYS	16,780.83	175.57	Real Estate Title Certificates were not obtained	Unauthorized building structure for industrial use	No. 15 in Group A1

However, as at the Latest Practicable Date, BYS is able to own, occupy and use such BYS properties. According to the companies law of the PRC, the Company shall absorb and assume all the assets, liabilities, rights, obligations, business and staff of

BYS upon completion of the Proposed Merger. Even though the registration procedures with relevant PRC authorities for those BYS properties with legal defects cannot be completed, it will not affect the Enlarged Group to own, occupy and use such BYS properties upon the completion of the Proposed Merger. Furthermore, despite BYS has not yet formally applied to the relevant PRC authorities to rectify the legal defects of the BYS properties, as advised by the PRC legal advisers to the Company and to the best knowledge of the Directors based on the verbal consultations with the relevant PRC authorities, apart from the land planning adjustment*（土地規劃調整）in the PRC which may be requested in any circumstances when the PRC government would like to expropriate the land for its development plan and it is solely under the discretion of the PRC government, the relevant PRC authorities will not normally request the Enlarged Group to suspend the ownership, occupancy and using of the BYS properties simply due to the failure to rectify the legal defects of the BYS properties. As at the Latest Practicable Date, the Company and BYS did not receive any notice from the relevant PRC authorities in relation to land planning adjustment*（土地規劃調整）which may require the suspension of the use of such BYS properties. In addition, to the best knowledge of the Directors, in case the use of such BYS properties is suspended due to land planning adjustment*（土地規劃調整）by the PRC government, the PRC government will compensate the Enlarged Group according to relevant rules and regulations in the PRC. Based on the above and the undertaking provided by GPHL on 15 June 2012 as mentioned above and considering that the BYS properties with legal defects are mainly used as industrial, storage and ancillary facilities, which are not facilities for principal operations of BYS Group, the legal defects in titles of those BYS properties will not have any material adverse impact on the operation of the Enlarged Group or on the Major Assets Reorganization.

B. THE ASSETS ACQUISITION AGREEMENT

1. Date:

29 February 2012, as supplemented by a supplemental agreement dated 15 June 2012.

2. Parties:

(i) The Company, as the acquirer; and

(ii) GPHL, as the vendor and the controlling Shareholder. As at the Latest Practicable Date, GPHL holds approximately 48.20% equity interest in the Company. Accordingly, GPHL is a connected person of the Company.

3. Target Assets:

Pursuant to the Assets Acquisition Agreement, the Company will acquire the Target Assets, comprising the followings, from GPHL:

(i) Target Properties – a list of 21 properties with a total gross floor area of approximately 34,906.94 sq.m. in Guangzhou owned by GPHL;

(ii) Target Trademarks – a total of 388 registered trademarks owned by GPHL which are mainly trademarks of Chinese patent medicine;

(iii) 100% equity interest in Po Lian, a company incorporated in Hong Kong and a wholly-owned subsidiary of GPHL; and

(iv) 12.50% equity interest in Baxter, a Sino-foreign equity joint venture established in the PRC and GPHL currently owns 12.50% of its equity interest.

4. Consideration:

The Proposed Consideration of the Target Assets is RMB421,559,700. The Proposed Consideration was arrived at after arm's length negotiations between GPHL and the Company by making reference to the final valuation on the Target Assets of RMB421,559,700 as at 31 December 2011 (conducted by China Valuer International Co., Ltd. ("**China Valuer**"), a registered and qualified independent valuer obtained the Asset Valuation Qualification Certificate*（資產評估資格證書）and Securities and Futures Related Business Valuation Qualification Certificate*（證券期貨相關業務評估資格證書）in the PRC in valuing assets and/or companies in the PRC since 1989). Such appraised value of the Target Assets is subject to the filing with and/or the obtaining of authorization from the relevant State-owned Assets Supervision and Administration Department. As at the Latest Practicable Date, the valuation of the Target Assets have been authorized by the State-owned Assets Supervision and Administration Commission of Guangzhou Municiple Government ("GZ SASAC", 廣州市人民政府國有資產監督管理委員會) and pending for the filing with State-owned Assets Supervision and Administration Commission of Guangdong Province Government ("GD SASAC", 廣東省人民政府國有資產監督管理委員會). During the filing stage with GD SASAC, in case the valuation of the Target Assets is adjusted upward or downward, the Proposed Consideration and the number of Consideration Shares will also be adjusted accordingly. However, the Company expected that the valuation of Target Assets will not be changed at the filing stage with GD SASAC as the same has already be authorized by the GZ SASAC. If there is any change on the valuation of the Target Assets, the Major Assets Reorganization is required to be approved by the Board and the Shareholders at their respective meetings again. Relevant announcements and circular will also be made by the Company accordingly. Details of the valuation reports on the Target Assets prepared by China Valuer are set out in Appendices VII(A) to VII(C) to this circular.

As acknowledged by GPHL, with reference to their previous contributions in promoting the reputation and value of the Target Trademarks, the Company and GPHL are entitled to 47% and 53% of the valuation of the Target Trademarks as at 31 December 2011 respectively. Accordingly, the valuation and the proposed consideration of the Target Trademarks are conducted and determined by making reference to the 53% of the total valuation of the same that is entitled by GPHL.

Set out below are the valuation methodologies finally adopted and the valuation attributable to each of the Target Assets as set out in the valuation reports and the amounts of the Proposed Consideration of each of the Target Assets:

Target Assets	Valuation methodologies finally adopted *(Note 1)*	Valuation	Proposed Consideration
		(RMB'000)	*(RMB'000)*
Target Properties	Income approach, cost method and market approach	230,739.60	230,739.60
Target Trademarks *(Note 2)*	Income approach and cost method	51,141.60	51,141.60
100% equity interest in Po Lian	Asset-based approach	57,339.70	57,339.70
12.50% equity interest in Baxter	Asset-based approach	82,338.80	82,338.80
Total		**421,559.70**	**421,559.70**

Note 1: For details of the valuation methodologies, please refer to Appendices VII(A) to VII(C) to this circular.

Note 2: As acknowledged by GPHL, the Company and GPHL are entitled to 47% and 53% of the valuation of the Target Trademarks as at 31 December 2011 respectively. Accordingly, the valuation on the Target Trademarks only represents the part of valuation that is entitled by to GPHL.

The valuation of the Target Assets will not be further updated in view of: (i) the Proposed Consideration of the Target Assets is based on the independent valuations of the same as at 31 December 2011, which was mutually agreed by both the Company and GPHL after arm's length negotiations; (ii) such valuations are prepared in accordance with the relevant PRC laws and regulations, which are valid for one year commencing from the valuation date as at 31 December 2011; and (iii) the Company is not aware of and/or informed by GPHL that, since the valuation date and up to the Latest Practicable Date, there is any material changes to the Target Assets which would affect the assumptions and bases of the valuations of the Target Assets as at 31 December 2011.

The Proposed Consideration will be satisfied by the Company by issuing and allotting 34,839,645 Consideration Shares, credited as fully paid to GPHL at the Issue Price of RMB12.10 per GPC A Share (subject to the ex-right or ex-dividend adjustment), which is the same as the GPC A Share Conversion Price (which is the GPC A Share Average Price as adjusted by the GPC 2011 Final Dividend). The Issue Price will not be adjusted unless there is any ex-right or ex-dividend occurs on the Shares prior to the date of completion of the Proposed Assets Acquisition. In case of any ex-right or ex-dividend occurs on the GPC A Shares, the Issue Price will be adjusted according to the formulas set out in the paragraph headed "I. Major Assets Reorganization – A. The Absorption and Merger Agreement – 7. Profit Distribution" above. The Consideration Shares represent approximately 4.30% of the existing issued share capital of the Company and approximately 2.70% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganisation.

The Issue Price of RMB12.10 for each Consideration Share (subject to ex-right or ex-dividend adjustment) is determined based on the GPC A Share Average Price as adjusted by the GPC 2011 Final Dividend and it is a common market practice by making reference to the average trading price per share of the Company during the 20 trading days prior to a price fixing day, which is the date of the First Board Resolution Announcement (i.e. 27 March 2012) in the case of the Proposed Assets Acquisition. The same price is also used for determining the Exchange Ratio and the price of GPC A Shares payable by the Put Option Provider for GPC A Shares under the Put Option. Details of comparison between the GPC A Share Average Price and the market prices of GPC A Share are set out in the paragraph headed "I. Major Assets Reorganization – A. The Absorption and Merger Agreement – 8. The Exchange Ratio" above.

GPHL has undertaken that it will not, at any time during the period of thirty-six months following the date of issuing the Consideration Shares, directly or indirectly, dispose of any Consideration Shares issued and allotted to it as a result of the Proposed Assets Acquisition.

The Consideration Shares to be issued pursuant to the Assets Acquisition Agreement will be listed on the Shanghai Stock Exchange and will rank *pari passu* in all respects with the GPC A Shares then in issue.

5. Conditions Precedent:

The Assets Acquisition Agreement shall become effective subject to the following conditions precedent:

(i) the approvals of the Assets Acquisition Agreement and the transactions contemplated thereunder by the respective shareholders and directors of the Company and GPHL at their respective general meetings and board meetings, according to the companies law of the PRC and other relevant laws in the PRC, the respective articles of associations and the respective rules of procedures of both companies, having been obtained;

(ii) the approvals of the issue of the Consideration Shares by the Shareholders having been obtained at the A Shares Class Meeting, the H Shares Class Meeting and the EGM;

(iii) the Absorption and Merger Agreement having become effective;

(iv) the approvals of the Major Assets Reorganization having been obtained from relevant Stated-owned Assets Supervision and Administration Departments*（國有資產監督管理部門）;

(v) the approvals of the Major Assets Reorganization having been obtained from the CSRC;

(vi) (if applicable) a whitewash waiver having been granted by the SFC to GPHL and parties acting in concert with it from making a general offer pursuant to the Takeovers Code;

(vii) the approval from the MOFCOM having been obtained after its examination on the Major Assets Reorganization in accordance with the Measures for the Undertaking Concentration Examination*（經營者集中審查辦法）; and

(viii) the approvals in relation to the Major Assets Reorganization having been obtained from relevant government and regulatory authorities.

None of the above conditions precedent can be waived and there is no long-stop date for the fulfillment of the above conditions precedent under the Assets Acquisition Agreement.

With regard to condition (ii) above relating to the Shareholders' approval of the Proposed Assets Acquisition, it has been further set out in the Preliminary Proposal and the Final Proposal that at each of the A Shares Class Meeting, the H Shares Class Meeting and the EGM, the Major Assets Reorganization, including the Proposed Assets Acquisition, must be approved by the passing of special resolutions, i.e. approved by more than two-thirds of the holders of GPC A Shares and/or the H Shares, as the case may be, who vote in person or by proxy at the relevant meetings.

As at the Latest Practicable Date, except for the approvals from the Board and the board of GPHL in relation to the Assets Acquisition Agreement and the transactions contemplated thereunder pursuant to condition (i) above, none of the conditions precedent above has been fulfilled.

6. Completion:

Upon the completion of the Proposed Assets Acquisition, which will be announced by the Company by way of further announcement(s), GPHL shall hand over all the assets, liabilities, rights, business and staff, etc., in relation to the Target Assets to the Company or its nominee(s). An asset transfer settlement statement shall be signed by GPHL and the Company on the date of completion as the confirmation of completion of the transfer.

GPHL shall attend to necessary formalities for the transfer of Target Assets within twelve months commencing from the date the Assets Acquisition Agreement having become effective or such longer period as GPHL and the Company may agree in writing.

As a result of and upon the completion of the Major Assets Reorganization, the Target Assets will be transferred to the Company and all assets and liabilities of the Target Assets will be absorbed and assumed by the Company.

7. Profit distribution:

The accrued and undistributed profits of the Company prior to issue of the Consideration Shares will be shared among the Shareholders in accordance with their respective equity interests in the Company after the completion of the Major Assets Reorganization.

For details of the profit distribution, please also refer to the paragraph headed "I. Major Assets Reorganization – A. The Absorption and Merger Agreement – 7. Profit distribution" above.

8. Profit and loss allocation:

GPHL shall assume any loss and the Company shall be entitled to any profit generated from the Target Assets during the period from the valuation date of the Target Assets (i.e. 31 December 2011) (exclusive) to the date of completion of the Proposed Assets Acquisition (inclusive).

9. Information on the Target Assets:

(i) Target Properties

The Target Properties comprise a list of 21 properties (initially 22 properties in the Preliminary Proposal) with a total gross floor area of approximately 34,906.94 sq.m. in Guangzhou, the PRC. Each of the Target Properties comprises both land and buildings with a Real Estate Title Certificate. As advised by GPHL, all the Target Properties are beneficially owned by it. However, since the Real Estate Title Certificates of certain Target Properties were not registered under the name of GPHL, GPHL has to undergo certain procedures in changing the titles on such Real Estate Title Certificates to GPHL in order for it to transfer the Target Properties to the Company. GPHL will be responsible for all relevant expenses, including but not limited to the relevant taxes and penalties (if any).

Furthermore, the rights to use certain parcels of land of the Target Properties by GPHL were classified as allocated land-use rights*（劃撥土地）. According to the applicable laws and regulations in the PRC, if GPHL wants to transfer the land-use rights of those parcels of land to any other party, it is necessary for GPHL to settle all relevant land premium*（土地出讓金）and undergo all relevant procedures in order to change the nature of the land-use rights of those lands from allocated land-use rights to granted land-use rights*（出讓土地）. GPHL will be responsible for all relevant expenses in relation to changing the nature of the land-use rights of the Target Properties, including but not limited to the relevant land premium, taxes and penalties (if any).

As at the Latest Practicable Date, the above legal defects in titles are still in the process of being rectified by GPHL. As advised by GPHL, verbal confirmations have been obtained from the relevant PRC authorities with regard to the rectification of the legal defects in titles of the Target Properties except for one of the Target Properties located in Liwan District, Guangzhou (廣州荔灣區) originally included in the Preliminary Proposal. The Company was advised verbally by the relevant PRC authorities that the legal defect in title of such property would not be able to be rectified shortly. After considering that such property is only used as a warehouse by a joint venture of the Company and its valuation is relatively insignificant as compared to those of the other Target Properties, such property has been excluded from the Final Proposal.

With respect to the legal defects in titles of the remaining 21 Target Properties, on 15 June 2012, GPHL further undertakes that, before 28 September 2012, it will either complete the rectification process of those legal defects by registering the relevant Target Properties in the name of GPHL or changing the nature of the relevant Target Properties from allocated land-use rights to granted land-use rights (as the case may be) or obtaining the written confirmations from the relevant housing bureaus in the PRC confirming that there will be no legal obstacle to rectify such legal defects as undertaken by GPHL and it will not affect the implementation of the Major Assets Reorganization. In case the above legal defects cannot be rectified before 28 September 2012, GPHL will compensate the Company in cash for any economic losses suffered by the Company due to the failure to rectify the legal defects or imposition of any penalties by the PRC government authorities on the Company regarding the legal defects. Furthermore, in case the above legal defects cannot be rectified causing certain Target Properties being unable to be transfered pursuant to the Proposed Assets Acquisition on the completion date of the Major Assets Reorganization, GPHL will subscribe for the relevant part of the Consideration Shares at an amount of cash equivalent to the Proposed Consideration of those Target Properties with legal defects in titles.

In addition to the above, among the 21 Target Properties, there are certain unauthorized and untreated constructions with a total gross floor area of 951.618 sq.m. in 5 Target Properties. The Company understands from GPHL that up to the Latest Practicable Date, GPHL has not received any notice or order from the relevant housing bureaus instructing GPHL to demolish those constructions. GPHL confirms that in case the relevant housing bureaus request the Company to demolish such constructions after completion of the Proposed Assets Acquisition, GPHL will bear all demolishing costs incurred. China Valuer has excluded such unauthorized and untreated construction in its valuations on the Target Properties. Based on the above and as advised by the PRC legal adviser of the Company, the existence of such unauthorized and untreated constructions will not affect the Major Assets Reorganization.

A summary of the Target Properties is set out as below:

Location	No. of Target Properties	Gross floor area *(sq.m.)*
Baiyun District, Guangzhou（廣州白雲區）(being the properties No. 4 to 11 as set out in Appendix VII(A) to this circular)	8	20,341.19
Liwan District, Guangzhou（廣州荔灣區）(being the properties No. 1-3, 12-17 and 20-21 as set out in Appendix VII(A) to this circular)	11	14,250.90
Yuexiu District, Guangzhou（廣州越秀區）(being the property No. 18 as set out in Appendix VII(A) to this circular)	1	215.51
Haizhu District, Guangzhou（廣州海珠區）(being the property No. 19 as set out in Appendix VII(A) to this circular)	1	99.34
Total	**21**	**34,906.94**

Valuation of the Target Properties

The valuation of the Target Properties as conducted by China Valuer was RMB230,739,600 as at 31 December 2011. Such valuation was different from the valuation of RMB46,400,000 as at 30 June 2012 conducted by Savills Valuation and Professional Services Limited (“**Savills**”), a qualified independent professional valuer, since Savills has assigned no commercial value to those Target Properties with legal defects while China Valuer, given the undertaking from GPHL as mentioned above to rectify the legal defects on the Target Properties and be responsible for all relevant land premium, taxes and penalties, assumed that the legal defects of certain Target Properties have been rectified or would have no legal obstacle to be rectified. The reason for the difference in the assumptions between Savills and China valuer is that Savills prepared the property valuation report for the purpose of fulfilling the relevant requirements of the Listing Rules in which the definition of “Market Value” shall be strictly followed, and thus no commercial value was assigned to those Target Properties with legal defects as such Target Properties could not be freely disposed of in the market due to the incompleteness of land grant formalities and the lack of land use certificates or Real Estate Title Certificates as at the date of valuation (i.e. 30 June 2012). Such valuation approach adopted by Savills is in compliance with the Listing Rules and market conventions in Hong Kong.

On the other hand, China Valuer conducted its valuation on the Target Properties in accordance with the relevant rules and regulations in the PRC regarding the valuation of state-owned assets, which are aiming at providing a reference price for the Proposed Assets Acquisition. Thus its valuation on the Target Properties has to be made under the assumption that the Target Properties are in good title so as to reflect the actual value of the Target Properties. Pursuant to the Asset Acquisition Agreement and the undertaking given from GPHL in relation to the rectification of the legal defects of the Target Properties, China Valuer assumed that the Target Properties shall be traded with legal titles and hence China Valuer has assigned commercial values to the Target Properties with legal defects and valued those Target Properties by assuming that the land grant formalities were completed and the land use right certificates and Real Estate Title Certificates were obtained.

The valuation reports on Target Properties conducted by China Valuer and Savills are set out in Appendix VII(A) and Appendix VIII to this circular respectively.

As at the Latest Practicable Date, 10 out of 21 Target Properties are used as offices or retail outlets while the remaining 11 Target Properties are used as warehouses. It is intended by the Company that the future uses of the Target Properties will remain unchanged.

In view of the above, the Company considers that despite there was a significant difference between the valuations conducted by China Valuer and Savillis, the assumption and valuation methodology adopted by China Valuer were appropriate and the consideration of the Target Properties of RMB230,739,600 based on the valuation conducted by China Valuer, is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

Part of the Target Properties are currently leased by GPHL to the Company, (i) as offices and retail outlets under two tenancy agreements which will be expired on 31 August 2013 and 31 December 2013 respectively ("**Tenancy Agreements**", which also govern the leases of certain properties by the Company from GPHL that are excluded from the Target Properties ("**Excluded Properties**")); and (ii) as office under another tenancy agreement dated 6 February 2004 ("**2004 Tenancy Agreement**"). Entering into the above three tenancy agreements by the Company constituted continuing connected transactions to the Company which were exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The terms of the Tenancy Agreements in relation to the leases of the Target Properties will be discontinued while the terms in relation to the leases of the Excluded Properties will be subject to revision upon the completion of the Major Assets Reorganization. The 2004 Tenancy Agreement will also be discontinued. The Company will closely monitor these transactions and will comply with all relevant requirements under Chapter 14A of the Listing Rules if it enters into any new or supplemental agreements relating to the Excluded Properties. The remaining part of the Target Properties is currently leased by GPHL to Guangzhou Pharmaceutical Corporation Limited (a jointly controlled entity of the Company and Alliance BMP Limited, an independent third party) or its subsidiaries, as warehouses. The terms of such leases will also be revised accordingly upon the completion of the Major Assets Reorganization.

The net book value of the Target Properties was approximately RMB32,105,800 (as extracted from the unaudited management account of GPHL) as at 30 June 2012 and the gross rental income generated from the Target Properties by GPHL (as extracted from the Accountants' Report of the Target Properties and Target Trademarks set out in Appendix III to this circular) were approximately RMB5,035,062, RMB5,421,530 and RMB2,750,109 for the two years ended 31 December 2011 and the six months ended 30 June 2012 respectively. Further details of the unaudited financial information on and property valuations of the Target Properties are set out in Appendix III and Appendix VIII to this circular respectively.

As at the Latest Practicable Date, none of the Target Properties is subject to pledges or third party rights.

(ii) Target Trademarks

The Target Trademarks represent a total of 388 registered trademarks owned by GPHL, which are mainly trademarks of Chinese patent medicine, including but not limited to 54 well-known trademarks, including 7 trademarks in ChenLiJi*（陳李濟）series, 17 trademarks in PanGaoShou*（潘高壽）series, 7 trademarks in XingQun*（星群）series, 9 trademarks in ZhongYi*（中一）series, 12 trademarks in QiXing*（奇星）series and 2 trademarks in JingXiuTang*（敬修堂）series. The Target Trademarks have been registered with the relevant PRC and/or overseas government authorities. As at the Latest Practicable Date, the Company has the exclusive rights to use 69 Target Trademarks under a trademark license agreement which was entered into between GPHL and the Company on 1 September 1997 ("**1997 Trademark License Agreement**") for a term of 10 years as supplemented by another agreement dated 8 November 2004. The 1997 Trademark License Agreement was automatically renewed for another 10 years on 1 September 2007 pursuant to the terms set out therein. The transactions contemplated under the 1997 Trademark License Agreement constituted continuing connected transactions to the Company under Chapter 14A of the Listing Rules, and a waiver has been granted by the Hong Kong Stock Exchange in relation thereto at the listing of the H Shares on the Hong Kong Stock Exchange in 1997. The above trademark licenses will be discontinued upon the completion of the Major Assets Reorganization.

Among the 388 Target Trademarks, (i) 54 trademarks, which GPHL has granted the Company the exclusive rights to use, are well-known and generate economic benefits; (ii) 277 trademarks are regarded as associated trademarks and/or defensive trademarks registered in the PRC, which only represent the image of the GPHL Group and do not have any direct economic benefits to the GPHL Group (among the above 277 trademarks, 15 of which are granted by GPHL to the Company for use); and (iii) the remaining 57 trademarks are registered overseas and are also regarded as associated trademarks and/or defensive trademarks.

Except for the 69 trademarks which are currently used by the Company, the remaining 319 trademarks are not currently used by the Company and are not licensed to any connected persons or third parties for use. As at the Latest Practicable Date, GPHL and the Company do not have any plan to license these trademarks to any connected persons or third parties.

The net book value of the Target Trademarks (as extracted from the unaudited management account of GPHL) was approximately RMB258,013 as at 30 June 2012 and the gross license fee generated from the Target Trademarks by GPHL (as extracted from the Accountants' Report of the Target Properties and Target Trademarks set out in Appendix III to this circular) were approximately RMB4,403,098, RMB5,345,158 and RMB3,779,178 for the two years ended 31 December 2011 and the six months ended 30 June 2012 respectively. Further details of the unaudited financial information on the Target Trademarks are set out in Appendix III to this circular.

As at the Latest Practicable Date, none of the Target Trademarks is subject to pledges or third party rights.

(iii) Po Lian

Po Lian is a limited company incorporated in Hong Kong and is solely owned by GPHL. It is principally engaged in the imports and exports of the pharmaceutical products. As at the Latest Practicable Date, the authorized and issued share capital of Po Lian is HK$5 million, which was fully paid up by GPHL.

Based on the audited financial statements of Po Lian prepared in accordance with CASBE set out in the Accountants' Report on Po Lian in Appendix II(B) to this circular, the net asset value and the profit before and after tax of Po Lian for the three years ended 31 December 2011 and the six months ended 30 June 2012 are as follows:

	As at 31 December			**As at 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB in million) *(audited)*	*(RMB in million)* *(audited)*	*(RMB in million)* *(audited)*	*(RMB in million)* *(audited)*
Net asset value	33.24	34.28	34.27	34.95

	For the year ended 31 December			For the six months ended 30 June
	2009	2010	2011	2012
	(RMB in million)	*(RMB in million)*	*(RMB in million)*	*(RMB in million)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Profit before tax	0.16	2.76	2.00	0.59
Profit after tax	0.13	2.19	1.65	0.49

The profit after tax of Po Lian decreased from an amount of approximately RMB1,120,000 for the six months ended 30 June 2011 to approximately RMB495,000 for the six months ended 30 June 2012. Despite there was a slowdown in the growth of principal operations of Po Lian during the six months ended 30 June 2012 due to a number of factors as set out in the management's discussion and analysis of Appendix IV to this circular, the Company considers that the acquisition of 100% equity interest in Po Lain is in the interest of the Company and the Shareholders as a whole given (i) Po Lian mainly acts as a trading platform for the Group and BYS for the imports and exports of the pharmaceutical products; (ii) it is the intention of the Company to develop Po Lian as a purchasing platform for the imports of pharmaceutical equipments of the Enlarged Group; and (iii) substantial proportion of the Po Lian's revenue will be eliminated upon the consolidation of the financial results of the Enlarged Group due to intra-group transactions between Po Lian, the Group and BYS and hence, no material adverse effects will be imposed on the Enlarged Group.

Further details of the audited financial information on the management's discussion and analysis and property valuation of Po Lian are set out in Appendix II(B), Appendix IV and Appendix VIII to this circular respectively.

(iv) Baxter

Baxter is a Sino-foreign equity joint venture established in the PRC on 13 August 1993 with registered capital of USD10,000,000. The registered capital was subsequently increased to USD11,000,000 in 2000 (as detailed below) of which GPHL currently owns 12.50% of its equity interest while the remaining 87.50% equity interest in Baxter is held by Baxter (China) Investment Co., Ltd. ("**Baxter China**"), an independent third party.

Pursuant to the shareholding transfer agreement between GPHL and Guangzhou Pharmaceutical Development Company*（廣州醫藥建設開發公司）dated 10 February 1999, Guangzhou Pharmaceutical Development Company who held 12.50% equity interest transferred all of its shareholding to GPHL at a consideration of USD1.25 million. In 2000, the registered capital of Baxter was increased by USD1 million to USD11 million, in which GPHL contributed USD125,000. Therefore, a total of USD1.375 million was paid by GPHL for 12.50% equity interest in Baxter.

As at the Latest Practicable Date, GPHL has already obtained the written confirmation from the Baxter China in relation to the transfer of 12.50% equity interest of Baxter from GPHL to the Company.

Based on the audited financial statements of Baxter prepared in accordance with CASBE as set out in Appendix II(C) to this circular, the net asset value and the profit before and after tax of Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012 are as follows:

	As at 31 December			**As at 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB in million)	*(RMB in million)*	*(RMB in million)*	*(RMB in million)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Net asset value	408.77	531.55	661.00	728.10

	For the year ended 31 December			**For the six months ended 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB in million)	*(RMB in million)*	*(RMB in million)*	*(RMB in million)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Profit before tax	189.88	222.02	235.31	89.46
Profit after tax	151.93	172.78	179.45	67.10

The Directors reviewed the business license, the articles of association, the certificate of approval for establishment of enterprises with foreign investment in the PRC, the joint venture agreement and its supplemental agreement of Baxter as well as the industry research reports on the industry in which Baxter operates in. Baxter is principally engaged in manufacturing and sales of large-volume parenteral solution, solution (for external use), certain class II and class III extracorporeal circulation and blood processing equipment, class II and class III medical polymer materials and products, and 3-layer co-extrusion bags, and it is the largest peritoneal transfusion fluids manufacturer in the PRC. The PRC government issued a policy in June 2011 to promote the development of the peritoneal dialysis. It is believed that there will be huge opportunities for the development of peritoneal dialysis in the PRC market. With Baxter's possession of the core technology in this industry and the leading market position in the PRC market, it is expected that there will be a bright prospect for the development of Baxter.

Having reviewed the audit reports for the three years ended 31 December 2011 and the six months ended 30 June 2012, the Directors consider that Baxter has a strong asset base and has demonstrated notable revenue growth and steady profit growth in the past three years ended 31 December 2011 as shown in the above financial information on Baxter. In addition, in the past three years ended 31 December 2011, Baxter was able to distribute regular dividends to its shareholders. GPHL, holding 12.50% equity interest in Baxter, received annual dividend of RMB6.25 million from Baxter for each of the three years ended 31 December 2011. No dividend was proposed by Baxter for the six months ended 30 June 2012.

Taking into account the above assessment and result of due diligence of Baxter, the Board considers that (i) GPHL legally owns 12.50% equity interest in Baxter as at the Latest Practicable Date; (ii) the promising prospects of Baxter's industry and the leading market position of Baxter's products in the PRC will provide huge market potential and enhance the profitability of Baxter; (iii) there was a solid track record for the operating results of Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012 and a stable dividend distribution policy in the three years ended 31 December 2011, and Baxter is expected to bring a stable return to the shareholders of Baxter in the future; and (iv) the Proposed Consideration in an amount of RMB82,338,800 for the 12.50% equity interest in Baxter is based on the independent valuation conducted by China Valuer (the valuation report of which is set out in Appendix VII(C) to this circular), which is considered to be fair and reasonable. As a result, the Directors consider that the acquisition of 12.50% equity interest in Baxter is in the interest of the Company and its Shareholders as a whole.

Further details of the audited financial information on Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012 are set out in Appendix II(C) to this circular.

(C) THE PROFIT COMPENSATION AGREEMENT

Since the actual net profits of the Target Properties and the Target Trademarks for each of the five years ending 31 December 2016 might be different from the forecasted net profits of such Target Assets for the same periods as set out in the valuation report in Appendix VII(A) to this circular, which were used as a basis to determine the Proposed Consideration for the Target Properties and the Target Trademarks, on 15 June 2012, the Company and GPHL entered into the Profit Compensation Agreement.

1. Date:

15 June 2012.

2. Parties:

(1) The Company; and

(2) GPHL.

3. Forecasted net profits of the Target Properties and the Target Trademarks:

According to the valuation report on the Target Properties and Target Trademarks issued by China Valuer on 9 June 2012 set out in Appendix VII(A) to this circular, the forecasted net profits of the Target Properties and the Target Trademarks for each of the five years ending 31 December 2016 are shown below. Under the Profit Compensation Agreement, net profit of the Target Properties shall be construed as the effective gross income after deduction of operating expenses (which operating expenses do not include depreciation and amortization, finance costs and enterprise income tax) while the net profit of the Target Trademarks shall be construed as the income from licence fee after deduction of business tax, enterprise income tax and other taxes.

	For the year ending 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(Forecasted)	*(Forecasted)*	*(Forecasted)*	*(Forecasted)*	*(Forecasted)*
Net profit of the Target Properties	6,893.8	6,814.2	10,081.8	10,982.4	11,648.4
Net profit of the Target Trademarks	1,834.2	2,172.8	2,334.9	2,440.2	2,526.0

4. Compensation period:

The compensation period under the Profit Compensation Agreement shall be three financial years commencing from 1 January of the year in which completion of the Major Assets Reorganization takes place ("**Compensation Period**") and, for this purpose, the first financial year shall be the financial year in which the Major Assets Reorganisation occurs.

5. Disclosure of information:

The Company is required to disclose separately the actual net profits of the Target Properties and the Target Trademarks and their differences to the forecasted net profits as set out in the paragraph headed "3. Forecasted net profits of the Target Properties and the Target Trademarks" above in its annual reports during the Compensation Period. The above financial information shall be audited by a qualified auditor prior to their disclosures.

6. Terms of Compensation:

The Company will ascertain whether the accumulated forecasted net profits of the Target Properties and the Target Trademarks respectively are met in each year during the Compensation Period.

If the accumulated audited net profits of the Target Properties and the Target Trademarks are respectively more than or equal to the respective accumulated forecasted net profits of the same in a financial year during the Compensation Period, GPHL will not be required to compensate the Company.

If the accumulated audited net profits of the Target Properties and the Target Trademarks are respectively less than the respective accumulated forecasted net profits of the same in a financial year during the Compensation Period, the Company shall inform GPHL in writing within 10 days after the dispatch of its annual report and GPHL shall, in accordance with relevant time and procedures as required by the Company, compensate the Company the difference of the audited net profits and the forecasted net profits in the following manners:

The Company shall repurchase a certain number of GPC A Shares ("**Compensation Shares**") held by GPHL at a total consideration of RMB1. Such Compensation Shares shall be cancelled by the Company thereafter.

The number of Compensation Shares that the Company shall be entitled to repurchase for a financial year during the Compensation Period shall be calculated based on the formula below:

$$\frac{\begin{array}{c}\text{(Accumulated forecasted net profits of}\\ \text{the Target Properties and/or Target}\\ \text{Trademarks at the end of the}\\ \text{reporting period – Accumulated}\\ \text{actual net profits of the Target}\\ \text{Properties and/or Target Trademarks}\\ \text{at the end of the reporting period)}\end{array} \times \begin{array}{c}\text{Number of}\\ \text{Consideration Shares}\\ \text{that is attributable to}\\ \text{the Target Properties}\\ \text{and/or Target}\\ \text{Trademarks}\end{array}}{\begin{array}{c}\text{The aggregate forecasted net profits of}\\ \text{the Target Properties and/or Target Trademarks during}\\ \text{the Compensation Period}\end{array}} - \begin{array}{c}\text{Number of}\\ \text{Compensation Shares}\\ \text{for the Target Properties}\\ \text{and/or Target}\\ \text{Trademarks that are}\\ \text{already repurchased}\end{array}$$

Upon the expiry date of the Compensation Period, the Company shall undergo an impairment test on the Target Properties and the Target Trademarks respectively. If:

$$\frac{\begin{array}{c}\text{Impairment amount as at the expiry}\\ \text{date of the Compensation Period of}\\ \text{the Target Properties and/or Target}\\ \text{Trademarks}\end{array}}{\begin{array}{c}\text{Proposed Consideration of the Target}\\ \text{Properties and/or Target}\\ \text{Trademarks}\end{array}} > \frac{\begin{array}{c}\text{Total number of Compensation Shares}\\ \text{for the Target Properties and/or Target}\\ \text{Trademarks}\end{array}}{\begin{array}{c}\text{Total number of Consideration Shares}\\ \text{attributable to the Target Properties}\\ \text{and/or Target Trademarks}\end{array}}$$

GPHL shall compensate the Company the number of GPC A Shares calculated in accordance with the formula as below:

$$\frac{\text{Impairment amount as at the expiry date of the Compensation Period}}{\text{The Issue Price}} - \begin{array}{c}\text{The total number of}\\ \text{Compensation Shares for the}\\ \text{Target Properties and/or}\\ \text{Target Trademarks that}\\ \text{are already repurchased during the}\\ \text{Compensation Period}\end{array}$$

The number of the Compensation Shares for the Target Properties and/or the Target Trademarks shall not exceed the number of the Consideration Shares that is attributable to the Target Properties and/or the Target Trademarks. In each financial year during the Compensation Period, if the number of the Compensation Shares for the Target Properties and/or the Target Trademarks calculated based on the above formula is less than zero, then zero will be taken as the number of Compensation Shares for that financial year (i.e. there will not be any reversal of the Compensation Shares which are already repurchased).

For the avoidance of doubt,

(i) if the actual net profit of the Target Properties and/or the Target Trademarks cannot meet the forecasted one in year one such that Compensation Shares are repurchased, and the accumulated actual profits (i.e. the aggregate of actual net profits in year one and year two) at the end of year two is higher than the accumulated forecasted net profits, GPHL will not be compensated (i.e. there will not be any reversal of the Compensation Shares which are already repurchased); and

(ii) if the actual net profit of the Target Properties and/or the Target Trademarks can meet the forecasted one in year one but fail to meet the forecasted profit in year two, but the accumulated actual profits (i.e. the aggregate of actual net profits in year one and year two) exceed or equal to the accumulated forecasted net profits, GPHL will not need to compensate the Company (i.e. the amount of actual profit which exceeds the forecasted profit in the first year can be used to offset the shortfall in the subsequent year).

During the Compensation Period, when there is a shortfall in net profit of Target Properties and/or Target Trademarks and the Company shall repurchase the Compensation Shares pursuant to the Profit Compensation Agreement, it shall comply with relevant rules, regulations and codes and obtain prior approvals from the relevant regulatory authorities in the PRC and Hong Kong, including but not limited to the compliance of the Hong Kong Code on Share Repurchase and approvals from the SFC, and from the disinterested Shareholders.

In case all approvals are obtained from the relevant regulatory authorities and from the disinterested Shareholders, the Company will repurchase the Compensation Shares and cancel all of them thereafter. As a result, the then respective equity interests of all Shareholders other than GPHL will increase.

In case the proposed repurchase and cancellation of the Compensation Shares cannot be implemented as a result of the failure to obtain the approvals from the creditors of the Company or the Shareholders for the reduction in capital of the Company or from the relevant regulatory authorities, GPHL undertakes that it will distribute such number of GPC A Shares equivalent to the number of the proposed Compensation Shares to the Shareholders other than GPHL at nil consideration in proportion of their then respective equity interests in the Company within 2 months commencing from the date of confirming the failure of obtaining the relevant approvals. As a result, the then respective equity interests of all Shareholders other than GPHL will increase.

Both of the repurchase of Compensation Shares from GPHL by the Company and the distribution of Compensation Shares from GPHL to the Independent Shareholders are in accordance with the relevant rules and regulations and the usual market practice in the PRC, which aim to enhance and protect the interests of the Independent Shareholders. As a result, the Company considers that such arrangement is fair and reasonable to the Independent Shareholders as a whole.

7. Conditions Precedent:

The Profit Compensation Agreement shall become effective subject to the following conditions precedent:

(i) the approvals of the Profit Compensation Agreement by the respective shareholders and directors of the Company and GPHL at their respective general meetings and board meetings according to the company law in the PRC and other relevant laws and regulations in the PRC, the respective articles of association and the respective rules of procedures of both companies, having been obtained; and

(ii) the Absorption and Merger Agreement and the Assets Acquisition Agreement having become effective.

None of the above conditions precedent can be waived and there is no long-stop date for fulfillment of the above conditions under the Profit Compensation Agreement.

As at the Latest Practicable Date, except for the approvals from the Board and the board of GPHL in relation to the Profit Compensation Agreement pursuant to condition (i) above, none of the above conditions precedent has been fulfilled.

The Profit Compensation Agreement will be subject to independent Shareholders' approval at each of the A Shares Class Meeting, the H Shares Class Meeting and the EGM, and must be approved by passing of special resolution, i.e. approved by more than two-thirds of the holders of GPC A Shares and/or the H Shares, as the case may be, who vote in person or by proxy at the relevant meetings. The Absorption and Merger Agreement and the Assets Acquisition Agreement are not conditional on the Profit Compensation Agreement becoming effective.

8. Reasons for entering into the Profit Compensation Agreement:

As the valuations of the Target Properties and the Target Trademarks as at 31 December 2011 set out in the valuation reports prepared by China Valuer set out in Appendix VII(A) to this circular were based on the income approach, pursuant to the relevant PRC laws and regulations, the Company and GPHL are required to enter into the Profit Compensation Agreement in order to protect the interests of the Independent Shareholders. The terms of the Profit Compensation Agreement are arrived at arm's length negotiation between the Company and GPHL pursuant to the relevant rules and regulations in the PRC.

The Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules if the actual net profits of the Target Trademarks and/or the Target Properties are respectively less than the forecasted ones and will include details in its next published annual reports and accounts. The independent non-executive Directors will also provide an opinion in the Company's next published annual report and accounts as to whether GPHL has fulfilled its obligations.

EFFECT OF THE MAJOR ASSETS REORGANIZATION

Upon the completion of the Major Assets Reorganization:

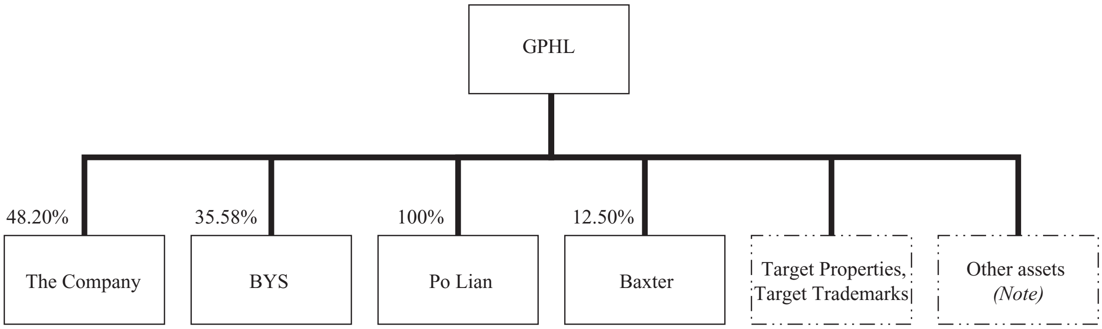
(i) the BYS Shares held by the BYS Shareholders will be exchanged into GPC A Shares. All BYS Shares will then be cancelled. As a result of and upon the completion of the Major Assets Reorganization, the assets of BYS will be absorbed into and the liabilities of BYS will be assumed by the Company. The legal person status of BYS will be de-registered and BYS will cease to exist;

(ii) the Target Assets will be transferred to the Company and all assets and liabilities of the Target Assets will be absorbed and assumed by the Company; and

(iii) based on the Final Proposal, the equity interest of GPHL in the Company will decrease from 48.20% to 45.24% immediately after the completion of the Major Assets Reorganization.

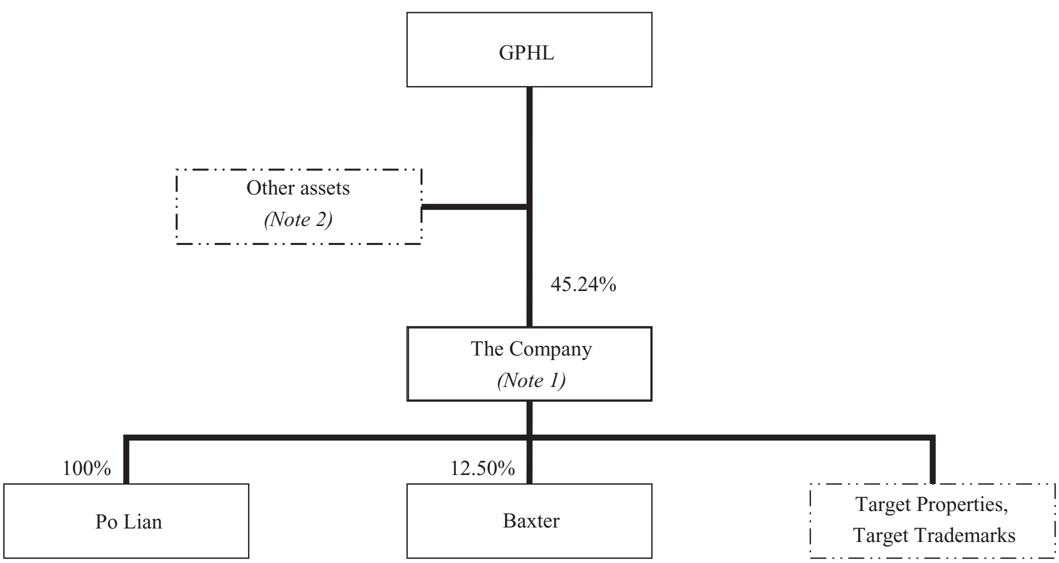
Set out below are respective interests of GPHL and the Company in BYS and the Target Assets immediately before and after the Major Assets Reorganization (assuming that there will be no change in the issued share capital of the Company and BYS from the Latest Practicable Date up to and until the completion of the Major Assets Reorganization).

Before the Major Assets Reorganization



Note: Other assets of GPHL include certain properties and Guangzhou Pharmaceutical Research Institute (廣州醫藥研究總院), which is principally engaged in the safety inspection for the pharmaceutical products, raising and sales of animals for laboratory testing and research of medicine. Guangzhou Pharmaceutical Research Institute is an Enterprise owned by the Whole People* (全民所有制企業), GPHL undertakes that it will transfer Guangzhou Pharmaceutical Research Institute to the Company within two years from the date Guangzhou Pharmaceutical Research Institute completes the ownership reform* (公司改制) and its shares become transferable. If required, the Company will comply with the applicable Listing Rules requirements as and when GPHL transfers Guangzhou Pharmaceutical Research Institute to the Company.*

Immediately after the Major Assets Reorganization



Note 1: As a result of and upon the completion of the Major Assets Reorganization, the assets of BYS will be absorbed into and the liabilities of BYS will be assumed by the Company. The enterprise legal status of BYS will be de-registered and BYS will then cease to exist. The Target Properties and the Target Trademarks of GPHL will be transferred to the Company.

Note 2: Other assets of GPHL include certain properties and Guangzhou Pharmaceutical Research Institute (廣州醫藥研究總院), which is principally engaged in the safety inspection for the pharmaceutical products, raising and sales of animals for laboratory testing and research of medicine. Guangzhou Pharmaceutical Research Institute is an Enterprise owned by the Whole People* (全民所有制企業). GPHL undertakes that it will transfer Guangzhou Pharmaceutical*

Research Institute to the Company within two years from the date Guangzhou Pharmaceutical Research Institute completes the ownership reform（公司改制）and its shares become transferable. If required, the Company will comply with the applicable Listing Rules requirements as and when GPHL transfers Guangzhou Pharmaceutical Research Institute to the Company.*

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Major Assets Reorganization based on the respective shareholding structures of the Company and BYS as at the Latest Practicable Date and the proposed terms of the Proposed Merger and the Proposed Assets Acquisition as set out in the Final Proposal (assuming that there will be no change in the issued share capital of the Company and BYS from the Latest Practicable Date up to and until the completion of the Major Assets Reorganization):

	As at the Latest Practicable Date		**Immediately after the completion of the Proposed Merger**		**Immediately after the completion of the Proposed Merger and the Proposed Assets Acquisition**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
A Shares						
GPHL and its associates	390,833,391	48.20	549,388,391	43.72	584,228,036	45.24
Public						
Shareholders (other than GPHL and its associates) and/or Put Option Provider *(Note 1)*	200,166,609	24.68	200,166,609	15.93	200,166,609	15.50 *(Note 5)*
The BYS Shareholders and/or Cash Alternative Provider *(Note 2)*	–	–	287,046,005	22.85	287,046,005	22.23 *(Note 4)*
H Shares						
Public						
Shareholders (other than GPHL and its associates) and/or Put Option Provider *(Note 1)*	219,900,000	27.12	219,900,000	17.50	219,900,000	17.03 *(Note 5)*
Total	**810,900,000**	**100.00**	**1,256,501,005**	**100.00**	**1,291,340,650**	**100.00**

Note 1: The Put Option Providers will retain the GPC A Shares and H Shares received from the GPC Dissenting Shareholders if any Dissenting Shareholders exercise the Put Option.

Note 2: Assuming all BYS Shareholders either (i) exchange all their BYS Shares into GPC A Shares; or (ii) exercise the Cash Alternative provided by the Cash Alternative Provider, who will then exchange those BYS Shares received from such BYS Shareholders into GPC A Shares at the Exchange Ratio.

Note 3: The shareholdings in the above table are for illustration purpose only. The Proposed Merger and the Proposed Assets Acquisition are inter-conditional to each other.

Note 4: On the assumption that all BYS Shareholders (other than GPHL and its associates) elect the Cash Alternative in respect of a total of 302,153,689 BYS Shares held by them, the Cash Alternative Provider will then exchange those BYS Shares tendered to them for GPC A Shares and will hold 287,046,005 GPC A Shares in maximum (representing approximately 22.23% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganization), and will become a substantial Shareholder of the Company and the shareholding of which will not be counted as public float.

Note 5: On the assumption that (i) the GPC Dissenting Shareholders holding 66,722,203 GPC A Shares (being one-third of the total 200,166,609 GPC A Shares held by the Independent Shareholders, and the maximum number of GPC A Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of GPC A Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option, the Put Option Provider(s) will hold 66,722,203 GPC A Shares in maximum (representing approximately 5.17% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization); (ii) the GPC Dissenting Shareholders holding 73,300,000 H Shares (being one-third of the total 219,900,000 H Shares held by the Independent Shareholders, and the maximum number of H Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of H Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option, the Put Option Provider(s) will hold 73,300,000 H Shares in maximum (representing approximately 5.68% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization). As a result, the Put Option Provider(s) will hold a maximum of approximately 10.85% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization. The Company and BYS undertake that they will appoint sufficient number of Put Option Provider(s) for the exercise of the Put Option for GPC A Shares and H Shares so that the Company can maintain the minimum public float requirements under the Listing Rules at all times.

On the basis of the information on the shareholding structure of the Company set out above, implementation of the Major Assets Reorganization will not result in change of control of the Company.

REASONS FOR AND BENEFITS OF THE MAJOR ASSETS REORGANIZATION

The Directors consider that in the long run, with the Major Assets Reorganization, the operations of the Company will expand and the Company will be able to improve its profitability, which in turn will enhance the interests of the Shareholders as a whole. Specifically, the Major Assets Reorganization aims to achieve the following purposes:

1. Fulfillment of a single listed platform of the GPHL Group

The Company will become the only listed platform of the GPHL Group which will focus on the business in development, manufacture and trading of pharmaceutical products after completion of the Major Assets Reorganization.

2. Strengthening the competitiveness of the Group

After the completion of the Major Assets Reorganization, the Group will have a comprehensive supply chain in the pharmaceutical industry including medical research and development as well as the manufacture and sales of various kinds of pharmaceutical products. With the enhanced product mix and strengthened sales and distribution channels, the core competitiveness of the Group is expected to be enhanced.

3. Achieving synergy through integration of the resources

With the Major Assets Reorganization, the Group will be able to own the major medical assets and business of GPHL, thereby achieve synergy in the use and enhancement of the production facilities, rearrangement of the product mix, enhancement of the sales and distribution networks and sharing of the financial resources. Accordingly, the operating cost will be lowered, and the operating efficiency and hence the profitability will improve.

4. Eliminating possible competing business and reducing the level of connected transactions

After completion of the Major Assets Reorganization, possible intra-group competition will be eliminated as the medicine business will be centralized in the Group. The connected transactions between the Group and other members of the GPHL Group will also be reduced, which shall lead to better operation management, improvement in corporate governance and therefore a better interest of the Shareholders as a whole.

The Directors consider that the Major Assets Reorganization, including but not limited to the terms of the Exchange Ratio, the Cash Alternative, the Put Option, the Issue Price and the Proposed Consideration, is conducted after arm's length negotiation between the relevant parties and is on normal commercial terms, fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS OF THE MAJOR ASSETS REORGANIZATION

As two of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under (i) the Absorption and Merger Agreement, (ii) the Assets Acquisition Agreement and (iii) the Profit Compensation Agreement, in aggregate, are over 100%, the transactions constitute very substantial acquisitions for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, GPHL holds 390,833,391 GPC A Shares, representing approximately 48.20% of the total issued share capital of the Company. In addition, GPHL owns approximately 35.58% equity interest in BYS. Both GPHL and BYS are regarded as connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under (i) the Absorption and Merger Agreement, (ii) the Assets Acquisition Agreement and (iii) the Profit Compensation Agreement also constitute non-exempt connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements. GPHL and its associates, being the connected persons of the Company, will abstain from voting at the GPC General Meetings for the relevant resolutions.

II. TRADEMARK CUSTODY

On 29 February 2012, GPHL and the Company also entered into the Trademark Custody Agreement (as supplemented by a supplemental agreement dated 15 June 2012) in relation to the provision of custody services by the Company to GPHL in WangLaoJi Trademarks, all of which are owned by GPHL and will not form part of the Target Trademarks under the Proposed Assets Acquisition. The custodian period of the Trademark Custody Agreement shall commence from the date of completion of the Major Assets Reorganization to the date (i) the WangLaoJi Trademarks are transferred to the Company or (ii) GPHL and the Company mutually agrees to terminate the Trademark Custody Agreement ("**Custodian Period**").

With regards to the trademarks in WangLaoJi series obtained by GPHL after the date of the supplemental agreement to the Trademark Custody Agreement (being 15 June 2012), GPHL shall inform the Company within 10 business days after the date of obtaining such WangLaoJi trademarks and those trademarks shall also be subject to the custody services provided by the Company pursuant to the Trademark Custody Agreement. As at the Latest Practicable Date, GPHL has not obtained any newly registered trademarks in WangLaoJi series after 15 June 2012.

Mr. Yang Rongming and Mr. Li Chuyuan, being executive Directors and directors of GPHL, and Mr. Shi Shaobin, being the then executive Director of the Company (resigned on 18 June 2012) and the then director of GPHL (resigned on 15 June 2012), abstained from voting at the Board meetings approving the relevant resolutions in relation to the Trademark Custody Agreement.

Details of the Trademark Custody Agreement are set out below:

1. Date:

29 February 2012 (as supplemented by a supplemental agreement dated 15 June 2012).

2. Parties:

(i) The Company, as the custodian; and

(ii) GPHL, as the principal.

3. Trademarks in custody:

Pursuant to the Trademark Custody Agreement, the Company will be responsible for the services including but not limited to the daily management of 29 WangLaoJi Trademarks currently owned by GPHL, provision of trademark protection, promotion services and entering into any new and/or renewal trademark license agreements with any third party.

4. Conditions Precedent:

The Trademark Custody Agreement shall become effective subject to the following conditions precedent:

(i) passing of an ordinary resolution in relation to the approval of the Trademark Custody Agreement at the EGM; and

(ii) completion of the Major Assets Reorganization.

None of the above conditions precedent can be waived and there is no long-stop date for fulfillment of the above conditions under the Trademark Custody Agreement.

As at the Latest Practicable Date, none of the conditions precedent above has been fulfilled.

5. Term:

The term of Trademark Custody Agreement shall be for a period from the date of completion of the Major Assets Reorganization to the date when the ownership of the WangLaoJi Trademarks are transferred from GPHL to the Company, or such other date as GPHL and the Company may agree to terminate the Trademark Custody Agreement.

6. Basic Custody Fee:

After completion of the Major Assets Reorganization, the Company will receive a basic custody fee of RMB1,000,000 per annum ("**Custody Fee**") from GPHL payable in arrears before the end of each March during the terms of the custody and which will be calculated in proportion to the number of months of custody if the WangLaoJi Trademarks are not in the custody of the Company for a full year. The amount of the Custody Fee was determined after arm's length negotiations between GPHL and the Company.

7. New Licenses Fees:

Pursuant to the Trademark Custody Agreement, any new licensing fees of the WangLaoJi Trademarks generated from any licensing agreements entered into or renewed during the Custodian Period between the Company or (in limited circumstances) GPHL, and the licensees ("**New Licenses Fees**") will be shared between GPHL and the Company in the proportion of 80% and 20% respectively, or in a lower ratio for GPHL as may be agreed by GPHL and the Company, but in any event, the proportion of the New Licenses Fees that GPHL receives shall not exceed 80%. If the parties cannot reach an agreement on the new sharing proportion, the New Licenses Fees will be shared at the proportion of 80% and 20% between GPHL and the Company respectively. Such sharing arrangement relating to the New Licenses Fees were determined after arm's length negotiations between GPHL and the Company. Any other existing license fee sharing ratio between GPHL and the Company in respect of the use of 8 trademarks by Guangzhou WangLaoJi Pharmaceutical Company Limited, a joint venture of the Company, existed prior to the date of the Trademark Custody Agreement, will remain in force and will not be affected by the Trademark Custody Agreement.

8. Undertakings in relation to the WangLaoJi Trademarks:

GPHL undertakes that, from the date on which the Trademark Custody Agreement becoming effective, it will (unless otherwise required by laws and regulations or existing agreements) only through the Company carry out, among other things, the daily management and trademark protection of the WangLaoJi Trademarks as mentioned in the paragraph headed "3. Trademarks in custody" above and will not carry out such tasks on its own.

It was also set out in the Trademark Custody Agreement that the WangLaoJi Trademarks will be in custody of the Company before the transfer of the same into the Company after the settlement of the Legal Disputes (as defined in the paragraph headed "Reasons for the Trademark Custody" below, please also refer to the Company's announcements dated 11 May 2012, 4 June 2012, 15 July 2012, 6 August 2012 and 14 August 2012 respectively for the information on the Legal Disputes). GPHL has undertaken, in the undertakings dated 29 February 2012 and 15 June 2012 respectively, that it would transfer the WangLaoJi Trademarks to the Company according to the relevant laws and regulations within two years from the date falling on which the WangLaoJi Trademarks can be transferred and all the Legal Disputes have been resolved.

As at the Latest Practicable Date, the Company is unable to estimate the amount of the New Licenses Fees as the identity of new potential licensees (if any) and the terms and dates of the potential new/renewal licensing agreements (if any), etc. are not yet known to the Company. The Company and GPHL jointly entered into another undertaking on 29 February 2012, pursuant to which, both parties have undertaken that they will enter into a supplemental agreement ("**Custody Supplemental Agreement**") to the Trademark Custody Agreement before the Company or GPHL enters into the first new or renewal licensing agreement relating to the licensing of WangLaoJi Trademarks with the potential licensee after the completion of the Major Assets Reorganization. The Custody Supplemental Agreement shall (a) acknowledge the current arrangement of the Custody Fee and the New Licenses Fee as set out in the Trademark Custody Agreement; and (b) specify the terms including but not limited to the annual cap in relation to the maximum of 20% of New Licenses Fees entitled by the Company, the term of the custody arrangement under the Custody Supplemental Agreement and other terms which are required under Chapter 14A of the Listing Rules.

REASONS FOR THE TRADEMARK CUSTODY

It is the ultimate purpose of GPHL and the Company to centralize the ownership of all trademarks of Chinese patent medicine into the Company. As at the Latest Practicable Date, legal disputes ("**Legal Disputes**") of WangLaoJi Trademarks between GPHL and an independent third party ("**Dispute Party**") were still in progress, both GPHL and the Company consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole that the WangLaoJi Trademarks will not form part of the Target Trademarks under the Proposed Assets Acquisition and will only be transferred to the Company after the Legal Disputes is fully settled. It is confirmed by GPHL that given the Legal Disputes between GPHL and the Dispute Party do not involve the Company, the Company is not or will not be required to bear any costs and liabilities arising from the Legal Disputes.

GPHL and the Company further consider that by entering into the Trademark Custody Agreement, the possible competing business between GPHL and the Company can be reduced and the utilization of all trademarks of Chinese patent medicine within the Group can be enhanced before the WangLaoJi Trademarks can be transferred to the Company. As a result, the Directors consider that the transactions contemplated under the Trademark Custody Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS OF THE TRADEMARK CUSTODY

The provision of custody services under the Trademark Custody Agreement constitutes continuing connected transactions for the Company under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules for the Custody Fee is, on an annual basis, less than 0.1% under Rule 14A.33(3) of the Listing Rules, the provision of custody services is exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Although the Trademark Custody Agreement is not subject to independent shareholders' approval requirements under Chapter 14A of the Listing Rules, the approval of the Independent Shareholders, as one of the conditions precedent to the coming into effect of the Trademark Custody Agreement, will be sought at the EGM by way of poll.

As at the Latest Practicable Date, GPHL holds 390,833,391 GPC A Shares, representing approximately 48.20% of the total issued share capital of the Company. GPHL is regarded as connected person of the Company under the Listing Rules. GPHL and its associates, being the connected persons of the Company, will abstain from voting at the EGM for the relevant ordinary resolution.

Since the Company is currently unable to estimate the amount of the New Licenses Fees as mentioned in the paragraph headed "8. Undertakings in relation to the WangLaoJi Trademarks" above, prior to entering into the first new or renewal licensing agreement relating to the licensing of WangLaoJi Trademarks with the potential licensee after the completion of the Major Assets Reorganization, the Company will enter into the Custody

Supplemental Agreement with GPHL and re-comply with all relevant reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules as and when the Custody Supplemental Agreement is entered into.

INFORMATION ON THE PARTIES INVOLVED IN THE MAJOR ASSETS REORGANIZATION AND THE TRADEMARK CUSTODY

BYS

BYS is a company established in the PRC with its entire issued share capital listed on the Shenzhen Stock Exchange and is currently held as to 35.58% by GPHL. It is principally engaged in the research and development, manufacture and sales of Chinese and Western patent medicine, active pharmaceutical ingredients, medicine for external use, child medicine and health medicine.

Based on the audited financial statements of BYS prepared in accordance with CASBE set out in the Accountants' Report of BYS in Appendix II(A) to this circular, the consolidated net asset value and the consolidated net profits before and after tax of BYS Group for the three years ended 31 December 2011 and the six months ended 30 June 2012 are as follows:

	As at 31 December			**As at 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB in million)	*(RMB in million)*	*(RMB in million)*	*(RMB in million)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Net asset value	968.17	1,164.92	1,407.58	1,605.44

	For the year ended 31 December			**For the six months ended 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB in million)	*(RMB in million)*	*(RMB in million)*	*(RMB in million)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Profit before tax	117.62	257.09	328.29	271.72
Profit after tax	121.17	219.06	280.22	233.54

Further details of the audited financial information, the management's discussion and analysis and property valuation of BYS are set out in Appendix II(A), Appendix IV and Appendix VIII to this circular respectively.

GPHL

GPHL is a state-owned enterprise established in the PRC. GPHL is principally engaged in the development, manufacture and trading of pharmaceutical products. GPHL is the controlling Shareholder holding approximately 48.20% of the total issued share capital of the Company as at the Latest Practicable Date. GPHL also holds approximately 35.58% equity interest in BYS as at the Latest Practicable Date.

The Company

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares and GPC A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively. The Group is principally engaged in (1) the research and development, manufacture and sales of Chinese Patent Medicine, natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

WAIVER FROM STRICT COMPLIANCE WITH RULES 4.01(3), 14.69(4)(a)(i) AND 14.69(7) OF THE LISTING RULES

1. Background of the waiver

As set out in this Letter from the Board, the Proposed Merger and the Proposed Assets Acquisition together constituted very substantial acquisitions and connected transactions of the Company, the Company is required to include (a) the respective accountants' reports on BYS, Po Lian and Baxter pursuant to Rules 4.01(3) and 14.69(4)(a)(i) of the Listing Rules, (b) the respective profit and loss statements on the Target Properties and Target Trademarks pursuant to Rule 14.69(4)(b)(i) of the Listing Rules; and (iii) the respective management discussion and analysis on BYS, Po Lian and Baxter pursuant to Rule 14.69(7) of the Listing Rules in this circular. However, the Company considers that it is impractical for the Company to include an accountants' report and management discussion and analysis on Baxter in this circular and applied to the Hong Kong Stock Exchange for a waiver (the "**Waiver**"), and the Hong Kong Stock Exchange has granted the Waiver from strict compliance with (i) Rules 4.01(3) and 14.69(4)(a)(i) of the Listing Rules to include the accountants' report on Baxter; and (ii) Rule 14.69(7) of the Listing Rules to include the management discussion and analysis on Baxter in this circular.

2. Reasons for the waiver application

The Company sought the Waiver in view of the following:

(i) Baxter is a Sino-foreign equity joint venture established in the PRC in which GPHL currently owns 12.50% of its equity interest while the remaining 87.50% equity interest is held by Baxter China, the beneficial owner (collectively with its subsidiaries including Baxter and Baxter China, "**Baxter Group**") of which is a company listed on the New York Stock Exchange and an independent third party to the Group. Upon completion of the Proposed Assets Acquisition, Baxter will remain the subsidiary of Baxter China, while the Company will only hold 12.50%

interest in Baxter, it will not consolidate the assets, liabilities or the operating results of Baxter in its consolidated financial statements and Baxter will only be treated as a long-term equity investment of the Company and accounted for using the cost method by the Company;

(ii) the acquisition of 12.50% equity interest in Baxter, if it were a standalone transaction, would have only constituted a discloseable transaction as only one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules is over 5% but less than 25%, and as such an accountants' report and management discussion and analysis for such acquisition would not have been required. Furthermore, the Company will only be a passive investor with no discretion, control, influence on or involvement in the daily operations of Baxter (including the accounting standards, policies and treatments or business and financial decision and development);

(iii) Baxter considered that it is inappropriate for the Company to disclose Baxter's information according to the requirements of the Listing Rules, in view of (a) Baxter is a private Company; (b) the Company will only acquire 12.5% equity interest in Baxter; and (c) if with such substantial disclosures, Baxter's competitors can easily obtain Baxter's internal information which are otherwise not subject to public disclosure and may have significant impact on Baxter's business operations; and

(iv) the Proposed Assets Acquisition is a transaction between the Company and GPHL. GPHL is only interested in 12.50% of the equity interest in Baxter, while the controlling interest is vested in the Baxter Group. As the Baxter Group is not a party to the Proposed Assets Acquisition, neither Baxter nor other members of the Baxter Group are under any obligation to provide assistance to the Company for the purpose of preparing the accountants' report and management discussion and analysis on Baxter for inclusion in the circular.

3. Alternative Disclosures

The Company will, instead of an accountants' report and a full management discussion and analysis of Baxter, include the following alterative disclosures (the "**Alternative Disclosures**") of Baxter's financial information in this circular:

a. a summary of the audited financial information of Baxter for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 with respect to the income statements and balance sheets of Baxter as shown in Appendix II(C) to this circular;

b. a statement on CASBE being adopted in preparing the financial statements of Baxter as shown in Appendix II(C) to this circular;

c. a statement that the auditor of Baxter issued an unqualified audit opinion in the audited financial statement for the three years ended 31 December 2011 and six months ended 30 June 2012 as shown in Appendix II(C) to this circular; and

d. a disclosure of the dividend income (if any) received by GPHL for each of the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 in this Letter from the Board.

The Directors consider that the Alternative Disclosures for Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012 as well as the valuation report on Baxter as at 31 December 2011 as set out in Appendix VII(C) to this circular, which is the basis for determining the Proposed Consideration of 12.5% interest in Baxter, are meaningful and sufficient to enable the Shareholders to make an informed voting decision in relation to the Major Assets Reorganization (including the acquisition of 12.50% of Baxter) and provided an overview on the financial performance of Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012 for Shareholders' assessment.

POSSIBLE FINANCIAL IMPACT OF THE MAJOR ASSETS REORGANIZATION

Upon the completion of the Major Assets Reorganization, (i) the legal person status of BYS will be deregistered and all assets, liabilities, rights, business and staff (including their rights and obligations before the completion of the Major Assets Reorganization) of BYS will be taken up by the Company; (ii) Po Lian will become a wholly-owned subsidiary of the Company; and (iii) the Company will own the Target Properties, Target Trademarks and hold 12.50% equity interest in Baxter.

The Company will record the assets absorbed and liabilities assumed from BYS, the Target Properties and Target Trademarks in its own books and records according to their natures; consolidate the assets and liabilities as well as the results of Po Lian into the Group's consolidated financial statements; and record the investment in Baxter as a long-term equity investment in its own books and records using the cost method.

Effects on assets and liabilities

As at 30 June 2012, the audited consolidated total asset value and the audited consolidated total liabilities of the Group amounted to approximately RMB5,769.02 million and RMB1,735.65 million respectively.

According to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix V to this circular which assumes that the Major Assets Reorganization had been completed on 30 June 2012, the unaudited pro forma total assets of the Enlarged Group would be approximately RMB9,376.84 million and the unaudited pro forma total liabilities of the Enlarged Group would be approximately RMB3,591.65 million.

Effects on earnings

For the year ended 31 December 2011, the audited consolidated net profit of the Group amounted to approximately RMB300.00 million.

According to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix V to this circular, which assumes that the Major Assets Reorganization had been completed on 1 January 2011, the unaudited pro forma consolidated net profit of the Enlarged Group would be approximately RMB583.51 million for the year ended 31 December 2011.

PROFIT FORECASTS IN RELATION TO THE MAJOR ASSETS REORGANIZATION PREPARED UNDER CASBE

In compliance with the PRC laws and regulations and pursuant to the requirements of the CSRC, the Board has reviewed and approved (i) the 2012 Enlarged Group Profit Forecast and the 2012 Target Assets Profit Forecast prepared under CASBE in the Second Board Meeting on 15 June 2012; and (ii) the 2013 Enlarged Group Profit Forecast and the 2013 Target Assets Profit Forecast under CASBE in the Third Board Meeting on 24 August 2012.

Details of the 2012 Profit Forecasts and 2013 Profit Forecasts (including but not limited to the bases and principal assumptions), and the comfort letters from the reporting accountants and the financial advisers to the Company are set out in Appendices VI(A) to VI(D) to this circular.

PROFIT FORECASTS UNDERLYING THE VALUATION OF CERTAIN TARGET ASSETS

In compliance with the PRC laws and regulations, a final valuation of the Target Assets is required to be conducted by a qualified PRC valuer. China Valuer has been engaged to issue the valuation reports of the Target Assets, which are set out in Appendices VII(A) to VII(C) to this circular. As the valuations of certain Target Assets were arrived at based on the income approach, which take into account the discounted cash flows forecasts of the relevant Target Assets, such valuations constitute profit forecasts under Rule 14.61 of the Listing Rules (but the adoption of an income approach for the valuation of the Target Properties is not regarded as a profit forecast pursuant to Rule 14.61 of the Listing Rules).

Details of the forecasts (including but not limited to the bases and principal assumptions) underlying the valuations of certain Target Assets, and the comfort letters from the reporting accountants and the financial advisers to the Company are set out in Appendices VII(A) to VII(C) and Appendix VII(D) to this circular respectively.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is endeavoured to optimize its business structure and build up a solid foundation for its continued development in pharmaceutical related business and improvement in profitability.

The Major Assets Reorganization is expected to significantly strengthen the Group's existing business in a number of ways. Upon the completion of the Major Assets Reorganization, the Enlarged Group will have a comprehensive supply chain in the pharmaceutical industry including medical research and development as well as the manufacture and sales of various kinds of pharmaceutical products. The major medical assets and business of GPHL will be owned by the Enlarged Group, which will lead to synergy in the use and enhancement of the production facilities, rearrangement of the product mix, enhancement of the sales and distribution networks and sharing of the financial resources. Furthermore, possible intra-group competition will be eliminated as the medicine business will be centralized in the Enlarged Group. The connected transactions between the Enlarged Group and other members of the GPHL Group will also be reduced, which shall lead to better operation management and improvement in corporate governance.

In addition to strengthening the Group's existing business, the Major Assets Reorganization will also be the milestone of the Enlarged Group to fulfill a single listed platform among the GPHL Group which focus on the business in development, manufacture and trading of pharmaceutical products.

The Directors consider that the Major Assets Reorganization, when successfully implemented, will enhance the product diversity and income base of the Enlarged Group, achieve synergy and strengthen the core competitiveness of the Enlarged Group which are in the interest of the Group and the Shareholders as a whole.

With regard to the WangLaoJi Trademarks, Guangzhou WangLaoJi Great Health Industry Company Limited* (廣州王老吉大健康產業有限公司, "**WLJ Great Health**", a wholly-owned subsidiary of the Company) and GPHL has entered into a trademark license agreement on 25 May 2012, pursuant to which, GPHL agreed to grant WLJ Great Health the exclusive right to use certain trademarks in the WangLaoJi series in the PRC on certain products (for details, please refer to the announcement of the Company dated 25 May 2012).

WLJ Great Health will be the platform of the Group to develop relevant products in WangLaoJi series by devoting human resources, technology and financial resources of the Group in brand building, quality control and internationalization of the WangLaoJi products and other relevant health products. The Directors consider that the well-known trademarks in WangLaoJi series will broaden the sales and distribution channels of the Group, and enhance the sales of the products of WLJ Great Health. The resulting potential profitability of the Group is in the interests of the Company and the Shareholders as a whole.

On 14 August 2012, the Company announced that the Dispute Party filed a civil legal proceeding application to the Beijing No.1 Intermediate People's Court*(北京市第一中級人民法院)of the PRC in relation to the allegation of unauthorized use of the specific name, packaging and decoration of the well-known products by WLJ Great Health (for details, please refer to the announcements of the Company dated 14 August 2012). The Company is of the view that the above civil legal proceedings will not have a material adverse impact on the operation and prospects of WLJ Great Health as (i) the amount claimed by the Dispute Party is immaterial; (ii) the above proceeding was still in progress as at the Latest Practicable Date; and (iii) the Company is not aware of any negative events which will cause the operation of WLJ Great Health to be materially affected as at the Latest Practicable Date.

In addition, as set out in the Trademark Custody Agreement, GPHL undertakes that it will transfer the WangLaoJi Trademarks to the Company according to the relevant laws and regulations within two years from the date falling on which the WangLaoJi Trademarks can be transferred after all the Legal Disputes have been resolved. The Company will publish a further announcement pursuant to the requirements of the Listing Rules as and when the Company enters into any agreement in relation to the acquisition of the WangLaoJi Trademarks.

POSSIBLE CHANGES OF COMPANY NAME AND ARTICLES OF ASSOCIATION OF THE COMPANY

In order to reflect the revised scope of business of the Enlarged Group upon the completion of the Major Assets Reorganization, it was set out in the Preliminary Proposal and the Final Proposal that the name of the Company and the Articles of Association will be changed accordingly. As at the Latest Practicable Date, no such changes on the name of the Company and the Articles of Association in relation to the Major Assets Reorganization have been approved by the Board. Further announcement(s) will be made by the Company upon approval of the changes of the name of the Company and Articles of Association by the Board, where such changes should also be subject to the approval of the Shareholders, as a result of the Major Assets Reorganization.

III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In light of the recent changes of the requirements of the CSRC on profit distribution policy, the Board proposed to amend the Articles of Association in order to comply with the relevant requirements.

The proposed amendments to the Articles of Association are subject to the approval of the Shareholders by way of special resolution at the EGM. Details of the proposed amendments are set out below:

Article 211 prior to the proposed amendments is as follows:

Article 211 The profit distribution of the Company is made according to the proportion of the Shares held by the Shareholders, emphasizing on bringing reasonable investment returns to the investors. The profit distribution policy strives to maintain continuity and stability. The Company's profit distribution policy is as follows:

(1) Dividends can be paid by way of cash or shares and subject to the approval of the Shareholders, the Directors may be authorized to declare interim cash dividends;

(2) In respect of the profit for the year to which no proposed scheme of profit distribution is made by the Board, disclosure regarding the reasons for not making profit distribution and the application of the retained undistributed profit shall be made in the annual report for the year. Independent directors of the Company should express their independent opinions in this regard;

(3) In event of misappropriation of the Company's funds by a Shareholder, the Company can deduct the funds misappropriated from the cash dividends to be allocated to that Shareholder as repayment.

Article 211 after the proposed amendments is as follows:

Article 211 The profit distribution of the Company is made according to the proportion of the shares held by the shareholders, emphasizing on bringing reasonable investment returns to the investors. The profit distribution policy strives to maintain continuity and stability.

(I) **THE COMPANY'S PROFIT DISTRIBUTION POLICY IS AS FOLLOWS:**

1. Principle of profit distribution:

The Company implements a stable policy of profit distribution. On making a profit distribution, the Company will comply with the statutory requirement to make the distribution in order and will take into account the provision of reasonable and stable returns on investment to the shareholders and the long-term and sustainable growth of the Company.

2. Method of profit distribution

The Company may pay dividends in the form of cash, bonus shares or a combination of both, or such other forms of dividends payment which are permitted by laws and regulations. Subject to the approval of the Shareholders, the Board may be authorized to declare interim cash dividends;

3. Conditions of profit distribution and minimum dividend proportion:

The Company shall pay the dividends and the amount of cash dividends so paid shall not be less than 10% of the net profit attributable to shareholders of the Company for the year, provided that the working capital requirement for the Company's normal production and operation is met and the long-term and sustainable growth of the Company is maintained, and that there is no material investment plan or material cash expense. In the event that the Company has maintained growth in the profits for the past three years, the Company may increase the proportion for cash dividends to provide more returns to the investors.

Material investment plan or material cash expense represents the proposed external investment, acquisition or purchase of assets by the Company in the coming twelve months with accumulated expenses amounting to or exceeding 10% of the latest audited net assets of the Company.

4. In the event of misappropriation of the Company's funds by a Shareholder, the Company can deduct the funds misappropriated from the cash dividends to be allocated to that Shareholder as repayment.

(II) **PROCEDURES FOR DECISION MAKING ON PROFIT DISTRIBUTION BY THE COMPANY:**

The proposal for profit distribution of the Company is formulated by the Board after taking into account the Company's specific conditions such as profitability, capital needs and growth of the Company and, upon consideration and approval by the Board, shall be proposed at the general meeting for approval. Independent directors shall express their independent opinions on the reasonableness of the profit distribution proposal for the year before the same is considered by the Board.

(III) In the event that the Company revises its profit distribution policy in response to the external business environment or its own state of operation, the Company shall first consider the protection of the shareholders' interests, make thorough consideration and state the reasons thereof. The revised profit distribution policy shall not be contrary to the relevant requirements of CSRC and stock exchanges in the PRC and Hong Kong. The proposal for the revision of the profit distribution policy shall first be approved by the independent directors of the Company and they shall express independent opinions, and thereafter shall be proposed to the Board for consideration before being submitted to the general meeting for consideration and approval by a special resolution thereat.

If the Company records profits for a year but the Board fails to make any proposal for cash profit distribution, the Board shall state the reasons thereof in detail and the planned application and use of such retained funds that would have been otherwise available for distribution in the annual report for the year, and the independent directors shall express independent opinions in such regard and shall be disclosed accordingly.

The proposed amendments to the Articles of Association are intended to enhance the transparency of the profit distribution policy of the Company, which includes the relevant decision-making mechanisms and procedures, and relevant adjustments that may be made under such profit distribution policy. The Company is of the view that the proposed amendments to the Articles of Association will enable the Shareholders and potential investors to assess the investments returns provided by the Company.

Shareholders should be aware that the Articles of Association have been adopted by the Company in Chinese only and no official English translation is available. The English text of the proposed amendments to the Articles of Association as stated in this circular is only an unofficial translation prepared for reference only. The Chinese version of the Articles of Association and the amendments thereto shall prevail in case of any discrepancy or inconsistency between the Chinese and the English versions.

IV. PROPOSED APPOINTMENT OF DIRECTOR

On 13 July 2012, the Board has passed the resolution regarding the recommendation of Ms. Cheng Ning as a candidate of an executive Director by way of written resolution. The aforesaid resolution will be submitted to the EGM for Shareholders' consideration.

Detail of Ms. Cheng Ning is set out as below:

Ms. Cheng Ning ("**Ms. Cheng**"), aged 46, received tertiary education, is a certified public accountant and certified tax consultant in the PRC. Ms. Cheng started her career in August 1986 and has served as an officer of the finance section of Guangzhou Bai Yun Shan Pharmaceutical General Factory*（廣州白雲山製藥總廠）, a deputy section chief of the finance section of Guangzhou Bai Yun Shan Bao De Pharmaceutical Factory*（廣州白雲山寶得藥廠）, a chief of the finance section of Guangzhou Bai Yun Shan Veterinary Medicines Factory*（廣州白雲山獸藥廠）, a chief of the settlement section of the operation department, a chief of the accounting and cashier of the settlement center, a deputy manager of the finance department, a member and secretary of the supervision committee of BYS, a deputy manager and a director of the financial resources department and a director of the finance department of Guangzhou Bai Yun Shan Enterprise Group*（廣州白雲山企業集團有限公司）and a deputy manager of finance department of GPHL and so on. Ms. Cheng is currently a vice general manager, financial controller and manager of the finance department of GPHL.

According to the emoluments policy of the Company, the annual emoluments of the Directors are proposed by the Board at the annual general meeting of the Company at which the Board shall seek authorization to determine the amount of the emoluments and the method of payment for services as Directors. As at the Latest Practicable Date, Ms. Cheng received emoluments directly from GPHL for her services as a member of their senior management. If elected as a Director, Ms. Cheng will continue to receive the emoluments from GPHL for her services to both GPHL and the Group until the annual general meeting of the Company authorizes the Board to determine and/or revise her salary for her services as a Director.

If elected, Ms. Cheng shall serve from the date of the appointment to the date when members of the new session of the Board are elected and will enter into a service contract with the Company as an executive Director.

Ms. Cheng does not have any relationship with other directors, supervisors, senior management or substantial or controlling shareholders of the Company.

As at the Latest Practicable Date, Ms. Cheng did not have any interests in the shares or debentures of the Company or any of its associated corporations, which shall be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies, nor did she has any other interest which shall be recorded in the register as required to be kept by the Company in accordance with Section 352 of SFO.

Save as disclosed above, there are no other matters concerning the election of Ms. Cheng for election as an executive Director that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirement of Rule 13.51(2) of the Listing Rules.

THE EGM AND THE H SHARES CLASS MEETING

The EGM and the H Shares Class Meeting will be held on Wednesday, 19 September 2012 for the purpose of considering and, if thought fit, approving by the Independent Shareholders on the Major Assets Reorganization contemplated under the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement. The EGM will also be held on Wednesday, 19 September 2012 for the purpose of considering and, if thought fit, approving by (i) the Independent Shareholders on the Trademark Custody Agreement and the respective transactions contemplated thereunder; and (ii) the Shareholders on the proposed amendments to the Articles of Association and the proposed appointment of director.

Pursuant to the Listing Rules, all resolutions to be considered, and if thought fit, to be passed at the EGM and the H Shares Class Meeting, shall be passed by way of poll.

In accordance with the Listing Rules, GPHL and its associates, being connected persons of the Company and is considered to be interested in the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), and the Trademark Custody Agreement, will abstain from voting at the EGM and the H Shares Class Meeting for the relevant resolutions.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, other than GPHL and its associates, being connected persons of the Company, there is no connected person of the Company, any Shareholders or their respective associates with a material interest in the relevant transactions under the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement), and the Trademark Custody Agreement, who is required to abstain from voting at the EGM and the H Shares Class Meeting.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, there is no connected person of the Company, any Shareholders or their respective associates with a material interest in the proposed amendments to the Articles of Association and the proposed appointment of Director, who is required to abstain from voting at the EGM for the relevant resolution.

Notices convening the EGM and the H Shares Class Meetings to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC at 9:30 a.m. on Wednesday, 19 September 2012 and the forms of proxy thereof have been dispatched to the Shareholders on 3 August 2012 and also published on the websites of the Hong Kong Stock Exchange (http://www.hkexnew.hk) and the Company (http://www.equitynet.com.hk/0874/).

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, has been established to advise the Independent Shareholders as to whether the respective terms of (i) the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement) and the transactions contemplated thereunder; and (ii) the Trademark Custody Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the advice from the Independent Board Committee set out in its letter on pages 67 to 68 of this circular.

South West Capital Limited, being the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard. Your attention is drawn to the advice from the Independent Financial Adviser set out in its letter on pages 69 to 112 of this circular.

RECOMMENDATIONS

Based on the information set out in this circular, the Directors (including the independent non-executive Directors) are of the opinion that the terms of the Major Assets Reorganization, the Absorption and Merger Agreement, the Assets Acquisition Agreement, the Profit Compensation Agreement and the Trademark Custody Agreement and the respective transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Directors recommend the Independent Shareholders to vote in favour of the resolutions (1) as set out in the notice of the EGM and the notice of the H Shares Class Meeting to approve, among other things, the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement and the respective transactions contemplated thereunder at the EGM and the H Shares Class Meeting respectively; and (2) as set out in the notice of the EGM to approve, among other things, the Trademark Custody Agreement and the transactions contemplated thereunder at the EGM.

The Board also considers that the proposed amendments to the Articles of Association and proposed appointment of Director are in the interest of the Company and its Shareholders as a whole, and recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular, the notice of the EGM and the notice of the H Shares Class Meeting.

All the material information in relation to the Major Assets Reorganization has been disclosed in this circular. The Company has also published the Final Proposal (in Chinese only), which incorporated the 2012 Profit Forecasts and the valuation reports on the Target Assets on the Shanghai Stock Exchange on 19 June 2012 and the 2013

Profit Forecasts on the Shanghai Stock Exchange on 27 August 2012. Investors can refer to the Final Proposal and all relevant documents published on the website of the Shanghai Stock Exchange (www.sse.com.cn) for details of the Major Assets Reorganization.

The 2012 Profit Forecasts, the 2013 Profit Forecasts and the discounted cash flows forecasts of the relevant Target Assets are prepared based on the assumptions and estimations of the Board for illustrative purposes only and does not provide any assurance or indication that any event will take place in the future and may not give a true picture of the results of the Enlarged Group and/or the Target Assets for the years ending 31 December 2012 and 2013 and thereafter.

As the Board has made no reference to the 2012 Profit Forecasts and the 2013 Profit Forecasts in determining the terms for the Major Assets Reorganization, the Shareholders and potential investors in H Shares should not rely on the information in the 2012 Profit Forecasts and the 2013 Profit Forecasts when they assess the merits and demerits of the Major Assets Reorganization.

Investors are cautioned that the Major Assets Reorganization is subject to various conditions precedent. The Major Assets Reorganization may or may not proceed or become unconditional or effective. There is no assurance that all the conditions precedent contained in the Absorption and Merger Agreement and Assets Acquisition Agreement can be satisfied. Investors and potential investors in Shares should exercise care, and should only rely on information published by the Company, when they deal, or contemplate dealing, in the H Shares or other securities of the Company.

Yours faithfully
For and on behalf of the Board
Yang Rongming
Chairman

廣州藥業股份有限公司
Guangzhou Pharmaceutical Company Limited
(a joint stock company with limited liability established in the People's Republic of China)
(H Share Stock Code: 0874)

4 September 2012

To the Independent Shareholders

Dear Sir or Madam,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS INVOLVING MAJOR ASSETS REORGANIZATION –

(A) ABSORPTION AND MERGER OF GUANGZHOU BAIYUNSHAN PHARMACEUTICAL CO., LTD.;

(B) ACQUISITION OF TARGET ASSETS FROM GUANGZHOU PHARMACEUTICAL HOLDINGS LIMITED; AND

(C) COMPENSATION FOR PROFIT SHORTFALL

AND

(II) TRADEMARK CUSTODY

We refer to the circular issued by the Company to the Shareholders dated 4 September 2012 ("**Circular**") which this letter forms a part of. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the terms of (i) the Major Assets Reorganization contemplated under the Absorption and Merger Agreement, the Assets Acquisition Agreement as well as the Profit Compensation Agreement; and (ii) the transactions contemplated under the Trademark Custody Agreement respectively and to advise the Independent Shareholders in the same regard. South West Capital Limited has been appointed as the Independent Financial Adviser in respect of the Major Assets Reorganization contemplated under the Absorption and Merger Agreement, the Assets Acquisition Agreement as well as the Profit Compensation Agreement and the transactions contemplated under the Trademark Custody Agreement respectively.

We wish to draw your attention to the letter from the Board and the text of a letter of advice from SWCL, as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Major Assets Reorganization and the transactions contemplated under the Trademark Custody Agreement respectively are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions approving the Major Assets Reorganization (including the Absorption and Merger Agreement, the Assets Acquisition Agreement and the Profit Compensation Agreement) at the EGM and the H Shares Class Meeting and the Trademark Custody Agreement at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Guangzhou Pharmaceutical Company Limited

Mr. Liu Jinxiang	**Mr. Li Shanmin**	**Mr. Zhang Yonghua**	**Mr. Wong Lung Tak Patrick**	**Mr. Qiu Hongzhong**

The following is the full text of the letter of advice from South West Capital Limited to the Independent Board Committee in respect of the Transactions, which has been prepared for the purpose of inclusion in this Circular.

South West Capital Limited
西南融資有限公司

Unit 1101-02, 11/F
Euro Trade Centre
13-14 Connaught Road, Central, Hong Kong

4 September 2012

To the Independent Board Committee

Dear Sirs,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS INVOLVING MAJOR ASSETS REORGANIZATION –

(A) ABSORPTION AND MERGER OF GUANGZHOU BAIYUNSHAN PHARMACEUTICAL CO., LTD.;

(B) ACQUISITION OF TARGET ASSETS FROM GUANGZHOU PHARMACEUTICAL HOLDINGS LIMITED; AND

(C) COMPENSATION FOR PROFIT SHORTFALL;

AND

(II) TRADEMARK CUSTODY

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Very Substantial Acquisitions and Connected Transactions involving Major Assets Reorganization contemplated under the Absorption and Merger Agreement and the Assets Acquisition Agreement and the transactions contemplated under the Trademark Custody Agreement and the Profit Compensation Agreement respectively (collectively, the "Transactions"), details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company dated 4 September 2012 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 29 February 2012, being the date of the First Board Meeting, the Company and BYS entered into the Absorption and Merger Agreement in relation to the Proposed Merger; and the Company and GPHL entered into the Assets Acquisition Agreement in relation to the Proposed Assets Acquisition and Trademark Custody Agreement. On 15 June 2012, being the date of the Second Board Meeting, the Company and GPHL entered into the supplemental agreement to the Assets Acquisition Agreement, the Profit Compensation Agreement and supplemental agreement to Trademark Custody Agreement.

Pursuant to the Absorption and Merger Agreement, the Company will issue new GPC A Shares to BYS Shareholders at the Exchange Ratio of 0.95 GPC A Shares for 1 BYS Share (subject to the ex-right or ex-dividend adjustment) in exchange for the BYS Shares held by them on the Share Conversion Date. Pursuant to the Assets Acquisition Agreement and the supplemental agreement to it, the Company will acquire (i) Target Properties of 21 properties; (ii) Target Trademarks of 388 registered trademarks owned by GPHL; (iii) 100% equity interest of Po Lian and (iv) 12.5% equity interest of Baxter, at the Proposed Consideration of approximately RMB421,559,700, which will be satisfied by the Company by issuing and allotting approximately 34,839,645 new GPC A Shares. Pursuant to the Profit Compensation Agreement, if the audited net profits of the Target Properties and the Target Trademarks are less than the forecasted net profits of the same during a financial year within the Compensation Period, the Company will be compensated the difference of the audited net profits by GPHL. Also, pursuant to the Trademark Custody Agreement, the Company will be responsible for the daily management of 29 WangLaoJi Trademarks currently owned by GPHL. As a result, the Company will become the only listed platform of the GPHL Group which will focus on the business in development, manufacture and trading of pharmaceutical products after completion of the Major Assets Reorganization.

As two of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under (i) the Absorption and Merger Agreement and (ii) the Assets Acquisition Agreement, in aggregate, is over 100%, the transactions constitute very substantial acquisitions for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, GPHL holds 390,833,391 GPC A Shares, representing approximately 48.20% of the total issued share capital of the Company. In addition, GPHL owns approximately 35.58% equity interest in BYS. Both GPHL and BYS are regarded as connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under (i) the Absorption and Merger Agreement and (ii) the Assets Acquisition Agreement also constitute non-exempt connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements. GPHL and its associates, being the connected persons of the Company, will abstain from voting at the GPC General Meetings for the relevant resolutions.

The provision of custody services under the Trademark Custody Agreement constitutes continuing connected transactions under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules for the Custody Fee is, on an annual basis, less than 0.1%, under Rule 14A.33(3) of the Listing Rules, the provision of custody services is exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. It should be noted that, although the Trademark Custody Agreement is not subject to independent shareholders' approval requirements under Chapter 14A of the Listing Rules, the approval of the Independent Shareholders, as one of the conditions precedent to the Trademark Custody Agreement, will be sought at the EGM by way of poll.

The Independent Board Committee comprising all of the independent non-executive Directors of the Company, namely Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, has been established to advise the Independent Shareholders in respect of the Transactions. In our capacity as the independent financial adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, opinions and representations contained or referred to in the Circular were true and accurate at the time when they were made and continued to be true and accurate as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiries and considerations. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. The Directors have confirmed that having made all reasonable enquiries, to the best of their knowledge, there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion to Independent Board Committee in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS INVOLVING MAJOR ASSETS REORGANIZATION

1. Background of the Very Substantial Acquisitions and Connected Transactions

Reference is made to the Letter from the Board, on 29 February 2012, being the date of the First Board Meeting held, the Board resolved to (a) approve the Preliminary Proposal relating to the Major Assets Reorganization, comprising the Proposed Merger and the Proposed Assets Acquisition; (b) enter into the Absorption and Merger Agreement with BYS in relation to the Proposed Merger; and (c) enter into the Assets Acquisition Agreement with GPHL in relation to the Proposed Assets Acquisition.

On 15 June 2012, being the date of the Second Board Meeting held in relation to the Major Assets Reorganization, the Board resolved to (i) approve the Final Proposal; (ii) enter into the supplemental agreement with GPHL as supplement to the Assets Acquisition Agreement; (iii) enter into the Profit Compensation Agreement with GPHL; and (iv) approve the 2012 Profit Forecasts.

Pursuant to the above resolutions, on 15 June 2012, the Company and GPHL entered into the supplemental agreement to the Assets Acquisition Agreement and the Profit Compensation Agreement respectively.

On 24 August 2012, being the date of the Third Board Meeting, the Board resolved to approve, among other things, the 2013 Profit Forecasts.

The Proposed Merger and the Proposed Assets Acquisition are inter-conditional to each other and are subject to the satisfaction of certain conditions precedent as detailed in the Letter from the Board.

2. Information on the Group

As stated in the Letter from the Board, the Company is a joint stock company established in the PRC and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively. The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

The table set out below is the audited financial information of the Group for two years ended 31 December 2011 as extracted from the Annual Report for the year ended 31 December 2011 of the Company. The audited financial information of the Group for the six months ended 30 June 2012 is extracted from the 2012 interim report.

Table I – Financial information of the Group for the year of 2010 and 2011, and the six months ended 30 June 2012

	For the six months ended 30 June 2012 *RMB'000* *(audited)*	For the six months ended 30 June 2011 *RMB'000* *(unaudited)*	% change from 2011 to 2012	For the year ended 31 December 2011 *RMB'000* *(audited)*	For the year ended 31 December 2010 *RMB'000* *(audited)*	% change from 2010 to 2011
Revenue						
Manufacture	1,489,762	1,302,296	14.40	2,534,760	2,188,600	15.82
Pharmaceutical trading	1,386,647	1,037,991	33.59	2,049,750	1,706,025	20.15
Other trading	571,315	430,245	32.79	760,648	508,473	49.59
Other operation	50,322	46,810	7.50	94,454	82,969	13.84
Total revenue	3,498,046	2,817,341	24.16	5,439,612	4,486,067	21.26
Operating profit	240,475	196,019	22.68	308,926	298,016	3.66
Total profit	248,618	205,832	20.79	334,993	321,341	4.25
Net profit	217,085	179,621	20.86	299,997	274,031	9.48

As shown in the table, all of the Group's revenue, operating profit, total profit and net profit for the year ended 31 December 2011 recorded increase as compared to the year ended 31 December 2010. The Group's revenue from manufacture, pharmaceutical trading and other trading increased substantially by 15.82%, 20.15% and 49.59% respectively. As stated in the Company's 2011 Annual report, for the year of 2012, the Company is going to enhance major asset reorganization involving the Company, speed up the enhancement of cooperation, investment, and merger and acquisition of the subsidiaries and joint ventures of the Company.

For the six months ended 30 June 2012, the Group recorded total revenue of approximately RMB3,498,046,000, with a growth of 24.16% as compared with the corresponding period of last year. The profit before tax amounted to approximately RMB248,618,000, representing an increase of 20.79% over the corresponding period of last year and the net profit attributable to shareholders of the Company amounted to approximately RMB217,085,000, representing an increase of 20.86% over the corresponding period of last year. The growth in revenue is primarily due to (i) actively developed works on government affairs and followed up with the expansion of production; (ii) vigorously organized marketing campaigns for brand building; and (iii) further strengthened the coordination and communication with distributors and manufacturers. The increase in profit is also attributable to the general decrease in prices of raw materials and the subsidiaries of the Company reinforced the management of energy consumption in the course of production and enhanced the production efficiency

3. Information on BYS

According to the Letter from the Board, BYS is a company established in the PRC with its entire issued share capital listed on the Shenzhen Stock Exchange and is currently held by GPHL as to 35.58%. It is principally engaged in the research and development, manufacture and sales of Chinese and Western patent medicine, active pharmaceutical ingredients, medicine for external use, child medicine and health medicine.

The table set out below is the audited financial information of BYS for two years ended 31 December 2011 as extracted from the annual report for the year ended 31 December 2011 of BYS. The audited financial information of BYS for the six months ended 30 June 2012 is extracted from the 2012 interim report.

Table II – Financial information of BYS for the year of 2010 and 2011, and the six months ended 30 June 2012

	For the six months ended 30 June 2012	For the six months ended 30 June 2011	% change from 2011 to 2012	For the year ended 31 December 2011	For the year ended 31 December 2010	% change from 2010 to 2011
	RMB'000	*RMB'000*		*RMB'000*	*RMB'000*	
	(audited)	*(unaudited)*		*(audited)*	*(audited)*	
Revenue						
Manufacture of pharmaceutical ingredients	274,403	250,160	9.69	441,974	436,783	1.19
Manufacture of chemical medicine	1,413,923	1,233,575	14.62	2,202,882	1,931,842	14.03
Manufacture of Chinese medicine	598,838	455,529	31.46	932,157	820,404	13.62
Other manufacture	4,665	4,350	7.24	6,712	6,149	9.16
Pharmaceutical trading	68,970	69,845	(1.25)	174,855	56,849	207.58
Other operation	26,398	20,914	26.22	40,553	64,833	(37.45)
Total revenue	2,387,198	2,034,375	17.34	3,799,133	3,316,861	14.54
Operating profit	270,218	197,345	36.93	314,058	238,507	31.68
Total profit	271,716	200,183	35.73	328,292	257,089	27.70
Net profit	233,536	171,741	35.98	280,216	219,061	27.92

During the reporting period, BYS maintained the good running of production and operating activities of BYS, and diverted the effect of the external pressure. As shown in the table, all of BYS's revenue, operating profit, total profit and net profit for the year ended 31 December 2011 recorded increase as compared to the year ended 31

December 2010. BYS's total revenue, operating profit and net profit increased substantially by 14.54%, 31.68% and 27.92% respectively. Furthermore, all of BYS's revenue, operating profit, total profit and net profit for the six months ended 30 June 2012 increased by 17.34%, 36.93% and 35.98% respectively as compared to the six months ended 30 June 2011. BYS's total revenue, operating profit and net profit increased primarily due to increases in sale volumes and sale price, as well as a decrease in unit cost of sale and change in product mix.

Taking into account the favorable financial performance of BYS, we are of the view that the Proposed Merger is (i) consistent with the overall corporate strategy of the Group; and (ii) in the interests of the Company and the Independent Shareholders as a whole.

4. Reasons for and benefits of the Major Assets Reorganization

As stated in the Letter from the Board, the Directors consider that in the long run, with the Major Assets Reorganization, the operations of the Company will expand and the Company will be able to improve its profitability, which in turn will enhance the interests of the Company and the Shareholders as a whole. Specifically, the Major Assets Reorganization aims to achieve the following purposes:

(a) Fulfillment of a single listed platform of the GPHL Group

Reference is made to the section headed "Effect of the Major Asset Reorganization" in the Letter from the Board, the Company will become the only listed platform of the GPHL Group which will focus on the business in development, manufacture and trading of pharmaceutical products after completion of the Major Assets Reorganization.

(b) Strengthening the competitiveness of the Group

After completion of the Major Assets Reorganization, the Group will have a comprehensive supply chain in the pharmaceutical industry including medical research and development as well as the manufacture and sales of various kinds of pharmaceutical products. With the enhanced product mix and strengthened sales and distribution channels, the core competitiveness of the Group is expected to be enhanced.

(c) Achieving synergy through integration of the resources

With the Major Assets Reorganization, the Group will be able to own the major medical assets and business of GPHL, thereby achieve synergy in the use and enhancement of the production facilities, rearrangement of the product mix, enhancement of the sales and distribution networks and sharing of the financial resources. Accordingly, the operating cost will be lowered, and the operating efficiency and hence the profitability will improve.

(d) Eliminating possible competing business and reducing the level of connected transactions

After completion of the Major Assets Reorganization, possible intra-group competition will be eliminated as the medicine business will be centralized in the Group. The connected transactions between the Group and other members of the GPHL Group will also be reduced, which shall lead to better operation management, improvement in corporate governance and therefore a better interest of the Shareholders as a whole.

The Directors consider that the Major Assets Reorganization, when successfully implemented, will enhance the product diversity and income base of the Group, achieve synergy and strengthen the core competitiveness of the Enlarged Group which are in the interests of the Group and the Shareholders as a whole. We concur with the view of the Directors.

5. Principal terms of the Absorption and Merger Agreement

(a) The Absorption and Merger Agreement

On 29 February 2012, being the date of the First Board Meeting held, the Board of the Company resolved to approve the Preliminary Proposal relating to the Major Assets Reorganization, comprising the Proposed Merger and the Proposed Assets Acquisition and enter into the Absorption and Merger Agreement with BYS in relation to the Proposed Merger, pursuant to which the Company will issue new GPC A Shares to BYS Shareholders at the Exchange Ratio of 0.95 GPC A Shares for 1 BYS Share (subject to the ex-right or ex-dividend adjustment) in exchange for the BYS Shares held by them on the Share Conversion Date.

The BYS Shareholders (other than GPHL and its associates) who decide not to receive in whole or in part the GPC A Shares can elect to accept the Cash Alternative provided by the Cash Alternative Provider, in whole or in part, at the BYS Share Conversion Price of RMB11.50, which is the BYS Share Average Price of RMB11.55 for each BYS Share as adjusted by the BYS 2011 Final Dividend and subject to further ex-right or ex-dividend adjustment (if any) on the Cash Alternative Exercise Date. In addition, pursuant to the Absorption and Merger Agreement, the Company and BYS acknowledge that, the Put Option will be provided by the Put Option Providers to the GPC Dissenting Shareholders (who have voted against the relevant resolutions in relation to the Proposed Merger at the GPC General Meetings). The GPC Dissenting Shareholders may dispose their Shares to the Put Option Providers at the respective prices of RMB12.10 per GPC A Share and HK$5.42 per H Share, being the GPC A Share Average Price and H Share Average Price as adjusted by the GPC 2011 Final Dividend respectively on the Put Option Exercise Date.

(b) Basis of the consideration and Exchange Ratio

As stated in the Letter from the Board, the Proposed Merger will involve the issue of new GPC A Shares to BYS Shareholders at the Exchange Ratio (subject to the ex-right or ex-dividend adjustment) in exchange for the BYS Shares held by them on the Share Conversion Date.

The Exchange Ratio is that the ratio at which 0.95 GPC A Shares will be issued in exchange for 1 BYS Share (subject to the ex-right or ex-dividend adjustment), which was determined based on the following:

1. the GPC A Share Average Price was determined at RMB12.20 based on average trading price per GPC A Share as derived by dividing the total trading value of GPC A Shares by the total trading volumes during the 20 trading days prior to and including 4 November 2011, being the last trading day immediately prior to the suspension of trading in GPC A Shares on the Shanghai Stock Exchange pending the release of the announcement of the Company dated 27 March 2012 in relation to the board meeting of the Company held 29 February 2012 for the approval of the Major Assets Reorganization.

2. the BYS Share Average Price was determined at RMB11.55 based on average trading price per BYS Share as derived by dividing the total trading value of BYS Shares by the total trading volumes during the 20 trading days prior to and including 4 November 2011, being the last trading day immediately prior to the suspension of trading in BYS Shares on the Shenzhen Stock Exchange pending the release of the announcement of BYS dated 27 March 2012 in relation to the board meeting of BYS held 29 February 2012 for the approval of the Major Assets Reorganization.

In view of the proposed and approved GPC 2011 Final Dividend and BYS 2011 Final Dividend, the GPA A Share Conversion Price and the BYS Share Conversion Price were adjusted to RMB12.10 per GPC A Share and RMB11.50 per BYS Share respectively, rendering the same Exchange Ratio (i.e. every 1 BYS Share will be exchanged for 0.95 GPC A Shares).

As stated in the Letter from the Board, the Exchange Ratio (subject to the ex-right or ex-dividend adjustment) is determined by making references to the GPC A Share Average Price and the BYS Share Average Price, representing slight deviations from the respective average trading prices of GPC A Shares and BYS Shares on the Last Trading Day and during the 5, 10 and 15 trading days prior to a price fixing day, which is the date of the First Board Resolution Announcement (i.e. 28 March 2012). However, we note that, it is not unusual for the mergers of two listed companies in the PRC involving securities exchange to determine such exchange ratio for the shares of acquirer and acquiree based on the average trading price of their shares during the 20 trading days prior to such price fixing day. For the illustrative purpose, we have identified three transactions for reference relating to the mergers of two listed companies in the PRC involving securities exchange which were completed during 2009 to 2011, and details are as follows:

Table III – Transactions involving on the Exchange Ratio and the Basis of setting the Issue Prices

Base Date *(Note 1)*	**The listed acquirer (Stock Code) (Stock Exchange)**	**Issue Price of acquirer** *(RMB)*	**The listed acquiree (Stock Code) (Stock Exchange)**	**Issue Price of acquiree** *(RMB)*	**Exchange Ratio**	**Basis of setting the issue prices** *(Note 2)*
11 Apr. 2011	Shandong Iron and Steal Co., Ltd (600022) (Shanghai Stock Exchange)	3.44	Laiwu Steal Co., Ltd (600102) (Shanghai Stock Exchange)	8.36	2.43	The issue price of acquirer equals to Average Trading Price
18 Jul. 2010	Shanghai Friendship Group Incorporated Company (600827) (Shanghai Stock Exchange)	15.57	Shanghai Bailian Group Co., Ltd (600631) (Shanghai Stock Exchange)	13.41	0.86	The issue prices of both acquirer and acquiree equal to Average Trading Price
25 Jul. 2009	Qinghai Salt Lake Potash Co., Ltd (000792) (Shenzhen Stock Exchange)	73.83	Qinghai Salt Lake Industry Group Co., Ltd (000578) (Shenzhen Stock Exchange)	25.46	0.34	The issue price of acquiree equals to Average Trading Price

Data Source: The website of Shanghai Stock Exchange and Shenzhen Stock Exchange

Note 1: "Base Date" is the respective publishing dates of the board meetings announcements in relation to the new issues

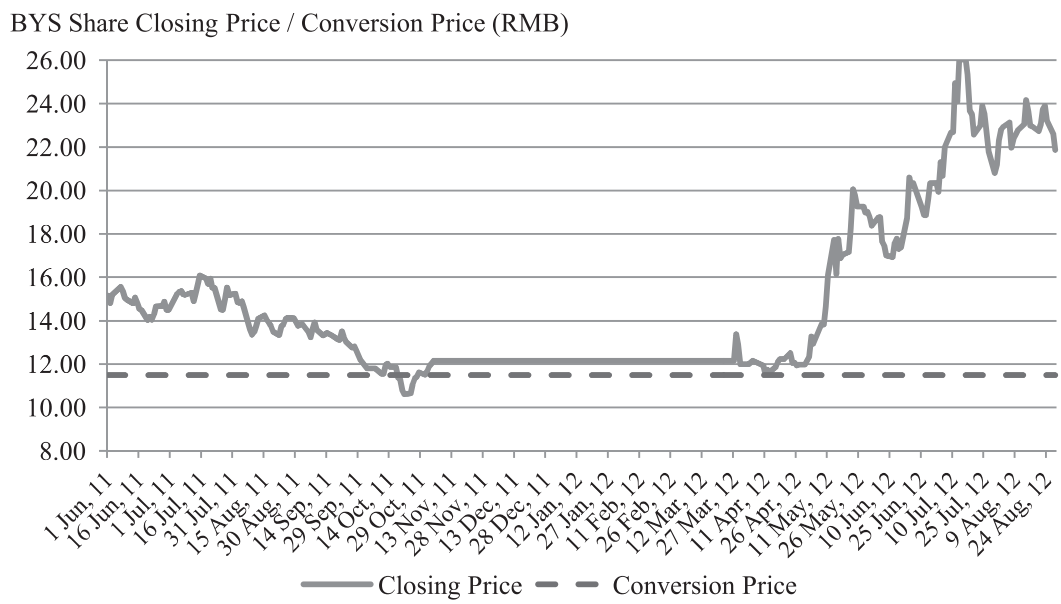
Note 2: "Average Trading Price" is the average trading price of the related shares for the 20 trading days immediately before the Base Date

Having considered that the GPC A Share Average Price of RMB12.20 (i.e. the issue price for the new GPC A Shares to be issued for the Proposed Merger) only represented (i) a discount of approximately 4.24% to the average trading price of GPC A Shares for the last 5 days up to and including the Last Trading Day, a discount of approximately 1.29% to the average trading price of GPC A Shares for the last 10 days up to and including the Last Trading Day, and a discount of approximately 0.16% to the average trading price of GPC A Shares for the last 15 days up to and including the Last Trading Day; and (ii) the exchange ratio implied by the prices of BYS Shares and GPC A Shares on the Latest Practicable Date represented a slight deviation from the Exchange Ratio, together with (iii) the positive financial impact as a result of the Proposed Merger (as analysed below) and (iv) the Exchange Ratio is in line with the common market practice, we considered that Exchange Ratio and the GPC A Share Conversion Price are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

(c) Trading price of BYS Shares

The chart set out below is showing the movements in trading price of the Shares during the period from June 2011 and up to the Latest Practicable Date (''Review Period'') of BYS Shares as quoted on the Shenzhen Stock Exchange.

Chart I – Closing prices of BYS Shares during the Review Period



Data Source: The website of Shenzhen Stock Exchange

Note: Trading in the BYS Shares was suspended from 7 November 2011 to 27 March 2012.

During the Review Period, the highest and lowest closing price of BYS Share as quoted on the Shenzhen Stock Exchange were RMB26.06 per BYS Share recorded on 16 July 2012 and RMB10.61 per BYS Share recorded on 21 October 2011 respectively. The BYS Share Conversion Price is thus within and at the bottom of the price range of BYS Shares closing prices during Review Period.

In evaluating the BYS Shares Conversion Price, which is RMB11.50 per BYS Share, we have compared it with the average trading prices of the Shares on the Last Trading Day and the Latest Practicable Date; the average trading prices of the BYS Shares during the Review Period prior to the Last Trading Day; and the average trading price of the BYS Shares from the Last Trading Day up to the Latest Practicable Date (''Reference Trading Prices'') as follows:

Table IV – Comparison of the BYS Share Conversion Price with the Reference Trading Prices

	Reference Trading Prices *(RMB)*	Premium/(Discount) represented by BYS Share Conversion Price over/to the Reference Trading Prices
Average trading price on the Latest Practicable Date	21.90	(47.49%)
Average trading price from the Last Trading Day up to the Latest Practicable Date	19.37	(40.63%)
Average trading price on the Last Trading Day	12.09	(4.48%)
5-day average trading price immediately prior to and including the Last Trading Day	11.88	(3.20%)
10-day average trading price immediately prior to and including the Last Trading Day	11.55	(0.43%)
15-day average trading price immediately prior to and including the Last Trading Day	11.49	0.09%
20-day average trading price immediately prior to and including the Last Trading Day	11.55	(0.43%)
30-day average trading price immediately prior to and including the Last Trading Day	11.83	(2.79%)

Data source: Bloomberg

We noted that the BYS Share Conversion Price represented a discount of approximately 4.48% over the average trading price per BYS Share of RMB12.09 as at 4 November 2011, being the last trading day prior to the date of the First Board Resolution Announcement. The BYS Conversion Price represented a discount of approximately 3.20% and 0.43% to 5-day and 10-dayaverage trading price immediately prior to and including 4 November respectively. The BYS Conversion Price represented a premium of approximately 0.09% over 15-day average trading price immediately prior to and including 4 November, and a discount of approximately 0.43% and 2.79% to 20-day and 30-day average trading price immediately prior to and including 4 November respectively.

We also noted that the BYS Share Conversion Price represented a discount of approximately 40.63% to the average trading price from the Last Trading Day up to the Latest Practicable Day, and a discount of approximately 47.49% to average trading price on the Latest Practicable Day. We considered that the BYS Share Conversion Price are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

(d) Trading multiples analysis

In order to further assess the fairness and reasonableness of the Proposed Merger., we have performed the price to earnings ("**PER**") and the price to book ("**PBR**") ratio analysis.

In performing the PER and PBR analysis, we have identified a total of nine comparable companies (the "**Market Comparables**"), out of which the Company is not included as it does not fall in our selection criteria. The selection criteria are, among other things, companies (1) engaging solely in pharmaceutical business, (2) manufacturing general medicines rather than special and high technology products, and (3) selling its products in the PRC markets. We have, based on the above selection criteria and the information available on Bloomberg, the website of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as well as to the best of our knowledge, effort and endeavour, and as far as we are become aware of, identified an exhaustive list of the Market Comparables listed in the PRC. The table below is the information of the PERs and PBRs of the Market Comparables as at the Latest Practicable Date, according to Bloomberg.

Table V – PER and PBR analysis for BYS

Company Name (Stock Code)	Stock Exchange	Principal business	PER *(times)* *(Note 1)*	PBR *(times)* *(Note 2)*
Joincare Pharmaceutical Group Industry Co., Ltd (600380)	Shanghai Stock Exchange	The company researches, develops, and manufactures a series of gynecological health care products. The company also produces traditional Chinese, western medicines, and health food, cosmetic product, and provides technology transferring.	20.95	1.43
Jiangzhong Pharmaceutical Co., Ltd (600750)	Shanghai Stock Exchange	The company operates in pharmaceutical manufacturing industry. The company's products include Chinese medicine preparations, penicillin, and other pharmaceuticals.	31.23	3.80
Xizang Haisco Pharmaceutical Group Co., Ltd. (002653)	Shenzhen Stock Exchange	The company develops, manufactures and sells drug formulations and active pharmaceutical ingredients. The Company's main products include hepatobiliary disease medication, anti-infective drugs, parenteral nutrition drugs, invert sugar for injection, and other related products.	34.68	14.16

Company Name (Stock Code)	Stock Exchange	Principal business	PER	PBR
			(times)	*(times)*
			(Note 1)	*(Note 2)*
Guilin Sanjin Pharmaceutical Co., Ltd. (002275)	Shenzhen Stock Exchange	The company specializes in research and production of Traditional Chinese Medicine and natural medicines.	28.12	4.10
Beijing Tiantan Biological Products Corporation Limited (600161)	Shanghai Stock Exchange	The company researches, develops and commercializes biological products. The company provides treatment for hepatitis and offers a line of vaccine products including hepatitis vaccines and rubella vaccines.	31.82	5.73
China Resources Double-Crane Pharmaceutical Co., Ltd (600062)	Shanghai Stock Exchange	The company develops, manufactures and markets a variety of medical products. The Company's products include anti-influenza, antihypertensive, and antibiotics.	22.26	2.77
North China Pharmaceutical Company Limited (600812)	Shanghai Stock Exchange	The company manufactures and markets a variety of pharmaceuticals including antibiotic medicines, preparations, vitamins, and other pharmaceutical products.	49.26	5.37
Guizhou Bailing Group Pharmaceutical Co., Ltd. (002424)	Shenzhen Stock Exchange	The company's products include tablets, capsules, syrup, soft capsules, granules, pills and powder.	42.84	4.63
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (000522)	Shenzhen Stock Exchange	The company develops, manufactures, and markets a wide range of pharmaceutical products. The company's products include Chinese traditional medicines, western medicines, chemical raw material medicines, medicines for external use, healthcare medicines and other related products.	39.27	7.62
Maximum			49.26	14.16
Minimum			20.95	1.43
Average			33.38	5.51
The ratios implied by the BYS Share Conversion Price *(Note 3)*			20.66	4.01

Company Name (Stock Code)	Stock Exchange	Principal business	PER	PBR
			(times)	*(times)*
			(Note 1)	*(Note 2)*
The ratios implied by the price of GPC A Shares on the Latest Practicable Date and the number of GPC A Shares issuable over earnings and net asset value of BYS *(Note 4)*			42.31	8.21

Data source: *Websites of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, Bloomberg, annual reports of the respective companies.*

Note 1: The PER is calculated based on the closing price per share as quoted on the relevant stock exchange on the Latest Practicable Date, and the basic earnings per share as disclosed in the latest published annual report of the relevant company.

Note 2: The PBR is calculated based on the closing price per share as quoted on the relevant stock exchange on the Latest Practicable Date, and the net assets value per share as disclosed in the latest published annual report of the relevant company.

Note 3: The PER and the PBR implied from the BYS Share Conversion Price are calculated based on the BYS Share Conversion Price, the basic earnings per share and the net assets value per share as disclosed in 2011 BYS Annual Report. The ratio implied by the BYS Share Conversion Price is the same as the one implied by the price of GPC A Shares and the Exchange Ratio.

Note 4: Based on the existing issued share capital of BYS of 469,053,689 BYS Shares as at the Latest Practicable Date, the Company will issue an aggregate of approximately 445,601,005 GPC A Shares to BYS Shareholders. The basic earnings per share and the net assets value per share were RMB0.5566 and RMB2.87 respectively as disclosed in 2011 BYS Annual Report.

From the above table, we noted that the average PER as represented by the Market Comparables was approximately 33.38 times and with a range of 20.95 times to 49.26 times.

Based on the BYS Share Conversion Price of RMB11.50 and earnings per BYS Share of approximately RMB0.5566 for the year ended 31 December 2011 as per its Annual Report, the implied PER is approximately 20.66 times, and thus is below the PER range of the Market Comparables and far below the average ratio of the Market Comparables. The PER implied by the price of GPC A Shares on the Latest Practicable Date and the number of GPC A Shares issuable over earnings of BYS is 42.31, and thus is within the PER range of the Market Comparables, above the average ratio of the Market Comparables and slightly higher than the PER of BYS as at the Latest Practicable Date.

As for the PBR, we noted from the above table that the average PBR as represented by the Market Comparables was approximately 5.51 times and with a range of 1.43 times to 14.16 times.

Based on the BYS Share Conversion Price of RMB11.50 and book value per BYS Share of approximately RMB2.87 for the year ended 31 December 2011 as per its Annual Report, the implied PBR is approximately 4.01 times, and thus is within the PBR range of the Market Comparables and below the average ratio of the Market Comparables. The PBR implied by the price of GPC A Shares on the Latest Practicable Date and the number of GPC A Shares issuable over net asset value of BYS is 8.21, and thus is within the PBR range of the Market Comparables, above the average ratio of the Market Comparables and slightly higher than the PBR of BYS as at the Latest Practicable Date.

The PER implied by the BYS Shares Conversion Price is below the range of the Market Comparables and far below the average ratio of the Market Comparables. The PBR implied by the BYS Shares Conversion Prices is within the range of the Market Comparables, and below the average ratio of the Market Comparables. Both the PER and PBR implied by the price of GPC A Shares on the Latest Practicable Date are within the respective range of the Market Comparables and above the respective average ratio of the Market Comparables, yet very close to the PER and PBR of BYS as at the Latest Practicable Date. Taking into account the analysis above, together with the profitable track record of BYS and various benefits to the Group as detailed in the section headed "Reasons for and benefits of the Major Assets Reorganization", we consider that the considerations under the Proposed Merger is in the interest of the Company and the Shareholders as a whole.

(e) Profit Distribution

As stated in the Letter from the Board, the accrued and undistributed profits of both the Company and BYS prior to the completion of the Proposed Merger will be shared among the Shareholders in accordance to their respective equity interests in the Company after the completion of the Major Assets Reorganization.

The announced dividend and bonus that were approved by the respective shareholders at the annual general meetings of the Company and BYS prior to the Share Conversion Date shall remain unchanged.

As at the Latest Practicable Date, apart from the final dividends of RMB0.10 per GPC A Share (included tax) ("GPC 2011 Final Dividend") and RMB0.55 for every 10 BYS Shares (included tax) ("BYS 2011 Final Dividend") for the year ended 31 December 2011 which were proposed by the Company and BYS respectively have been approved by the Shareholders and BYS Shareholders respectively in their respective annual general meetings (details of which were set out in their respective announcements dated 12 April 2012 and 20 April 2012), there is no other planned dividend or bonus declared by the Company and BYS.

(f) Cash Alternative for the BYS Shareholders

As stated in the Letter from the Board, in order to provide full protection to the BYS Shareholders, it is agreed that subject to the Proposed Merger becoming unconditional, the Cash Alternative will be granted to the BYS Shareholders (other than GPHL and its associates) who decide not to receive in whole or in part the GPC A Shares. During the Acceptance Period, these BYS Shareholders may elect to be paid in cash for their BYS Shares at the price of RMB11.50 per BYS Share, being the BYS Share Average Price as adjusted by the BYS 2011 Final Dividend, by the Cash Alternative Providers on the Cash Alternative Exercise Date. The price of RMB11.50 will not be adjusted unless there is any further event which will cause the ex-right or ex-dividend on the BYS Shares prior to the Cash Alternative Exercise Date.

The Cash Alternative will be provided at the BYS Share Conversion Price of RMB11.50, which is the BYS Share Average Price of RMB11.55 for each BYS Share as adjusted by the BYS 2011 Final Dividend and subject to further ex-right or ex-dividend adjustment (if any) given that (i) it is a common market practice by making reference to the average trading price per share during the 20 trading days prior to a price fixing day, which is the date of the announcement made by BYS in relation to the resolutions of the first BYS Board meeting to approve the Proposed Merger; and (ii) it is the same price used for determining the Exchange Ratio.

As at the Latest Practicable Date, no Cash Alternative Provider has been nominated and appointed. The selection criteria of the Cash Alternative Provider are that it (i) shall not be a connected person to the Company or to GPHL; (ii) shall not be a party acting in concert with GPHL or the Put Option Provider; (iii) shall not hold any interest in the Company as at the date of its appointment; and (iv) shall have sufficient financial resources to provide the Cash Alternative to the BYS Shareholders. The Cash Alternative Provider will also undertake that it and the parties acting in concert with it in aggregate will hold less than 30% of the issued share capital of the Company after the completion of the Major Assets Reorganization. In order to ensure the Cash Alternative Provider will not be party(ies) acting in concert with GPHL, GPHL undertakes to the Company that it will not enter into any agreement or understanding (whether formal or informal) with this provider to actively cooperate to obtain or consolidate the control of the Company through the acquisition by any of them of voting rights of the Company, which may trigger the obligation to make a mandatory offer under Rule 26 of the Takeovers Code. In the case of any uncertainty in whether the Cash Alternative Provider is a party acting in concert with GPHL in the course of its appointment, the Company will seek the advice from the SFC when necessary.

It is possible that Cash Alternative Provider will become substantial shareholder of the Company upon completion. However, taking into account that the price of BYS Shares as at the Latest Practicable Date are much higher than the price for Cash Alternative, the possibility of that Cash Alternative Provider becomes substantial shareholders of the Company upon completion is minimal since BYS Shareholders are unlikely to take Cash Alternative in view of prevailing market prices.

(g) Put Option for the GPC Dissenting Shareholders

As stated in the Letter from the Board, in order to provide full protection to the Shareholders, it is acknowledged by the Company and BYS that, subject to the Proposed Merger becoming unconditional, the Put Option will be granted by the Put Option Providers to the GPC Dissenting Shareholders who have voted against the Proposed Merger at the GPC General Meetings convened to be held for the purposes of, inter alia, considering and approving the Major Assets Reorganization. GPC Dissenting Shareholders holding GPC A Shares may dispose their GPC A Shares to the Put Option Provider at the price of RMB12.10 per GPC A Share, being the GPC A Share Average Price as adjusted by the GPC 2011 Final Dividend and GPC Dissenting Shareholders holding H Shares may dispose their H Shares to the Put Option Provider at the price of HK$5.42 per H Share, being the H Share Average Price as adjusted by the GPC 2011 Final Dividend on the Put Option Exercise Date. The respective prices of the GPC A Shares and H Shares payable under the Put Option will not be adjusted unless there is any further event which will cause the ex-right or ex-dividend on the Shares prior to the Put Option Exercise Date.

The Put Option will be provided at the GPC Shares conversion prices of RMB12.10 and the price of HK$5.42 respectively, which are the GPC A Share Average Price of RMB12.20 for each GPC A Share and H Share Average Price of HK$5.54 for each H Share as adjusted by the GPC 2011 Final Dividend respectively and both are subject to further ex-right or ex-dividend adjustment (if any) given that (i) it is a common market practice by making reference to the average trading price per share during the 20 trading days prior to a price fixing day, which is the date of the First Board Resolution Announcement in the case of the Proposed Merger; and (ii) with regard to the GPC A Shares, the price payable under the Put Option is the same price used for determining the Exchange Ratio.

The Put Option Providers will retain those GPC A Shares and H Shares acquired by them pursuant to the Put Option. As at the Latest Practicable Date, no Put Option Provider has been nominated and appointed. The selection criteria of the Put Option Provider are that it (i) shall not be a connected person to the Company or to GPHL; (ii) shall not be a party acting in concert with GPHL or the Cash Alternative Provider; (iii) shall not hold any interest in the Company as at the date of its appointment; and (iv) shall have sufficient financial resources to provide the Put Option to the GPC Dissenting Shareholders. The Put Option Provider will also undertake that it and the parties acting in concert with it in aggregate will hold less than 30% of the issued share capital of the Company after the completion of the Major Assets Reorganization. In order to ensure the Put Option Providers will not be a party acting in concert with GPHL, GPHL undertakes to the Company that it will not enter into any agreement or understanding (whether formal or informal) with such providers to actively cooperate to obtain or consolidate the control of the Company through the acquisition by any of them of voting rights of the Company, which may trigger the obligation to make a mandatory offer under Rule 26 of the Takeovers Code. In the case of any uncertainties in whether the Put Option Providers are parties acting in concert with GPHL in the course of their appointment, the Company will seek the advice from the SFC when necessary.

The Company and BYS also undertakes that it will appoint sufficient Put Option Provider(s) for the exercise of the Put Option for both GPC A Shares and H Shares and announce the same by way of announcement(s).

Hypothetically, Cash Alternative Provider and Put Option Provider will hold 22.23% and 10.85% of the enlarged issued share capital of the Company in maximum respectively, immediately after the completion of the Major Assets Reorganization. Cash Alternative Provider and Put Option Provider will then both become substantial Shareholders of the Company and the shareholding of which will not be counted as public float. The Company and BYS undertakes that it will appoint sufficient number of Put Option Provider(s) for the exercise of the Put Option for GPC A Shares and H Shares so that the Company can maintain the minimum public float requirements under the Listing Rules at all times. Therefore, we consider that such arrangement will not affect our assessment and opinion on the overall fairness and reasonableness of the transactions.

In evaluating the exercise price of Put Option, which is HK$5.42 per GPC H Share, we have compared it with the average trading prices of the Shares on the Last Trading Day and the Latest Practicable Date; the average trading prices of the Shares during the Review Period prior to the Last Trading Day; and the average trading price of the Shares from the Last Trading Day up to the Latest Practicable Date ("Reference Trading Prices") as the table below.

Table VI – Comparison of exercise price of Put Option with the Reference Trading Prices

	Reference Trading Prices *(HK$)*	Premium/ (Discount) represented by exercise price of Put Option over/to the Reference Trading Prices
Average trading price on the Latest Practicable Date	14.65	(63.00%)
Average trading price from the Last Trading Day up to the Latest Practicable Date	12.64	(57.12%)
Average trading price on the Last Trading Day	6.17	(12.20%)
5-day average trading price immediately prior to and including the Last Trading Day	5.79	(6.45%)
10-day average trading price immediately prior to and including the Last Trading Day	5.79	(6.33%)
15-day average trading price immediately prior to and including the Last Trading Day	5.69	(4.76%)

	Reference Trading Prices *(HK$)*	Premium/ (Discount) represented by exercise price of Put Option over/to the Reference Trading Prices
20-day average trading price immediately prior to and including the Last Trading Day	5.54	(2.19%)
30-day average trading price immediately prior to and including the Last Trading Day	5.24	3.34%

Data source: Bloomberg

From the above table, we noted that average trading price on the Last Trading Day and 5-day, 10-day, 15-day, 20-day and 30-day average closing price immediately prior to and including the Last Trading Day range from HK$5.24 to HK$6.17. The exercise price of put option of HK$5.42 thus is within the range. We consider that the exercise price of Put Option was fair and reasonable, and the Put Option would provide protection to the GPC Dissenting Shareholders holding H Shares at the time of determination. The price as at the Latest Practicable Date of GPC H Share is higher than the exercise price of Put Option. Taking such condition into account, the GPC Dissenting Shareholders should dispose of their shares in the market rather than exercising the Put Option. However, considering the unpredictability and volatility of the stock market, we still consider the Put Option provides downside protection to GPC Dissenting Shareholders.

(h) Undertaking from GPHL

As stated in the Letter from the Board, as at the Latest Practicable Date, a total of 50 properties consisting of 276 buildings with a total gross floor area of approximately 448,826.64 square meters were owned by BYS, among which, (i) the land-use rights of 7 certain properties owned by BYS (being the properties No. 1, 30 in Group A1, No. 36, 39, 42, 44 in Group A2 and No. 50 in Group A3 as set out in Appendix VIII to this circular) are classified as allocated land-use rights*（劃撥土地）, and (ii) Real Estate Ownership Certificates or State-owned Land Use Certificates of 33 buildings contained in 12 properties have not been applied for by BYS(contained in the properties Nos. 1, 12, 14, 18, 20, 22, 24, 29 to 32 in Group A1, and Nos. 35, 46 and 49 in Group A2 as set out in Appendix VIII to this circular). The above BYS properties with legal defects in titles are mainly used as industrial, storage and ancillary facilities with a total gross floor area of approximately 82,751.01 square meters and no commercial value was assigned to such properties as at 30 June 2012.

On 15 June 2012, GPHL (i) has undertaken to the Company that it would use its best endeavors to rectify such legal defects in titles of those BYS properties; (ii) has guaranteed to the Company that the Enlarged Group would be able to own and occupy such properties after the completion of the Proposed Merger and there would not be any material adverse impact on nor incurring of any additional cost by the Enlarged Group due to such legal defects; and (iii) has undertaken to the Company that it would compensate the Company within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name on the Real Estate Ownership Certificates and the relevant land premium in relation to the changes of the nature of the land-use rights of certain BYS properties from non-granted land-use rights* 非出讓用地 to granted land-use rights* 出讓用地) in case there are any penalties imposed on or losses incurred by the Company due to such legal defects in titles of those BYS properties. As at the Latest Practicable Date, the Company estimated that tax and land premium in relation to the rectification of the legal defects of those BYS properties will be approximately RMB21,971,900, which was calculated based on the gross floor area and standard land price of those BYS properties with legal defects as well as the relevant applicable rate for the tax and land premium in the PRC.

To the best knowledge of the Company, whether the legal defects in titles of the above BYS properties (including the obtaining of the Real Estate Ownership Certificates) can be rectified is subject to the response of the relevant PRC authorities to which and when the application for the rectification of legal defects is made. However, based on the information provided by BYS, the Company expects that the legal defects of most BYS properties can be rectified without material legal obstacles except for five BYS properties, in which legal obstacles may exist in obtaining the Real Estate Ownership Certificates due to incomplete information for the relevant rectification process or the nature of the land-use rights or illegal building structure.

As stated in the Letter from the Board, however, as at the Latest Practicable Date, BYS is able to own, occupy and use such BYS properties. According to the Company Law of the PRC, the Company shall absorb and assume all the assets, liabilities, rights, obligations, business and staff of BYS upon completion of the Proposed Merger. Even though the registration procedures with relevant PRC authorities for those BYS properties with legal defects cannot be completed, it will not affect the Enlarged Group to own, occupy and use such BYS properties upon the completion of the Proposed Merger. Furthermore, despite BYS has not yet formally applied to the relevant PRC authorities to rectify the legal defects of the BYS properties, as advised by the PRC legal advisers to the Company and to the best knowledge of the Directors based on the verbal consultations with the relevant PRC authorities, apart from the land planning adjustment*（土地規劃調整）in the PRC, which may be requested in any circumstances when the PRC government would like to expropriate the land for its development plan and it is solely under the discretion of the PRC government, the relevant PRC authorities will not normally request the Enlarged Group to suspend the ownership, occupancy and using of the BYS properties simply due to the failure to rectify the legal defects of the BYS properties. As at the Latest Practicable Date, the Company did not receive any notice from the relevant PRC authorities in relation to land planning adjustment* 土地規劃調整 which may require the suspension of the use of such BYS properties. In addition, to the best knowledge of the Directors, in case the use of such BYS properties is suspended due to land planning adjustment* 土地規劃調整 by the PRC government, the PRC government will compensate the Enlarged Group according to relevant rules and regulations in the PRC. Based on the above and the undertaking provided by GPHL on 15 June 2012 as mentioned above and considering that the BYS properties with legal defects are mainly used as industrial, storage and ancillary facilities, which are not for principal operations of BYS Group, the legal defects in titles of those BYS properties will not have any material adverse impact on the operation of the Enlarged Group or on the Major Assets Reorganization.

Taking into account the potential settlement for the tax and land premium in relation to the rectification of the legal defects of those BYS properties in the amount of approximately RMB21,971,900, the PER and PBR implied by the BYS Conversion Price are 22.51 and 4.37 respectively, which are within the respective range of the Market Comparables and below the respective average ratio of the Market Comparables. The PER and PBR implied by the price of GPC A Shares on the Latest Practicable Date are 42.40 and 8.22, which are within the respective range of the Market Comparables and above the respective average ratio of the Market Comparables, yet very close to the PER and PBR of BYS as at the Latest Practicable Date, which is in line with our analysis under the sub-section headed "Trading multiple analysis".

In view of (i) the undertaking given from GPHL in relation to the rectification of the legal defects of the BYS Properties; (ii) the future use of the BYS Properties by the Group; (iii) the limited possibility of the suspension of the ownership, occupancy and using of the BYS Properties as mentioned above; (iv) compensation from the PRC government according to relevant rules and regulations even in the event of suspension of the use of such BYS properties due to land planning adjustment; and (v) the minimal effect the potential settlement for the tax and land premium would have on the assessment of trading multiples, we consider that the potential cost and the uncertainty relating to the successful rectification of the title defects as mentioned above do not seem to materially affect our assessment on the Major Asset Reorganization as a whole.

6. Principal terms of the Assets Acquisition Agreement

(a) The Assets Acquisition Agreement

On 29 February 2012, being the date of the First Board Meeting held, the Board of the Company resolved to approve the Preliminary Proposal relating to the Major Assets Reorganization, comprising the Proposed Merger and the Proposed Assets Acquisition. A supplemental agreement to the Assets Acquisition Agreement was entered into with GPHL on 15 June 2012. The Company and GPHL entered into the Assets Acquisition Agreement in relation to the Proposed Assets Acquisition at the Proposed Consideration of approximately RMB421,559,700, which will be satisfied by the Company by issuing and allotting approximately 34,839,645 new GPC A Shares credited as fully paid to GPHL at the Issue Price of RMB12.10 per GPC A Share (subject to the ex-right or ex-dividend adjustment), which is the same as the GPC A Share Conversion Price (which is the GPC A Share Average Price adjusted with the GPC 2011 Final

Dividend. The Issue Price will not be adjusted unless there is any further event which will cause the ex-right or ex-dividend on the Shares prior to the date of completion of the Proposed Assets Acquisition.

GPHL has undertaken that it will not, at any time during the thirty-six month period following the date of issuing the Consideration Shares, directly or indirectly, dispose of any Consideration Shares issued and allotted to it as a result of the Proposed Assets Acquisition.

The Consideration Shares to be issued pursuant to the Assets Acquisition Agreement will be listed on the Shanghai Stock Exchange and will rank pari passu in all respects with the GPC A Shares in issue.

(b) Information on the Target Assets

(i) Target Properties

As stated in the Letter from the Board, the Target Properties comprise a list of 21 properties with a total gross floor area of approximately 34,906.94 square meters in Guangzhou, the PRC. Each of the Target Properties comprises both land and buildings with a Real Estate Ownership Certificate. As advised by GPHL, all the Target Properties are beneficially owned by it. However, certain Real Estate Ownership Certificates of the Target Properties are not under the name of GPHL now. GPHL has to undergo certain procedures in changing the titles on such Real Estate Ownership Certificates to GPHL in order for it to transfer the Target Properties to the Company. GPHL was responsible for all relevant expenses, including but not limited to the relevant taxes and penalties (if any).

In addition to the above, among the 21 Target Properties, there are certain unauthorized and untreated constructions with a total gross floor area of 951.618 sq.m. existed in 5 Target Properties. The Company understands from GPHL that up to the Latest Practicable Date, GPHL has not received any notice or order from the relevant housing bureaus instructing GPHL to demolish those constructions. GPHL confirms that in case the relevant housing bureaus request the Company to demolish such construction after completion of the Proposed Assets Acquisition, GPHL will bear all demolishing costs incurred. China Valuer International Co., Ltd. ("China Valuer") has excluded such unauthorized and untreated construction in its valuation on the Target Properties. Based on the above and as advised by the PRC legal adviser of the Company, the existence of such unauthorized and untreated construction will not affect the Major Assets Reorganization.

A summary of the Target Properties are set out as below:

Table VII – Summary of the Target Properties

	No. of Target Properties	Gross floor area *(Square Meters)*
Baiyun District, Guangzhou（廣州白雲區）	8	20,341.19
Liwan District, Guangzhou（廣州荔灣區）	11	14,250.90
Yuexiu District, Guangzhou（廣州越秀區）	1	215.51
Haizhu District, Guangzhou（廣州海珠區）	1	99.34
Total	21	34,906.94

As stated in the Letter from the Board, with respect to the above-mentioned legal defects of the 21 Target Properties, on 15 June 2012, GPHL further undertakes that, before 28 September 2012, it will either complete the rectification process of those legal defects by registering the relevant Target Properties in the name of GPHL or changing the nature of the relevant Target Properties from allocated land-use rights to granted land-use rights (as the case may be) or obtaining the written confirmations from the relevant housing bureaus in the PRC confirming that there will be no legal obstacle to rectify such legal defects as undertaken by GPHL and it will not affect the implementation of the Major Assets Reorganization.

In case the above legal defects cannot be rectified before 28 September 2012, GPHL will compensate the Company in cash for any economic losses suffered by the Company due to the failure to rectify the legal defects or imposition of any penalties by the PRC government authorities on the Company regarding the legal defects. Furthermore, in case such legal defects cannot be rectified causing certain Target Properties being unable to be transferred pursuant to the Proposed Assets Acquisition on the completion date of the Major Assets Reorganization, GPHL will subscribe for the relevant part of Consideration Shares at an amount of cash equivalent to the Proposed Consideration of those Target Properties with legal defects in titles.

(ii) Target Trademarks

As stated in the Letter from the Board, the Target Trademarks represent a total of 388 registered trademarks owned by GPHL, which are mainly trademarks of Chinese patent medicine, including but not limited to 54 well-known trademarks, including 7 trademarks in ChenLiJi（陳李濟）series, 17 trademarks in PanGaoShou（潘高壽）series, 7 trademarks in XingQun（星群）series, 9 trademarks in ZhongYi（中一）series, 12 trademarks in QiXing

（奇星）series and 2 trademarks in JingXiuTang（敬修堂）series. The Target Trademarks have been registered in the relevant PRC and/or overseas government authorities.

Among the 388 Target Trademarks, (i) 54 trademarks, which GPHL has granted the Company the exclusive rights to use, are well-known and generate economic benefits; (ii) 277 trademarks are regarded as associated trademarks and/or defensive trademarks registered in the PRC, which only represent the image of the GPHL Group and do not have any direct economic benefits to the GPHL Group (among these 277 trademarks, 15 of which are granted by GPHL to the Company for use); and (iii) the remaining 57 trademarks are registered in overseas and also regarded as associated trademarks and/or defensive trademarks.

In addition, except for the 69 trademarks which are currently used by the Company, the remaining 319 trademarks are not currently used by the Company and are not licensed to any connected persons or third parties for use. As at the Latest Practicable Date, GPHL and the Company do not have any plan to license these trademarks to any connected persons or third parties.

(iii) Po Lian

As stated in the Letter from the Board, Po Lian is a limited company incorporated in Hong Kong and is solely owned by GPHL. It is principally engaged in the imports and exports of the pharmaceutical products. As at the Latest Practicable Date, the authorized and issued share capital of Po Lian is HK$5 million, which was all paid up by GPHL.

The table below is the financial information of Po Lian for three financial years ended 31 December 2011 as extracted from its audited financial statements for year ended 31 December 2009, 2010 and 2011 respectively. The audited financial information of Po Lian for the six months ended 30 June 2012 is extracted from the 2012 interim report.

Table VIII – Financial information of Po Lian for the year of 2009, 2010 and 2011, and the six months ended 30 June 2012

	For the six months ended 30 June 2012	For the six months ended 30 June 2011	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	25,905	50,963	122,229	109,069	102,700
Operating profit	593	1,341	2,000	2,761	160
Operating profit margin	2.29%	2.63%	1.64%	2.53%	0.16%
Net profit	495	1,120	1,649	2,195	134
Net profit margin	1.91	2.20%	1.35%	2.01%	0.13%
Net assets value	34,953	N/A	34,266	34,278	33,237

As shown in the table, in 2011, Po Lian recorded revenue from principal operations of RMB122.229 million, with a growth of 12.07% as compared with last year. Operating profit amounted to RMB2 million, representing a drop of 27.56% over the corresponding period of last year and net profit reached RMB1.649 million, representing a decrease of 24.86% over last year. In the first half of 2012, Po Lian recorded revenue from principal operations of RMB25.905 million, representing a decrease of 49.17% as compared with that in the same period of last year. Total profit amounted to RMB0.5927 million, representing a decrease of 55.80% as compared with that in the same period of last year and net profit reached RMB0.4949 million, representing a decrease of 55.79% as compared with that in the same period of last year. This was primarily due to a number of adverse factors, including fluctuation in exchange rate, drop in certain major non-recurring transactions, the delay of goods delivered by suppliers, the rise in the import costs of products and the adjustment in the domestic sale structure, etc. We concur the view of the Company that the acquisition of 100% equity interest in Po Lian is in the interest of the Company and the Shareholders as a whole given (i) Po Lian mainly acts as a trading platform for the Group and BYS for the imports and exports of the pharmaceutical products; (ii) it is the intention of the Company to develop Po Lian as a purchasing platform for the imports of pharmaceutical equipments of the Enlarged Group; and (iii) substantial proportion of the Po Lian's revenue will be eliminated upon the consolidation of the financial results of the Enlarged Group due to intra-group transactions between Po Lian, the Group and BYS and hence, no material adverse effects will be imposed on the Enlarged Group.

(iv) Baxter

As stated in the Letter from the Board, Baxter is a Sino-foreign equity joint venture established in the PRC in which GPHL currently owns 12.50% of its equity interest while the remaining 87.50% equity interest is held by an independent third party. It is principally engaged in manufacturing and sales of various kinds of transfusion fluids, disinfectants and equipment used in dialysis as well as the storage and delivery of other related transfusion fluids and medical products.

As at the Latest Practicable Date, GPHL has already obtained the written confirmation from Baxter Controlling Shareholder in relation to the transfer of 12.50% equity interest of Baxter from GPHL to the Company.

The table below is the financial information of Baxter for three financial years ended 31 December 2011 as extracted from its audited financial statements for year ended 31 December 2009, 2010 and 2011 respectively. The audited financial information of Baxter for the six months ended 30 June 2012 is extracted from the 2012 interim report.

Table IX – Financial information of Baxter for the year of 2009, 2010 and 2011, and the six months ended 30 June 2012

	For the six months ended 30 June 2012 *RMB'000* *(audited)*	**For the year ended 31 December 2011** *RMB'000* *(audited)*	**For the year ended 31 December 2010** *RMB'000* *(audited)*	**For the year ended 31 December 2009** *RMB'000* *(audited)*
Revenue	511,649	974,994	819,045	680,136
Operating profit	89,204	229,048	221,313	188,314
Operating profit margin	17.43%	23.49%	27.02%	27.69%
Net profit	67,096	179,452	172,780	151,934
Net profit margin	13.11%	18.41%	21.10%	22.34%
Net assets value	728,098	661,002	531,549	408,796

As shown in the table, in 2011, Baxter recorded revenue of RMB974.994 million, with a growth of 19.04% as compared with last year. Operating profit amounted to RMB229.048 million, representing a drop of 3.50% over the corresponding period of last year and net profit reached RMB179.452 million, representing a decrease of 3.86% over last year. As stated in the Letter from the Board, GPHL, holding 12.50% equity interest in Baxter, received annual dividend of RMB6.25 million from Baxter during the three years ended 31 December 2011. Taking into account the Company will hold 12.5% equity interest on Baxter only and Baxter would have limited financial effect upon the Enlarged Group, as well as that GPHL has intended to inject its assets related to pharmaceutical business to the Company in order to build up the only listed platform for pharmaceutical business, we consider that the financial performance of Baxter would not affect our assessment on the Proposed Assets Acquisition.

(c) Basis of Consideration

As stated in the Letter from the Board, the Proposed Consideration of the Target Assets is approximately RMB421,559,700. The Proposed Consideration was arrived at after arm's length negotiations between GPHL and the Company by making reference to the final valuation on the Target Assets as at 31 December 2011 (conducted by China Valuer, a qualified independent valuer in the PRC), which is estimated to be approximately RMB421,559,700. Such appraised value of the Target Assets is subject to the filing with and/or the obtaining of relevant authorization from relevant state-owned assets supervision and administration authorities. As at the Latest Practicable Date, the valuation of the Target Assets have been authorized by the State-owned Assets Supervision and Administration Commission of Guangzhou Municiple Government ("GZ SASAC", 廣州市人民政府國有資產監督管理委員會) and pending for the filing with State-owned Assets Supervision and Administration Commission of Guangdong Province Government ("GD SASAC", 廣東省人民政府國有資產監督管理委員會). During the filing stage with GD SASAC, in case the valuation of the Target Assets is adjusted upward or downward, the Proposed Consideration and the number of Consideration Shares will also be adjusted accordingly. However, the Company expected that the valuation of Target Assets will not be changed at the filing stage with GD SASAC as the same has already be authorized by the GZ SASAC. If there is any change on the valuation of the Target Assets, the Major Assets Reorganization is required to be approved by the Board and the Shareholders at their respective meeting again. Relevant announcements and circular will also be made by the Company accordingly. Details of the valuation reports on the Target Assets conducted by China Valuer are set out in Appendices VII (A) to (C) to this circular.

We note that there are certain differences between the valuation report conducted by China Valuer and the valuation report conducted by Savills, a qualified independent property valuer. The details are set out as follows. (1) The appraised value of the Target Properties in the valuation report conducted by China Valuer is approximately RMB230,739,600, and the appraised value of the Target Properties in the valuation report conducted by Savills is approximately RMB46,400,000. The reason for such significant difference is that Savills has assigned no commercial value to those Target Properties with legal defects and has set a value as at the date of valuation in the note for indicative purpose (the "Reference Value"). (2) According to the valuation report from Savills, the appraised value of the Target Properties is valued at approximately RMB86,350,000 after taking into account the Reference Value, which is based on the depreciated replacement cost of the respective property. (3) China Valuer adopted income approach and/or market approach in its valuation in which the legal defects of certain Target Properties were ignored. However, Savills adopted income approach and/or market approach for the properties without legal defects in its valuation in which no commercial value would be assigned to the properties with legal defects, and the Reference Value is derived from cost approach. Hence, we consider that we cannot compare the appraised value of the Target Properties on valuation reports conducted by China Valuer and Savills directly.

As stated in the Letter from the Board, the reasons for the difference in the assumption is that Savills prepared the property valuation report for the purpose of fulfilling the relevant requirements of the Listing Rules in which the definition of "Market Value" shall be strictly followed and thus no commercial value was assigned to those Target Properties with legal defects as such Target Properties could not be freely disposed of in the market due to the incompleteness of land grant formalities and the lack of land use certificates or Real Estate Ownership Certificates as at the date of valuation (i.e. 30 June 2012). Such valuation approach adopted by Savills is in compliance with the Listing Rules and market conventions in Hong Kong.

On the other hand, China Valuer conducted its valuation on the Target Properties in accordance with the relevant rules and regulations in the PRC regarding the valuation of state-owned assets, which are aiming at providing a reference price for the transaction. Thus its valuation on the Target Properties has to be made under the assumption that the Target Properties are under good title so as to reflect the actual value of the Target Properties for the purpose of complying the relevant PRC requirements. Pursuant to the Asset Acquisition Agreement and the undertaking given from GPHL in relation to the rectification of the legal defects of the Target Properties, China Valuer assumed that the Target Properties shall be traded with legal titles and hence China Valuer has assigned commercial values to the Target Properties with legal defects and valued the Target Properties by assuming that the land grant formalities were completed and the land use certificates and Real Estate Ownership Certificates were obtained.

Furthermore, we note that five Target Properties are assigned commercial value in both valuation reports conducted by China Valuer and Savills. The total appraised value of such five properties in the valuation report conducted by China Valuer is RMB45,036,600, which is slightly lower than the appraised value of RMB46,400,000 in the valuation report conducted by Savills. The individual appraised value of such five properties does not have significant discrepancy in both the valuation reports.

As stated in the Letter from the Board, as at the Latest Practicable Date, 10 out of 21 Target Properties are used as offices or retail outlets while the remaining 11 Target Properties are used as warehouses. It is intended by the Company that the future uses of the Target Properties will not be changed.

As stated in the Letter from the Board, GPHL further undertakes that, before 28 September 2012, it will either complete the rectification process of those legal defects by registering the relevant Target Properties in the name of GPHL or changing the nature of the relevant Target Properties from allocated land-use rights to granted land-use rights (as the case may be) or obtaining the written confirmations from the relevant housing bureaus in the PRC confirming that there will be no legal obstacle to rectify such legal defects as undertaken by GPHL and it will not affect the implementation of the Major Assets Reorganization.

In view of the undertaking given from GPHL in relation to the rectification of the legal defects of the Target Properties and the future use of the Target Properties by the Group, there is no reason to doubt the Company's approach to adopt the assumption of disregarding the legal defects of certain Target Properties made by China Valuer. Thus the acquisition consideration for the Target Properties, which has been derived from the valuation report conducted by China Valuer, is in the interest of the Company and its shareholders as a whole.

We note that it is stated in the Letter from the Board, as acknowledged by GPHL, with reference to their previous contributions in promoting the reputation and value of the Target Trademarks, the Company and GPHL are attributable to 47% and 53% of the valuation of the Target Trademarks as at 31 December 2011 respectively. Accordingly, the valuation and the proposed consideration of the Target Trademarks are conducted and determined by making reference to the 53% of the total valuation of the same that is attributable to GPHL. A "Confirmation of trademarks contributions percentages" was confirmed by GPHL as set out in the valuation report of the Target Trademarks conducted by China Valuer, which is set out in Appendix VII (A) to this circular. China Valuer has adopted such contributions percentages as the basis of determining the consideration of the Target Trademarks.

The Company and Guotai Junan, the PRC financial adviser to the Company, represented that such percentage is based on the contribution percentages on the supplemental agreement to WangLaoJi trademark authorization agreement where Guangzhou Wanglaoji Pharmaceutical Company Limited was authorized to use WangLaoJi trademarks by GPHL and the Company. The contribution percentages were mutually agreed between the Company and GPHL upon the establishment of Guangzhou Wanglaoji Pharmaceutical Company Limited which was jointly established by the Company and GPHL. Guotai Junan further represented that the Shanghai Stock Exchange and the Shenzhen Stock Exchange had no objection to such practice. Such percentage has been adopted as an assumption in the valuation report conducted by China Valuer. Similar to WangLaoJi trademarks, the Target trademarks had long history of operation and the similar nature with WangLaoJi trademarks as traditional pharmaceutical trademarks. The Company represented that GPHL has intended to inject its assets related to pharmaceutical business to the Company in order to build up the only listed platform for pharmaceutical business.

We consider that the Company will become the only listed platform for the pharmaceutical business of GPHL, and the Company is able to obtain the entire ownership of the Target Trademarks with 53% of their appraised value rather than paying 100% appraised value of the Target Trademarks. We concur with the view of the Company that the aforesaid approach to determine the consideration of the Target Trademarks is still acceptable.

The table set out below is the valuation methodologies finally adopted and the valuation attributable to each of the Target Assets as set out in the valuation report and the amounts of the final Proposed Consideration of each of the Target Assets.

Table X – Valuation methodologies adopted

Target Assets	**Valuation methodologies finally adopted**	**Valuation**	**Proposed Consideration**
		RMB'000	*RMB'000*
	(Note1)	*(Approximate)*	*(Approximate)*
Target Properties	Income approach, cost method and market approach	230,739.60	230,739.60
Target Trademarks *(Note 2)*	Income approach and cost method	51,141.60	51,141.60
100% equity interest in Po Lian	Asset-based approach	57,339.70	57,339.70
12.5% equity interest in Baxter	Asset-based approach	82,338.80	82,338.80
Total		421,559.70	421,559.70

Note 1: For details of the valuation methodologies, please refer to the section headed "Appendix VII (A) to (C) to this circular.

Note 2: As acknowledged by GPHL, the Company and GPHL are entitled to 47% and 53% of the valuation of the Target Trademarks as at 31 December 2011 respectively. Accordingly, the valuation on the Target Trademarks only represents the part of valuation that is entitled by to GPHL.

As stated in the Letter from the Board, the valuation date of the Target Assets was as at 31 December 2011 and will not be further updated in view of: (i) the Proposed Consideration of the Target Assets is based on the valuation of the same as at 31 December 2011, which was mutually agreed by both the Company and GPHL after arm's length negotiation; (ii) such valuations are prepared in accordance with the relevant PRC laws and regulations, which are effective for one year commencing from the valuation date as at 31 December 2011; and (iii) the Company is not aware of and/or informed by GPHL that, since the valuation date and up to the Latest Practicable Date, there is any material changes to the Target Assets which would affect the assumptions and bases of the valuation of Target Assets as at 31 December 2011.

Other than the aforesaid management representation, China Valuer confirms that there is no material adverse change to the valuation assumptions, bases and methodology from 31 December 2011 till 30 June 2012. Savills has also confirmed that there was no change on the scope of the Target Properties during the period from 31 March 2012 to 30 June 2012, and there is no change on the valuation assumptions and bases Savills has adopted from 31 Mar 2012 to 30 June 2012. Based on the confirmations from China Valuer and Savills stating that there is no material adverse change on the assumptions and bases on the valuation reports conducted by them, we concur with the view of the Company, and consider that the basis of the acquisition consideration, with reference to the valuation reports of China Valuer, is reasonable.

(i) Target Properties

In assessing the consideration for the Target Properties, we have reviewed and discussed with the China Valuer the methodology of, and bases and assumptions adopted for, the valuation of the Target Properties as set out in the valuation report, the detail of which is included in the Appendices VII (A) to the Circular. For the purpose of valuation, the China Valuer has adopted income approach, cost approach and market approach for different Target Properties based on professional judgments.

The China Valuer confirms that because there are many rental examples of similar properties in the places of 21 properties included in the scope of appraisal, and the second floor of Property No. 1 and Property No. 3 and Properties No. 4-18 have leasing agreements, such 21 properties can earn income by leasing out to the outside parties and their operating income and cost can be reasonably predicted, income approach was adopted to appraise their market value as at the valuation benchmark date for such 21 properties.

The China Valuer also confirms that among 21 properties included in the scope of appraisal, because active real estate market is available and there are many transaction examples of similar properties in the places of Properties Nos.1-3, Properties Nos. 14-16 and Properties No. 18-21, the market value of these nine properties as at the valuation benchmark date is appraised using the market approach while using the income approach; because similar properties in the places of the remaining Properties No. 4-13 and Property No. 17 are generally acquired through self-development, which satisfies the condition of using cost method for appraisal, the market value of these 12 properties as at the valuation benchmark date is appraised using the cost method while using the income approach and benchmark land price coefficient correction method is adopted to appraise the land use rights involved.

(ii) Target Trademarks

In assessing the consideration for the Target Trademarks, we have reviewed and discussed with the China Valuer the methodology of, and bases and assumptions adopted for, the valuation of the Target Trademarks as set out in the valuation report, the detail of which is included in the Appendices

VII (A) to the Circular. For the purpose of valuation, the China Valuer has adopted income approach and cost approach for different Target Trademarks based on professional judgments.

For 54 trademarks which GPHL Group has licensed GPC to use, the China Valuer confirms that certain rights to exclusive use of trademarks involved in this appraisal are registered trademarks not shown in the statement but held by GPHL, which have been licensed to the enterprises of GPC for use. Because future expected earnings of the trademarks can be forecasted and can be measured by currency; risks assumed by the asset owner to obtain expected earnings can be forecasted and can be measured by currency; years of expected earnings of the asset can be forecasted, which satisfy the appraisal conditions for the income approach, these trademarks are appraised using income approach.

For Overseas Registered Trademarks and Associated or Defensive Trademarks Domestically Registered, the China Valuer confirms that such batch of trademarks involved in this appraisal include the 57 overseas trademarks and 277 domestic associated or defensive trademarks registered by GPHL Group. These rights to exclusive use of trademarks are within the validity period and we can access by way of investigation to the existing source to replace such trademarks and the information on corresponding average social cost. Costs of replacing such trademarks using the existing source can be reliably measured, so prerequisites of appraisal of cost method are met. Under the condition that income approach and market approach are unable to be adopted, the cost method is adopted in this appraisal to appraise the value of the right to exclusive use of trademarks.

(iii) 100% equity interest in Po Lian

In assessing the consideration for the 100% equity interest in Po Lian, we have reviewed and discussed with the China Valuer the methodology of, and bases and assumptions adopted for, the valuation of the 100% equity interest in Po Lian as set out in the valuation report, the detail of which is included in the Appendices VII (B) to the Circular. For the purpose of valuation, the China Valuer has adopted asset-based approach for 100% equity interest in Po Lian based on professional judgments.

The China Valuer confirms that because the enterprise equity transactions market is not well developed and there is a lack of market data in the enterprise equity transactions, it is difficult to appraise the 100% equity interest in Po Lian Development using market approach.

This appraisal of 100% equity interest in Po Lian is made on the prerequisite of the enterprise continuing as a going concern and all assets and liabilities information is complete, satisfying the requirements for employing asset-based approach. Thus, asset-based approach can be employed for appraisal.

Meanwhile, in light of the appraisee in this appraisal, Po Lian, is an import and export enterprise continuing as a going concern, its operation has entered a relatively stable stage, and it mainly conducts connected transactions with Guangzhou Pharmaceutical Import & Export Co., Ltd., a subsidiary of the Company, and its special mode of operation results in the enterprise has a stable income which can be reasonably predicted, therefore, income approach is adopted for appraisal.

The China Valuer has further evaluated the respective market value of (i) monetary assets and credit assets, (ii) investment properties, (iii) properties of fixed assets, (iv) equipment, and (v) liabilities of the Po Lian through the proper appraisal method as at the valuation benchmark date, and to total up.

(iv) 12.5% equity interest in Baxter

In assessing the consideration for the 12.5% equity interest in Baxter, we have reviewed and discussed with the China Valuer the methodology of, and bases and assumptions adopted for, the valuation of the 12.5% equity interest in Baxter as set out in the Valuation Report, the detail of which is included in the Appendices VII (C) to the Circular. For the purpose of valuation, the China Valuer has adopted asset-based approach for 12.5% equity interest in Baxter based on professional judgments.

The China Valuer confirms that GPHL Group held 12.5% equity interest in Baxter, a non-controlling long-term investment. The value of this long-term equity interest investment is calculated from the perspective of cost method by multiplying the verified amount of net assets in the unaudited balance sheet of Baxter as at the valuation benchmark date by the equity interest of GPHL Group.

In addition, income approach is also adopted. The appraised value of the equity interest of GPHL Group in Baxter has been arrived at through the summation of the present value of the total profit and / or bonus which GPHL Group is expected to be able to receive each year plus the present value of the net assets held by GPHL Group in proportion to its shareholding equity at the expiry of the term of joint venture of Baxter.

Based on the above analyses for (i) Target Properties, (ii) Target Trademarks, (iii) 100% equity interest of Po Lian, and (iv) 12.5% equity interest of Baxter, we are of the view that the methodology adopted by the China Valuer is a reasonable approach in deriving the appraised value of the Target Assets, and the consideration for the Target Assets, by making reference to the appraised value of the Target Assets as at the valuation date, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. The Profit Compensation Agreement

As stated in the Letter from the Board, since the actual net profits of the Target Properties and the Target Trademarks for each of the five years ending 31 December 2016 might be different from the forecasted net profits of such Target Assets for the same corresponding period as set out in the valuation report in the Appendix VII (A) to this circular, which were used as a basis to determine the Proposed Consideration, on 15 June 2012, the Company and GPHL entered into the Profit Compensation Agreement.

According to the valuation report on the Target Properties and Target Trademarks issued by China Valuer on 9 June 2012 set out in Appendix VII (A) to this circular, the forecasted net profits of the Target Properties and the Target Trademarks for each of the five years ending 31 December 2016 are as the table below. Net profit of the Target Properties shall be construed as the profit before interest, enterprise income tax, depreciation and amortization while the net profit of the Target Trademarks shall be construed as the profit after tax under the Profit Compensation Agreement.

Table XI – Aggregate net profits based on Valuation Report

	For the year ending 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(Forecasted)	*(Forecasted)*	*(Forecasted)*	*(Forecasted)*	*(Forecasted)*
Net profit of the Target Properties	6,893.8	6,814.2	10,081.8	10,982.4	11,648.4
Net profit of the Target Trademarks	1,834.2	2,172.8	2,334.9	2,440.2	2,526.0

If the audited net profits of the Target Properties and the Target Trademarks are respectively more than or equal to the respective forecasted net profits of the same in a financial year during the Compensation Period, GPHL will not be required to compensate the Company.

If the audited net profits of the Target Properties and the Target Trademarks are respectively less than the respective forecasted net profits of the same during a financial year within the Compensation Period, the Company shall inform GPHL in writing within 10 days after the dispatch of its annual report and GPHL shall, in accordance with relevant time and procedures as required by the Company, compensate the Company the difference of the audited net profits and the forecasted net profits in the following manners:

The Company shall repurchase a certain number of GPC A Shares (the "Compensation Shares") held by GPHL at a total consideration of RMB1 in total. Such Compensation Shares shall be cancelled by the Company thereafter.

For the detail of the formula of calculating the number of Compensation Shares that the Company shall be entitled to repurchase for a financial year during the Compensation Period, please refer to the section "6. Terms of Compensation" under "(C) The Profit Compensation Agreement" in the Letter from the Board.

As stated in the Letter from the Board, as the valuations of the Target Properties and the Target Trademarks as at 31 December 2011 set out in the Valuation Reports prepared by China Valuer were based on the income approach, pursuant to the relevant PRC laws and regulations, the Company and GPHL are required to enter into the Profit Compensation Agreement in order to protect the interests of the Shareholders. The terms of the Profit Compensation Agreement are arrived at arm's length negotiation between the Company and GPHL pursuant to the relevant rules and regulations in the PRC.

As stated in the Letter from the Board, in case the proposed repurchase and cancellation of the Compensation Shares cannot be implemented as a result of the failure to obtain the approvals from the creditors of the Company or the Shareholders for the reduction in capital of the Company or from the relevant regulatory authorities, GPHL undertakes that it will distribute such number of GPC A Shares equivalent to the number of the proposed Compensation Shares to the Shareholders other than GPHL at nil consideration in proportion of their then respective equity interests within 2 months commencing from the date of failure of obtaining the relevant approvals.

We consider that the Profit Compensation Agreement which seeks to provide an effective downside protection to the Shareholders of the Company other than GPHL is in the interests of the Independent Shareholders.

8. Possible financial effects of the Major Assets Reorganization

As stated in the Letter from the Board, upon the completion of the Major Assets Reorganization, (i) the enterprise legal status of BYS will be deregistered and all assets, liabilities, rights, business and staff (including their rights and obligations before the completion of the Major Assets Reorganization) of BYS will be taken up by the Company; (ii) Po Lian will become a wholly owned subsidiary of the Company; and (iii) the Company will own the Target Properties, Target Trademarks and hold 12.50% equity interest in Baxter.

The Company will record the assets absorbed and liabilities assumed from BYS, the Target Properties and Target Trademarks in its own books and records according to their natures; consolidate the result of Po Lian into the Group's consolidated financial statements; and record the investment in Baxter as a long-term equity investment in its own books and records using the cost method.

(a) Effects on assets and liabilities

As at 30 June 2012, the audited consolidated total asset value and the audited consolidated total liabilities of the Group amounted to approximately RMB5,769.02 million and RMB1,735.65 million respectively.

According to the audited pro forma financial information on the Enlarged Group as set out in Appendix V to this circular which assumes that the Major Assets Reorganization had been completed on 30 June 2012, the unaudited pro forma total assets of the Enlarged Group would be approximately RMB9,376.84 million and the unaudited pro forma total liabilities of the Enlarged Group would be approximately RMB3,591.65 million.

(b) Effects on earnings

For the year ended 31 December 2011, the audited consolidated net profit of the Group amounted to approximately RMB300.00 million.

According to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix V to this circular, which assumes that the Major Assets Reorganization had been completed on 1 January 2011, the unaudited pro forma consolidated net profit of the Enlarged Group would be approximately RMB583.51 million for the year ended 31 December 2011.

Based on the above, we note that the asset base of the Company would be enlarged since the Company will record the assets and liabilities assumed from BYS, the Target Properties and Target trademarks in its own books and records according to their natures. The income base of the Group will be enhanced as well. We consider that the Major Assets Reorganization would have positive impacts on the financial performance of the Group.

9. Dilution effect on the shareholding interests of the existing public Shareholders

The table below demonstrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Proposed Merger; (iii) immediately after the Proposed Merger and the Proposed Assets Acquisition:

Table XII – Possible dilution effect on the shareholding structure

	As at the Latest Practicable Date		Immediately after the Proposed Merger		Immediately after the Proposed Merger and Proposed Assets Acquisition	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
A Shares						
GPHL and its associates	390,833,391	48.20	549,388,391	43.72	584,228,036	45.24
Public						
Shareholders (other than GPHL and its associates) and/or Put Option Provider(s) *(Note 1)*	200,166,609	24.68	200,166,609	15.93	200,166,609	15.50 *(Note 5)*
The BYS Shareholders and/or Cash Alternative Provider(s) (Note 2)	–	–	287,046,005	22.85	287,046,005	22.23 *(Note 4)*
H Shares						
Public						
Shareholders (other than GPHL and its associates) and/or Put Option Provider(s) *(Note 1)*	219,900,000	27.12	219,900,000	17.50	219,900,000	17.03 *(Note 5)*
Total	**810,900,000**	**100.00**	**1,256,501,005**	**100.00**	**1,292,372,571**	**100.00**

Note 1: The Put Option Provider(s) will retain the GPC A Shares and H Shares received from the GPC Dissenting Shareholders if any Shareholders exercise the Put Option.

Note 2: Assuming all BYS Shareholders either (i) exchange all their BYS Shares to GPC A Shares; or (ii) exercise the Cash Alternative provided by the Cash Alternative Provider(s), who will then exchanges those BYS Shares received from such BYS Shareholders into GPC A Shares at the Exchange Ratio.

Note 3: The shareholdings in the above table are for illustration purpose only. The Proposed Merger and the Proposed Assets Acquisition are inter-conditional to each other.

Note 4: On the assumption that all BYS Shareholders (other than GPHL and its associates) elect the Cash Alternative in respect of a total of 302,153,689 BYS Shares held by them, the Cash Alternative Provider will then exchange those BYS Shares tendered to them for GPC A Shares and will hold 287,046,005 GPC A Shares in maximum (representing approximately 22.23% of the enlarged issued share capital of the Company immediately after the completion of the Major Assets Reorganization), and will become a substantial Shareholder of the Company and the shareholding of which will not be counted as public float.

Note 5: On the assumption that (i) the GPC Dissenting Shareholders holding 66,722,203 GPC A Shares (being one-third of the total 200,166,609 GPC A Shares held by the Independent

Shareholders, and the maximum number of GPC A Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of GPC A Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option,, the Put Option Provider will hold 66,722,203 GPC A Shares in maximum (representing approximately 5.17% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization); (ii) the GPC Dissenting Shareholders holding 73,300,000 H Shares (being one-third of the total 219,900,000 H Shares held by the Independent Shareholders, and the maximum number of H Shares available to be exercised under the Put Option assuming the other two-thirds of Independent Shareholders of H Shares who vote in person or by proxy approved the Proposed Merger in the GPC General Meetings) as at the Latest Practicable Date elect to exercise the Put Option, the Put Option Provider, will hold 73,300,000 H Shares in maximum (representing approximately 5.68% of the enlarged share capital of the Company immediately after the completion of the Major Assets Reorganization). As a result, the Put Option Provider will hold a maximum of approximately 10.85% of the enlarge share capital of the Company immediately after the completion of the Major Assets Reorganization, who will then become a substantial Shareholder of the Company and the shareholding of which will not be counted as public float. The Company and BYS undertakes that it will appoint sufficient number of Put Option Provider(s) for the exercise of the Put Option for GPC A Shares and H Shares so that the Company can maintain the minimum public float requirements under the Listing Rules at all times.

As shown in the above table, the aggregate shareholding of the existing holders of H Shares will be diluted from approximately 27.12% of the existing issued share capital of the Company as at the Latest Practicable Date to approximately 17.03% of the enlarged issued share capital of the Company upon completion of the Proposed Merger and Proposed Assets Acquisition. The aggregate shareholding of the existing holders of A Shares other than GPHL and its associates will be diluted from approximately 24.68% of the existing issued share capital of the Company as at the Latest Practicable Date to approximately 15.50% of the enlarged issued share capital of the Company upon completion of the Proposed Merger and Proposed Assets Acquisition.

Although there is dilution effect to the shareholding interests of the existing public shareholders after the implementation of the Major Assets Reorganization, having taken into account that (i) the reasons for and the benefits of the Major Assets Reorganization; and (ii) the overall terms of the Major Assets Reorganization, we consider that such dilution effect is acceptable.

(II) TRADEMARK CUSTODY

1. Principal terms of the Trademark Custody Agreement

As stated in the Letter from the Board, the principal terms of the Trademark Custody Agreement are as follows:

Date:	29 February 2012 (as supplemented by a supplemental agreement dated 15 June 2012)
Parties:	(1) the Company, as custodian; and (2) GPHL, as the principal and the controlling Shareholder. As at the Latest Practicable Date, GPHL holds approximately 48.20% shareholding interest in the Company. Accordingly, GPHL is a connected person of the Company.
Trademarks in custody:	Pursuant to the Trademark Custody Agreement, the Company will be responsible for the services including but not limited to the daily management of 29 WangLaoJi Trademarks currently owned by GPHL, provision of trademark protection, promotion services and entering into any new and/or renewal trademark license agreements with any third party.
Conditions Precedent:	The Trademark Custody Agreement shall become effective subject to the following conditions precedent: (i) passing of an ordinary resolution in relation to the approval of the Trademark Custody Agreement at the EGM; and (ii) completion of the Major Assets Reorganization. None of the above conditions precedent can be waived and there is no long-stop date for fulfillment of the above conditions under the Trademark Custody Agreement. As at the Latest Practicable Date, none of the conditions precedent above has been fulfilled.
Terms:	The term of Trademark Custody Agreement shall be for a period from the date of completion of the Major Assets Reorganization to the date when the ownership of the WangLaoJi Trademarks are transferred from GPHL to the Company, or such other date as GPHL and the Company may agree to terminate the Trademark Custody Agreement.

Custody Fee:	After completion of the Major Assets Reorganization, the Company will receive a custody fee of RMB1,000,000 per annum ("Custody Fee") from GPHL in arrears at the end of each March during the terms of the custody and which will be calculated in proportion to the number of months of custody if the WangLaoJi Trademarks are not in custody of the Company for a full year. The amount of the Custody Fee was determined after arm's length negotiations between GPHL and the Company.
New Licenses Fee:	Pursuant to the Trademark Custody Agreement, any new licensing fees of the WangLaoJi Trademarks generated from any licensing agreements entered into or renewed during the Custodian Period between the Company or (in limited circumstances) GPHL and the licensees ("New Licenses Fees") will be shared between GPHL and the Company in the proportion of 80% and 20% respectively, or in a lower ratio which shall be mutually agreed by GPHL and the Company, but in any event, the proportion of the New Licenses Fees that GPHL receives shall not exceed 80%. If the parties cannot reach an agreement on the new sharing proportion, the New Licenses Fees will be shared at the proportion of 80% and 20% amongst GPHL and the Company respectively. Such sharing arrangement relating to the New Licenses Fees were determined after arm's length negotiations between GPHL and the Company in respect of the use of 8 trademarks by Guangzhou WangLaoJi Pharmaceutical Company Limited, a joint venture of the Company, existed prior to the date of the Trademark Custody Agreement, will continue and will not be affected by the Trademark Custody Agreement.
Undertaking in relation to the WangLaoJi Trademarks:	GPHL undertakes that, from the date when the Trademark Custody Agreement becoming effective, it will (unless otherwise required by laws and regulations or existing agreements) only through the Company to carry out the daily management of the WangLaoJi Trademarks, among other things, the daily management and trademark protection of the WangLaoJi Trademarks as mentioned in the paragraph headed "3. Trademarks in custody" above and will not carry out such tasks on its own.

It were also set out in the Trademark Custody Agreement that the WangLaoJi Trademarks will be in custody of the Company before the transfer of the same into the Company after the settlement of the Legal Disputes (as defined in the paragraph headed "Reasons for the Trademark Custody" below, please also refer to the Company's announcements dated 11 May 2012 and 4 June 2012, 15 July 2012, 6 August 2012 and 14 August 2012 respectively for the progress of the Legal Disputes). GPHL has undertaken, in the undertakings dated 29 February 2012 and 15 June 2012 respectively, that it would transfer the WangLaoJi Trademarks to the Company according to the relevant laws and regulations within two years from the date falling on which the WangLaoJi Trademarks can be transferred.

As at the Latest Practicable Date, the Company is unable to estimate the amount of the New Licenses Fees as the identity of new potential licensees (if any) and the terms and dates of the potential new/renewal licensing agreements (if any), etc. are not known to the Company. The Company and GPHL jointly entered into another undertaking on 29 February 2012, pursuant to which, both parties have undertaken that they will enter into a supplemental agreement ("Custody Supplemental Agreement") to the Trademark Custody Agreement before the Company or GPHL enters into the first new or renewal licensing agreement relating to the licensing of WangLaoJi Trademarks with the potential licensee after the completion of the Major Assets Reorganization. The Custody Supplemental Agreement shall (a) acknowledge the current arrangement of the Custody Fee and the New Licenses Fee as set out in the Trademark Custody Agreement; and (b) specify the terms including but not limited to the annual cap in relation to the maximum of 20% of New Licenses Fees entitled by the Company, the term of the custody arrangement under the Custody Supplemental Agreement and other terms which are required under Chapter 14A of the Listing Rules.

2. Reasons for the Trademark Custody

As stated in the Letter from the Board, it is the ultimate purpose of GPHL and the Company to centralize the ownership of all trademarks of Chinese patent medicine into the Company. As at the Latest Practicable Date, the legal disputes ("Legal Disputes") of WangLaoJi Trademarks between GPHL and an independent third party ("Dispute Party") were still in progress, both GPHL and the Company consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole that the WangLaoJi Trademarks will not form part of the Target Trademarks under the Proposed Assets Acquisition and will only be transferred to the Company after the Legal Disputes is settled. It is confirmed by GPHL that given the Legal Disputes between GPHL and the Dispute Party do not involve the Company, the Company is not or will not be required to bear any costs and liabilities arising from the Legal Disputes.

GPHL and the Company further consider that by entering into the Trademark Custody Agreement, the possible competing business between GPHL and the Company can be reduced and the utilization of all trademarks of Chinese patent medicine within the Group can be enhanced before the WangLaoJi Trademarks can be transferred to the Company. As a result, the Directors consider that the transactions contemplated under the Trademark Custody Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. We concur with the view of the Directors. We further consider that the arrangement contemplated under the Trademark Custody Agreement would allow the Company utilizing the WangLaoJi Trademark to further develop its business in health product market.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

(1) after completion of the Major Assets Reorganization, the Company will become the only listed platform of the GPHL Group. The Group will have a comprehensive supply chain in the pharmaceutical industry, and own the major medical assets and business of GPHL, thereby achieve synergy in the use and enhancement of the production facilities, rearrangement of the product mix, enhancement of the sales and distribution networks and sharing of the financial resources;

(2) the BYS Share Conversion Price is within and at the bottom of the price range of BYS Share closing prices during the Review Period, and the Exchange Ratio has been determined at a manner consistent with the market practice;

(3) The PER implied by the BYS Shares Conversion Price is below the range of the Market Comparables and far below the respective average ratio of the Market Comparables, and the PBR implied by the BYS Shares Conversion Price is within the range of the Market Comparables and below the average ratio of the Market Comparables, which indicates that the relative valuation of BYS is reasonable;

(4) the consideration for the Target Assets, by making reference to the appraised value of the Target Assets as set out in the valuation report, the detail of which is included in the Appendices VII (A) to (C) to the Circular, is fair and reasonable;

(5) after the completion of the Major Assets Reorganization, the asset base of the Company would be enlarged since the Company will record the assets and liabilities assumed from BYS, the Target Properties and Target trademarks in its

own books and records according to their natures. The income base of the Group will be enhanced as well. It would have positive impacts on the financial performance of the Group.

(6) the Profit Compensation Agreement which seeks to provide an effective downside protection to the Company in case that the audited net profits of the Target Properties and the Target Trademarks are less than the forecasted net profits of the same during a financial year within the Compensation Period;

(7) the Put Option for the GPC Dissenting Shareholders would provide protection to the Shareholders; and

(8) the arrangement contemplated under the Trademark Custody Agreement would allow the Company utilizing the WangLaoJi Trademark to further develop its business in health product market.

We are of the opinion that the terms of (i) the Major Assets Reorganization contemplated under the Absorption and Merger Agreement and the Assets Acquisition Agreement; (ii) the Profit Compensation Agreement and the transactions contemplated thereunder; and (iii) the Trademark Custody Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the resolutions to be proposed at the EGM and the H Shares General Meeting to approve the Transactions.

Yours faithfully,
For and on behalf of
South West Capital Limited
Helen Zee
Managing Director

1. FINANCIAL INFORMATION INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Group for the years ended 31 December 2009, 2010 and 2011, including the notes thereto, have been published in the annual reports of the Company for the years ended 31 December 2009, 2010 and 2011 respectively and the audited consolidated financial statements of the Group for the 6 months ended 30 June 2012, including the notes thereto, have been published in the interim report of the Company for the 6 months ended 30 June 2012, which are incorporated by reference into this circular. The said annual reports and interim report of the Company are available on the Company's website for investor relations (*www.equitynet.com.hk/0874*), the website of Shanghai Stock Exchange (*www.sse.com.cn*) and the website of the Hong Kong Stock Exchange (*www.hkexnews.hk*).

2. WORKING CAPITAL

As at the Latest Practicable Date, the Directors, after due and careful enquiry, are of the opinion that taking into account the present internal resources of the Enlarged Group as well as the banking and other facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2012, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately RMB873.10 million, comprising (i) secured bank loans of the Enlarged Group of RMB15.00 million and (ii) guaranteed bank loans of the Enlarged Group of RMB100.00 million; and (iii) unsecured and unguaranteed bank loans of the Enlarged Group of RMB758.10 million. The Enlarged Group rendered guarantees amounted to RMB26.00 million for external parties.

Save as disclosed in this indebtedness statement and apart from the inter company liabilities and normal trade payables, the Enlarged Group did not have any loan capital (whether issued or outstanding or agreed to be issued), bank overdrafts, loans or other similar debts, acceptance liabilities or acceptance credits, bonds, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities at the close of business of 31 July 2012.

The Directors are not aware of any material changes in the Enlarged Group's indebtedness and contingent liabilities since 31 July 2012.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2012, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of an accountants' report of BYS, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO China Shu Lun Pan CPAs LLP, an audit firm that is licensed to conduct securities and futures related business in China and approved by the relevant PRC authorities to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong.

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

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4 September 2012

The Board of
Guangzhou Pharmaceutical Company Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("BYS") and its subsidiaries (hereinafter collectively referred to as the "BYS and its subsidiaries") for each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 (the "Reporting Periods") prepared on the basis set out in note 1 of Section II to Part B below for inclusion in the circular of Guangzhou Pharmaceutical Company Limited ("GPC") dated 4 September 2012 (the "Circular") issued in relation to the proposed absorption and merger of BYS through share swap and acquisition of target assets.

BYS is a joint stock company with limited liability approved by Sui Gai Gu Zi [1992] No.11* (穗改股字 [1992] 11號文) issued by the Guangzhou Municipal Commission for Restructuring the Economic Systems* (廣州市經濟體制改革委員會) in 1992 to establish based on the reorganization of five pharmaceutical manufacturers under the original Guangzhou Baiyunshan Enterprise Group Co., Ltd* (原廣州白雲山企業集團有限公司), including Guangzhou Baiyunshan Pharmaceutical General Factory* (廣州白雲山製藥總廠) and has been approved by Gai Sheng [1992] No.31* (改生 [1992] 31號文) issued by the State Commission for Restructuring the Economic Systems* (國家經濟體制改革委員會) as a standardized stock enterprise. In 1993, BYS was approved by Zheng Jian Fa Shen Zi [1993] No.31* (證監發審字 [1993] 31號文) issued by China Securities Regulatory Commission ("CSRC") and Shen Zheng Suo Zi No.265* (深證所字第265號文) issued by the Shenzhen Stock Exchange to issue shares to the public which are listed and traded on the Shenzhen Stock Exchange.

BYS and its subsidiaries have adopted 31 December as their financial year end dates. As at the date of this report, BYS owns interest in the subsidiaries as stated in note (I) of Section IV to Part B of this report.

The statutory financial statements of BYS and its subsidiaries for the Reporting Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises in the People's Republic of China (the "PRC"), of which financial statements for the two years ended 31 December 2009 and 2010 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (立信羊城會計師事務所有限公司), the certified public accountant registered in the PRC, in accordance with the PRC auditing standards, and the financial statements for the year ended 31 December 2011 and the six months ended 30 June 2012 were audited by BDO China Shu Lun Pan CPAs LLP (立信會計師事務所(特殊普通合夥)), the certified public accountant registered in the PRC, in accordance with the PRC auditing standards. The statutory financial statements of the subsidiaries directly or indirectly controlled by BYS have been audited by the independent auditor as stated in Note (I)2 of Section VI to Part B of this report.

For the purpose of this report, the directors of BYS have prepared the financial statements of BYS and its subsidiaries and BYS for the Reporting Periods that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in note 1 of Section II to Part B below, for which the management of BYS are solely responsible for. We have carried out the independent audit in accordance with China Auditing Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006 and Statement 3.340 Auditing Guideline "Prospectuses and the Reporting Accountant" issued by Hong Kong Institute of Certified Public Accountants.

The directors of BYS are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of BYS and its subsidiaries and BYS as at 31 December 2009, 2010 and 2011 and 30 June 2012, and of the operating results and cash flows of BYS and its subsidiaries and BYS for the Reporting Periods.

Review on the comparative financial information at the end of the Reporting Period

We have reviewed the comparative financial information contained in Part A & Part B of this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of BYS, BYS and its subsidiaries for the six months ended 30 June 2011 ("comparative financial information").

The directors of BYS has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in note 1 of Section II to Part B of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the basis set out in note 1 of Section II to Part B of this report.

PART A. FINANCIAL INFORMATION

BALANCE SHEET

Currency Unit: Renminbi yuan

ASSETS	*Section V Notes BYS and its subsidiaries*	*Section XI Notes BYS*	30 June 2012 BYS and its subsidiaries	30 June 2012 BYS	31 December 2011 BYS and its subsidiaries	31 December 2011 BYS	31 December 2010 BYS and its subsidiaries	31 December 2010 BYS	31 December 2009 BYS and its subsidiaries	31 December 2009 BYS
Current assets:										
Cash in bank and cash on hand	*(1)*		421,937,011.61	295,087,294.99	268,133,198.76	171,854,026.77	340,854,381.39	217,971,624.93	325,447,019.67	154,112,927.21
Financial assets held for trading			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Notes receivable	*(2)*		531,301,630.90	358,591,954.59	323,063,531.79	233,766,891.73	199,373,776.89	138,302,570.85	398,719,568.73	309,242,566.00
Accounts receivable	*(4)*	*(1)*	257,373,028.09	180,229,020.75	237,609,895.43	186,568,125.65	206,308,460.49	149,594,895.52	201,422,611.23	145,096,211.50
Advances to suppliers	*(6)*		51,780,583.85	28,408,286.18	39,358,195.35	21,519,915.11	18,958,549.72	1,366,046.90	14,618,639.65	3,785,673.91
Interest receivable			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends receivable	*(3)*		20,000,000.00	90,045,570.85	20,000,000.00	115,303,893.56	0.00	63,389,013.03	0.00	54,087,012.74
Other receivables	*(5)*	*(2)*	35,593,177.13	59,298,555.29	22,884,357.09	45,272,572.01	25,916,279.04	52,204,584.36	58,651,987.73	87,279,888.73
Inventories	*(7)*		643,802,033.09	375,039,318.46	701,066,661.92	383,822,694.79	736,957,094.38	419,865,864.02	462,912,872.73	277,534,766.17
Current portion of non-current assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	*(8)*		479,622.79	420,788.64	752,255.64	449,753.82	710,642.86	466,206.05	895,373.49	350,215.31
Total current assets			1,962,267,087.46	1,387,120,789.75	1,612,868,095.98	1,158,557,873.44	1,529,079,184.77	1,043,160,805.66	1,462,668,073.23	1,031,489,261.57
Non-current assets:										
Available-for-sale financial assets	*(9)*		281,066.86	0.00	277,988.54	0.00	308,419.88	0.00	457,589.00	0.00
Held-to-maturity investments			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term receivables			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term equity investments	*(10)*	*(3)*	285,005,960.93	460,404,660.81	269,930,056.63	445,628,756.51	256,072,915.69	431,271,615.57	222,911,194.62	397,056,642.47
Investment properties	*(11)*		279,804,070.00	252,124,700.00	343,754,730.00	316,025,350.00	344,454,670.00	315,980,200.00	335,604,640.00	310,893,970.00
Fixed assets	*(12)*		650,363,503.26	353,242,587.05	646,431,613.65	342,032,145.76	647,028,595.16	364,223,842.34	677,223,479.54	382,069,230.01
Construction in progress	*(13)*		62,187,510.03	15,319,095.57	40,952,272.66	11,135,417.35	44,909,342.04	7,884,002.34	11,342,624.21	2,290,575.22
Construction materials			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disposal of fixed assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Productive biological assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Oil and gas assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	*(14)*		240,973,787.30	229,380,546.92	197,800,844.33	186,130,091.68	200,510,257.47	188,373,909.62	205,880,479.09	193,009,350.35
Development costs	*(15)*		3,319,800.00	2,200,000.00	3,019,800.00	1,900,000.00	4,719,800.00	3,600,000.00	4,479,800.00	3,160,000.00
Goodwill			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term prepaid expenses	*(16)*		1,430,976.75	1,386,693.19	1,860,639.43	1,783,143.05	1,429,253.01	1,285,330.99	2,221,488.20	2,011,140.54
Deferred tax assets	*(17)*		48,281,899.68	32,841,356.13	30,464,565.16	21,946,368.87	26,798,073.63	19,175,406.38	22,264,907.57	16,418,523.65
Other non-current assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total non-current assets			1,571,648,574.81	1,346,899,639.67	1,534,492,510.40	1,326,582,273.22	1,526,231,326.88	1,331,794,307.24	1,482,386,202.23	1,306,909,432.24
Total assets			3,533,915,662.27	2,734,020,429.42	3,147,360,606.38	2,485,140,146.66	3,055,310,511.65	2,374,955,112.90	2,945,054,275.46	2,338,398,693.81

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET (continued)

Currency Unit: Renminbi yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Section V Notes BYS and its subsidiaries	Section XI Notes BYS	30 June 2012 BYS and its subsidiaries	30 June 2012 BYS	31 December 2011 BYS and its subsidiaries	31 December 2011 BYS	31 December 2010 BYS and its subsidiaries	31 December 2010 BYS	31 December 2009 BYS and its subsidiaries	31 December 2009 BYS
Current liabilities:										
Short-term borrowings	(19)		782,100,000.00	696,000,000.00	805,800,000.00	736,000,000.00	1,023,000,000.00	957,000,000.00	1,217,000,000.00	1.116.000.000.00
Financial liabilities held for trading			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Notes payable	(20)		407,450.43	0.00	55,221,270.89	20,000,000.00	61,060,008.21	0.00	28,522,100.54	0.00
Accounts payable	(21)		409,299,328.81	258,964,636.26	300,789,114.85	193,143,791.15	256,402,790.05	148,836,984.39	268,147,977.24	151,879,234.05
Advances from customers	(22)		192,550,186.39	92,919,019.80	214,090,762.48	94,561,378.45	226,368,408.88	75,392,170.29	166,800,483.81	72,604,465.89
Employee benefits payable	(23)		69,268,976.55	52,419,811.74	44,572,060.35	39,176,072.56	44,974,049.15	34,609,985.36	31,315,111.31	26,977,508.16
Taxes payable	(24)		82,819,678.46	46,927,786.24	31,729,379.83	16,379,949.89	15,841,393.49	11,334,113.93	30,251,447.56	16,444,101.64
Interests payable	(25)		1,306,448.14	1,306,448.14	1,452,413.14	1,452,413.14	1,080,724.55	1,080,724.55	1,224,132.22	1,224,132.22
Dividends payable	(26)		21,828,316.07	9,179,734.96	17,161,943.05	161.95	12,125,804.92	131.70	9,835,897.27	89.30
Other payables	(27)		80,634,850.73	56,210,195.29	83,988,856.04	60,050,798.56	77,578,969.37	53,683,279.31	61,710,794.64	46,190,496.27
Current portion of non-current liabilities			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	(28)		92,066,704.41	57,473,587.11	16,802,811.23	15,531,527.30	19,973,981.08	19,137,914.31	19,795,854.56	19,090,498.22
Total current liabilities			1,732,281,939.99	1,271,401,219.54	1,571,608,611.86	1,176,296,093.00	1,738,406,129.70	1,301,075,303.84	1,834,603,799.15	1,450,410,525.75
Non-current liabilities:										
Long-term borrowings			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debentures payable			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term payables	(29)		19,369,019.06	7,802,224.39	19,369,019.06	7,802,224.39	19,369,019.06	7,802,224.39	19,369,019.06	7,802,224.39
Payables for specific projects			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	(30)		72,086,418.21	46,755,894.36	43,985,577.30	18,517,879.60	37,061,886.03	17,253,504.59	34,593,617.21	17,332,362.39
Deferred tax liabilities	(17)		64,686,641.81	61,001,883.39	64,040,228.67	60,358,241.90	63,890,162.46	60,116,508.47	62,634,194.66	59,441,852.75
Other non-current liabilities	(31)		40,050,446.35	33,540,935.74	40,773,003.88	35,354,999.25	31,659,161.56	23,122,480.69	25,688,345.74	18,248,763.87
Total non-current liabilities			196,192,525.43	149,100,937.88	168,167,828.91	122,033,345.14	151,980,229.11	108,294,718.14	142,285,176.67	102,825,203.40
Total liabilities			1,928,474,465.42	1,420,502,157.42	1,739,776,440.77	1,298,329,438.14	1,890,386,358.81	1,409,370,021.98	1,976,888,975.82	1,553,235,729.15
Shareholders' equity:										
Share capital	(32)		469,053,689.00	469,053,689.00	469,053,689.00	469,053,689.00	469,053,689.00	469,053,689.00	469,053,689.00	469,053,689.00
Capital surplus	(33)		108,957,459.00	88,742,126.11	109,496,780.68	89,284,526.11	109,607,543.80	89,364,857.89	106,274,845.53	88,305,594.17
Less: Treasury shares			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus reserve	(34)		142,619,812.94	102,709,180.46	142,619,812.94	102,709,180.46	118,143,949.56	78,233,317.08	98,800,502.24	58,889,869.76
Undistributed profits	(35)		815,076,624.75	653,013,276.43	622,884,500.75	525,763,312.95	409,727,435.68	328,933,226.95	238,405,903.53	168,913,811.73
Total equity attributable to the shareholders of the parent company			1,535,707,585.69	1,313,518,272.00	1,344,054,783.37	1,186,810,708.52	1,106,532,618.04	965,585,090.92	912,534,940.30	785,162,964.66
Minority interest	(36)		69,733,611.16	0.00	63,529,382.24	0.00	58,391,534.80	0.00	55,630,359.34	0.00
Total shareholders' equity			1,605,441,196.85	1,313,518,272.00	1,407,584,165.61	1,186,810,708.52	1,164,924,152.84	965,585,090.92	968,165,299.64	785,162,964.66
Total liabilities and shareholders' equity			3,533,915,662.27	2,734,020,429.42	3,147,360,606.38	2,485,140,146.66	3,055,310,511.65	2,374,955,112.90	2,945,054,275.46	2,338,398,693.81

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT

Currency Unit: Renminbi yuan

Items	*Section V Notes BYS and its subsidiaries*	*Section XI Notes BYS*	For the six months ended 30 June 2012 BYS and its subsidiaries	2012 BYS	2011 (unaudited) BYS and its subsidiaries	2011 (unaudited) BYS	2011 BYS and its subsidiaries	2011 BYS	2010 BYS and its subsidiaries	2010 BYS	2009 BYS and its subsidiaries	2009 BYS
1. Revenue	(37), (38)	(4)	2,387,197,517.16	1,415,408,068.10	2,034,374,826.85	1,196,638,534.50	3,799,133,087.54	2,257,835,702.65	3,316,861,029.18	2,187,599,898.48	2,795,105,546.58	1,834,203,219.05
Less: Cost of sales	(37), (38)	(4)	1,498,780,382.11	884,645,914.52	1,339,010,474.48	798,559,967.63	2,514,552,639.30	1,486,374,112.49	2,155,814,426.31	1,468,107,862.75	1,828,233,316.04	1,245,364,372.68
Taxes and surcharges	(39)		25,003,177.49	14,806,996.65	18,245,898.34	11,096,276.90	34,394,536.60	21,976,326.48	24,077,316.38	15,895,468.61	25,196,410.02	17,157,179.94
Selling and distribution expenses	(40)		364,884,243.73	231,448,950.94	279,648,719.39	168,794,634.36	507,181,315.31	295,658,504.60	512,823,745.48	323,684,910.90	470,809,530.10	315,895,908.54
General and administrative expenses	(41)		243,798,846.09	143,989,426.64	204,043,755.18	115,851,990.50	431,705,064.24	277,556,945.40	373,006,691.20	231,547,955.08	337,436,931.83	216,944,504.36
Finance costs	(42)		25,629,931.04	22,247,853.72	25,719,023.19	23,569,116.95	51,256,449.28	46,335,306.21	52,206,770.48	48,349,231.86	63,858,427.99	56,726,501.44
Asset impairment losses	(44)		-1,068,508.16	-2,301,493.54	-736,415.16	-1,877,207.94	-748,622.02	-1,502,544.37	3,400,910.76	-397,403.48	17,597,528.84	19,592,486.07
Add: Gain arising from changes in fair value (loss marked with "-")	(43)		5,266,230.00	5,315,240.00	0.00	0.00	-699,940.00	46,150.00	3,008,486.00	2,768,786.00	1,875,845.51	1,744,076.51
Investment income (loss marked with "-")	(45)	(5)	34,782,095.20	44,498,504.30	28,901,932.29	28,901,932.29	53,966,146.86	134,009,142.04	39,967,208.73	94,381,186.04	30,868,982.26	81,664,014.78
Including: Share of profits from associates and jointly controlled entities			34,775,904.30	34,775,904.30	28,901,932.29	28,901,932.29	53,937,472.72	53,937,472.72	36,182,024.42	36,182,024.42	30,846,281.11	30,290,427.67
2. Operating profit (loss marked with "-")			270,217,770.06	170,384,163.47	197,345,303.72	109,545,688.39	314,057,911.69	265,492,343.88	238,506,863.30	197,561,844.80	84,718,229.53	45,930,357.31
Add: Non-operating income	(46)		7,388,725.14	6,278,661.29	3,672,104.92	1,397,390.60	24,519,675.74	16,279,837.95	23,872,531.64	16,388,578.75	39,987,700.47	35,591,725.56
Less: Non-operating expenses	(47)		5,890,036.24	3,030,244.75	834,187.15	636,175.10	10,285,482.36	13,385,228.87	5,290,276.61	2,386,724.47	7,088,586.55	1,962,468.76
Including: Loss on disposal of non-current assets			79,720.61	12,235.72	380,225.20	220,170.25	3,915,101.48	2,028,687.21	1,968,694.40	793,525.43	4,242,738.97	1,110,849.67
3. Total profit (total loss marked with "-")			271,716,458.96	173,632,580.01	200,183,221.49	110,306,903.89	328,292,105.07	268,386,952.96	257,089,118.33	211,563,699.08	117,617,343.45	79,559,614.11
Less: Income tax expenses	(48)		38,180,753.14	20,584,663.63	28,441,869.76	12,354,496.93	48,076,443.85	23,628,319.13	38,028,339.87	18,129,225.87	-3,550,978.80	-23,205,298.43
4. Net profit (net loss marked with "-")			233,535,705.82	153,047,916.38	171,741,351.73	97,952,406.96	280,215,661.22	244,758,633.83	219,060,778.46	193,434,473.21	121,168,322.25	102,764,912.54
Net profit attributable to the shareholders of the parent company			217,990,076.90	153,047,916.38	159,524,811.37	97,952,406.96	261,085,612.90	244,758,633.83	204,736,590.14	193,434,473.21	107,765,675.43	102,764,912.54
Minority interest	(36)		15,545,628.92	0.00	12,216,540.36	0.00	19,130,048.32	0.00	14,324,188.32	0.00	13,402,646.82	0.00
5. Earnings per share												
(1) Basic earnings per share			0.4647		0.3401		0.5566		0.4365		0.2298	
(2) Diluted earnings per share			0.4647		0.3401		0.5566		0.4365		0.2298	
6. Other comprehensive income	(49)		-539,321.68	-542,400.00	3,376.86	0.00	-110,763.12	-80,331.78	3,853,952.07	1,059,263.72	-205,501.68	-431,115.08
7. Total comprehensive income			232,996,384.14	152,505,516.38	171,744,728.59	97,952,406.96	280,104,898.10	244,678,302.05	222,914,730.53	194,493,736.93	120,962,820.57	102,333,797.46
Comprehensive income attributable to the shareholders of the parent company			217,450,755.22	152,505,516.38	159,528,188.23	97,952,406.96	260,974,849.78	244,678,302.05	208,069,288.41	194,493,736.93	107,560,173.75	102,333,797.46
Comprehensive income attributable to the shareholders of minority interest			15,545,628.92	0.00	12,216,540.36	0.00	19,130,048.32	0.00	14,845,442.12	0.00	13,402,646.82	0.00

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT

Currency Unit: Renminbi yuan

			For the six months ended 30 June									
	Section V Notes	*Section XI Notes*	2012		2011 (unaudited)		2011		2010		2009	
Items	*BYS and its subsidiaries*	*BYS*	*BYS and its subsidiaries*	*BYS*	*BYS and its subsidiaries*	*BYS*	*BYS and its subsidiaries*	*BYS*	*BYS and its subsidiaries*	*BYS*	*BYS and its subsidiaries*	*BYS*
1. Cash flows from operating activities												
Cash received from sales of goods or rendering of services			2,492,288,154.27	1,438,469,729.54	2,140,269,996.66	1,245,336,690.60	4,305,510,963.12	2,465,570,749.04	3,882,823,566.22	2,375,124,017.71	3,117,147,399.17	1,800,265,978.33
Refund of taxes and surcharges			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash received relating to other operating activities	(50)		51,490,009.01	31,891,875.19	55,334,742.95	42,229,815.37	92,467,252.35	102,535,278.63	140,767,614.78	124,421,591.13	123,887,698.44	109,597,635.27
Sub-total of cash inflows from operating activities			2,543,778,163.28	1,470,361,604.73	2,195,604,739.61	1,287,566,505.97	4,397,978,215.47	2,568,106,027.67	4,023,591,181.00	2,499,545,608.84	3,241,035,097.61	1,909,863,613.60
Cash paid for goods and services			1,420,106,363.28	807,122,432.00	1,294,481,079.71	772,943,210.17	2,624,196,872.88	1,441,287,685.56	2,298,831,542.09	1,440,305,289.31	1,737,423,458.90	1,029,081,181.09
Cash paid to and on behalf of employees			379,040,988.05	252,099,574.45	336,434,502.73	228,681,115.60	688,648,198.88	444,192,718.81	521,719,531.75	314,085,265.61	439,002,653.26	276,825,321.72
Payments of taxes and surcharges			234,113,402.54	126,974,345.96	173,445,114.01	92,585,386.92	353,098,824.59	207,139,989.99	292,596,107.17	170,323,307.42	287,896,837.59	179,596,879.77
Cash paid relating to other operating activities	(50)		239,983,256.02	119,079,308.31	239,458,137.78	109,660,127.84	458,119,864.11	277,959,845.92	583,229,575.52	336,868,206.16	476,571,013.70	287,446,826.56
Sub-total of cash outflows from operating activities			2,273,244,009.89	1,305,275,660.72	2,043,818,834.23	1,203,869,840.53	4,124,063,760.46	2,370,580,240.28	3,696,376,756.53	2,261,582,068.50	2,940,893,963.45	1,772,950,209.14
Net cash flows from operating activities			270,534,153.39	165,085,944.01	151,785,905.38	83,696,665.44	273,914,455.01	197,525,787.39	327,214,424.47	237,963,540.34	300,141,134.16	136,913,404.46
2. Cash flows from investing activities												
Cash received from disposal of investments			0.00	0.00	0.00	0.00	0.00	0.00	7,512,300.00	7,512,300.00	0.00	0.00
Cash received from returns on investments			20,006,190.90	54,980,922.71	0.00	20,193,308.38	20,028,674.14	68,158,788.79	6,172.16	43,916,471.67	10,216,337.16	34,566,000.73
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			2,346,438.95	2,158,951.95	115,329.80	0.00	5,505,570.63	5,294,041.53	31,132,131.97	30,675,067.10	50,627,490.75	45,582,951.75
Net cash received from disposal of subsidiaries and other business units			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash received relating to other investing activities			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of cash inflows from investing activities			22,352,629.85	57,139,874.66	115,329.80	20,193,308.38	25,534,244.77	73,452,830.32	38,650,604.13	82,103,838.77	60,843,827.91	80,148,952.48
Cash paid to acquire fixed assets, intangible assets and other long-term assets			48,240,365.53	18,253,124.05	34,714,653.72	6,614,988.69	67,220,744.34	25,403,356.03	84,785,780.80	32,386,804.32	26,515,523.73	14,627,844.09
Cash paid to acquire investments			300,000.00	0.00	0.00	0.00	0.00	500,000.00	33,034.50	0.00	1,500,000.00	11,131,701.49
Net cash paid to acquire subsidiaries and other operating units			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash paid relating to other investing activities			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

CASH FLOW STATEMENT (continued)

Currency Unit: Renminbi yuan

For the six months ended 30 June

Items	Section V Notes BYS and its subsidiaries	Section XI Notes BYS	2012 BYS and its subsidiaries	2012 BYS	2011 (unaudited) BYS and its subsidiaries	2011 (unaudited) BYS	2011 BYS and its subsidiaries	2011 BYS	2010 BYS and its subsidiaries	2010 BYS	2009 BYS and its subsidiaries	2009 BYS
Sub-total of cash outflows			48,540,365.53	18,253,124.05	34,714,653.72	6,614,988.69	67,220,744.34	25,903,356.03	84,818,815.30	32,386,804.32	28,015,523.73	25,759,545.58
Net cash flows from investing activities			-26,187,735.68	38,886,750.61	-34,599,323.92	13,578,319.69	-41,686,499.57	47,549,474.29	-46,168,211.17	49,717,034.45	32,828,304.18	54,389,406.90
3. Cash flows from financing activities												
Cash received from capital contributions			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash received from borrowings			535,400,000.00	458,000,000.00	458,000,000.00	476,000,000.00	871,800,000.00	796,000,000.00	1,156,000,000.00	1,057,000,000.00	2,058,000,000.00	1,815,000,000.00
Cash received relating to other financing activities			0.00	41,225,297.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	333,571.50
Sub-total of cash inflows from financing activities			535,400,000.00	499,225,297.28	458,000,000.00	476,000,000.00	871,800,000.00	796,000,000.00	1,156,000,000.00	1,057,000,000.00	2,058,000,000.00	1,815,333,571.50
Cash repayments of borrowings			559,100,000.00	498,000,000.00	625,000,000.00	607,000,000.00	1,089,000,000.00	1,017,000,000.00	1,350,000,000.00	1,216,000,000.00	2,154,100,000.00	1,861,100,000.00
Cash payments for interest expenses and distribution of dividends or profits			55,311,085.75	38,964,723.68	30,459,343.09	23,925,130.63	84,807,337.14	72,192,859.84	77,678,606.74	64,821,877.07	70,713,878.58	60,022,010.80
Cash payments relating to other financing activities			0.00	41,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of cash outflows from financing activities			614,411,085.75	577,964,723.68	655,459,343.09	630,925,130.63	1,173,807,337.14	1,089,192,859.84	1,427,678,606.74	1,280,821,877.07	2,224,813,878.58	1,921,122,010.80
Net cash flows from financing activities			-79,011,085.75	-78,739,426.40	-197,459,343.09	-154,925,130.63	-302,007,337.14	-293,192,859.84	-271,678,606.74	-223,821,877.07	-166,813,878.58	-105,788,439.30
4. Effect of foreign exchange rate changes on cash and cash equivalents			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Net increase in cash and cash equivalents			165,335,331.96	125,233,268.22	-80,272,761.63	-57,650,145.50	-69,779,381.70	-48,117,598.16	9,367,606.56	63,858,697.72	166,155,559.76	85,514,372.06
Add: Cash and cash equivalents at beginning of period			256,478,434.53	169,854,026.77	326,257,816.23	217,971,624.93	326,257,816.23	217,971,624.93	316,890,209.67	154,112,927.21	150,734,649.91	68,598,555.15
Add: Cash and cash equivalents at beginning of period from merged subsidiaries			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6. Cash and cash equivalent at end of period			421,813,766.49	295,087,294.99	245,985,054.60	160,321,479.43	256,478,434.53	169,854,026.77	326,257,816.23	217,971,624.93	316,890,209.67	154,112,927.21

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Currency Unit: Renminbi yuan

Items	Equity attributable to BYS					
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Minority interest	Total shareholders' equity
1. Balance as at 31 December 2008	469,053,689.00	106,480,347.21	88,524,010.99	140,916,719.35	51,037,039.70	856,011,806.25
2. Movements for 2009 (decrease marked with "-")	0.00	-205,501.68	10,276,491.25	97,489,184.18	4,593,319.64	112,153,493.39
(1) Net profit	0.00	0.00	0.00	107,765,675.43	13,402,646.82	121,168,322.25
(2) Other comprehensive income	0.00	-205,501.68	0.00	0.00	0.00	-205,501.68
1. Net changes in fair value of available-for-sale financial assets	0.00	225,613.40	0.00	0.00	0.00	225,613.40
2. Others	0.00	-431,115.08	0.00	0.00	0.00	-431,115.08
Sub-total of items (1) and (2)	0.00	-205,501.68	0.00	107,765,675.43	13,402,646.82	120,962,820.57
(3) Profit distribution	0.00	0.00	10,276,491.25	-10,276,491.25	-8,809,327.18	-8,809,327.18
1. Appropriation to surplus reserves	0.00	0.00	10,276,491.25	-10,276,491.25	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00		-8,809,327.18	-8,809,327.18
3. Balance as at 31 December 2009	469,053,689.00	106,274,845.53	98,800,502.24	238,405,903.53	55,630,359.34	968,165,299.64
4. Movements for 2010 (decrease marked with "-")	0.00	3,332,698.27	19,343,447.32	171,321,532.15	2,761,175.46	196,758,853.20
(1) Net profit	0.00	0.00	0.00	204,736,590.14	14,324,188.32	219,060,778.46
(2) Other comprehensive income	0.00	3,332,698.27	0.00	0.00	521,253.80	3,853,952.07
1. Net changes in fair value of available-for-sale financial assets	0.00	-182,203.62	0.00	0.00	0.00	-182,203.62
2. Effect of changes of other equity holders' interests in investees by the equity method	0.00	823,506.61	0.00	0.00	0.00	823,506.61
3. Others	0.00	2,691,395.28	0.00	0.00	521,253.80	3,212,649.08
Sub-total of items (1) and (2)	0.00	3,332,698.27	0.00	204,736,590.14	14,845,442.12	222,914,730.53
(3) Profit distribution	0.00	0.00	19,343,447.32	-33,415,057.99	-12,084,266.66	-26,155,877.33
1. Appropriation to surplus reserves	0.00	0.00	19,343,447.32	-19,343,447.32	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	-14,071,610.67	-12,084,266.66	-26,155,877.33
5. Balance as at 31 December 2010	469,053,689.00	109,607,543.80	118,143,949.56	409,727,435.68	58,391,534.80	1,164,924,152.84
6. Movements for 2011 (decrease marked with "-")	0.00	-110,763.12	24,475,863.38	213,157,065.07	5,137,847.44	242,660,012.77
(1) Net profit	0.00	0.00	0.00	261,085,612.90	19,130,048.32	280,215,661.22
(2) Other comprehensive income	0.00	-110,763.12	0.00	0.00	0.00	-110,763.12
1. Net changes in fair value of available-for-sale financial assets	0.00	-30,431.34	0.00	0.00	0.00	-30,431.34
2. Effect of changes of other equity holders' interests in investees by the equity method	0.00	-80,331.78	0.00	0.00	0.00	-80,331.78
Sub-total of items (1) and (2)	0.00	-110,763.12	0.00	261,085,612.90	19,130,048.32	280,104,898.10
(3) Profit distribution	0.00	0.00	24,475,863.38	-47,928,547.83	-13,992,200.88	-37,444,885.33
1. Appropriation to surplus reserves	0.00	0.00	24,475,863.38	-24,475,863.38	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	-23,452,684.45	-13,992,200.88	-37,444,885.33
7. Balance as at 31 December 2011	469,053,689.00	109,496,780.68	142,619,812.94	622,884,500.75	63,529,382.24	1,407,584,165.61

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Currency Unit: Renminbi yuan

	Equity attributable to BYS					
Items	**Share capital**	**Capital surplus**	**Surplus reserve**	**Undistributed profits**	**Minority interest**	**Total shareholders' equity**
8. Movements for January 2012 to June 2012 (decrease marked with "-")	*0.00*	*-539,321.68*	*0.00*	*192,192,124.00*	*6,204,228.92*	*197,857,031.24*
(1) Net profit	0.00	0.00	0.00	217,990,076.90	15,545,628.92	233,535,705.82
(2) Other comprehensive income	0.00	-539,321.68	0.00	0.00	0.00	-539,321.68
1. Net changes in fair value of available-for-sale financial assets	0.00	3,078.32	0.00	0.00	0.00	3,078.32
2. Others	0.00	-542,400.00	0.00	0.00	0.00	-542,400.00
Sub-total of items (1) and (2)	0.00	-539,321.68	0.00	217,990,076.90	15,545,628.92	232,996,384.14
(3) Profit distribution to shareholders	0.00	0.00	0.00	-25,797,952.90	-9,341,400.00	-35,139,352.90
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	-25,797,952.90	-9,341,400.00	-35,139,352.90
9. Balance as at 30 June 2012	469,053,689.00	108,957,459.00	142,619,812.94	815,076,624.75	69,733,611.16	1,605,441,196.85
Note: Changes in equity for January 2011 to June 2011 (unaudited)	469,053,689.00	109,607,543.80	118,143,949.56	409,727,435.68	58,391,534.80	1,164,924,152.84
1. Balance as at 31 December 2010	0.00	3,376.86	0.00	136,072,126.92	12,216,540.36	148,292,044.14
2. Movements for January 2011 to June 2011 (decrease marked with "-")						
(1) Net profit	0.00	0.00	0.00	159,524,811.37	12,216,540.36	171,741,351.73
(2) Other comprehensive income	0.00	3,376.86	0.00	0.00	0.00	3,376.86
1. Net changes in fair value of available-for-sale financial assets	0.00	3,376.86	0.00	0.00	0.00	3,376.86
2. Effect of changes of other equity holders' interest in investees by the equity method	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of items (1) and (2)	0.00	3,376.86	0.00	159,524,811.37	12,216,540.36	171,744,728.59
(3) Profit distribution to shareholders	0.00	0.00	0.00	-23,452,684.45	0.00	-23,452,684.45
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	-23,452,684.45	0.00	-23,452,684.45
3. Balance as at 30 June 2011	469,053,689.00	109,610,920.66	118,143,949.56	545,799,562.60	70,608,075.16	1,313,216,196.98

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Currency Unit: Renminbi yuan

Items	Equity attributable to BYS					
	Share capital	Capital surplus	Treasury share (less)	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance as at 31 December 2008	*469,053,689.00*	*88,736,709.25*	*0.00*	*48,613,378.51*	*76,425,390.44*	*682,829,167.20*
2. Movements for 2009 (decrease marked by "-")	0.00	-431,115.08	0.00	10,276,491.25	92,488,421.29	102,333,797.46
(1) Net profit	0.00	0.00	0.00	0.00	102,764,912.54	102,764,912.54
(2) Other comprehensive income	0.00	-431,115.08	0.00	0.00	0.00	-431,115.08
1. Others	0.00	-431,115.08	0.00	0.00	0.00	-431,115.08
Sub-total of items (1) and (2)	0.00	-431,115.08	0.00	0.00	102,764,912.54	102,333,797.46
(3) Profit distribution	0.00	0.00	0.00	10,276,491.25	-10,276,491.25	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	10,276,491.25	-10,276,491.25	0.00
3. Balance as at 31 December 2009	469,053,689.00	88,305,594.17	0.00	58,889,869.76	168,913,811.73	785,162,964.66
4. Movements for 2010 (decrease marked by "-")	0.00	1,059,263.72	0.00	19,343,447.32	160,019,415,22	180,422,126.26
(1) Net profit	0.00	0.00	0.00	0.00	193,434,473.21	193,434,473.21
(2) Other comprehensive income	0.00	1,059,263.72	0.00	0.00	0.00	1,059,263.72
1. Effect of changes of other equity holders' interests in associates by the equity method	0.00	823,506.61	0.00	0.00	0.00	823,506.61
2. Others	0.00	235,757.11	0.00	0.00	0.00	235,757.11
Sub-total of items (1) and (2)	0.00	1,059,263.72	0.00	0.00	193,434,473.21	194,493,736.93
(3) Profit distribution	0.00	0.00	0.00	19,343,447.32	-33,415,057.99	-14,071,610.67
1. Appropriation to surplus reserves	0.00	0.00	0.00	19,343,447.32	-19,343,447.32	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	0.00	-14,071,610.67	-14,071,610.67
5. Balance as at 31 December 2010	469,053,689.00	89,364,857.89	0.00	78,233,317.08	328,933,226.95	965,585,090.92
6. Movements for 2011 (decrease marked by "-")	0.00	-80,331.78	0.00	24,475,863.38	196,830,086.00	221,225,617.60
(1) Net profit	0.00	0.00	0.00	0.00	244,758,633.83	244,758,633.83
(2) Other comprehensive income	0.00	-80,331.78	0.00	0.00	0.00	-80,331.78
2. Effect of changes of other equity holders' interests in associates by the equity method	0.00	-80,331.78	0.00	0.00	0.00	-80,331.78
Sub-total of items (1) and (2)	0.00	-80,331.78	0.00	0.00	244,758,633.83	244,678,302.05
(3) Profit distribution	0.00	0.00	0.00	24,475,863.38	-47,928,547.83	-23,452,684.45
1. Appropriation to surplus reserves	0.00	0.00	0.00	24,475,863.38	-24,475,863.38	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	0.00	-23,452,684.45	-23,452,684.45
7. Balance as at 31 December 2011	469,053,689.00	89,284,526.11	0.00	102,709,180.46	525,763,312.95	1,186,810,708.52

STATEMENT OF CHANGES IN EQUITY (continued)

Currency Unit: Renminbi yuan

	Equity attributable to BYS					
Items	**Share capital**	**Capital surplus**	**Treasury share (less)**	**Surplus reserve**	**Undistributed profits**	**Total shareholders' equity**
8. Movements for January 2012 to June 2012 (decrease marked with "-")	*0.00*	*-542,400.00*	*0.00*	*0.00*	*127,249,963.48*	*126,707,563.48*
(1) Net profit	0.00	0.00	0.00	0.00	153,047,916.38	153,047,916.38
(2) Other comprehensive income	0.00	-542,400.00	0.00	0.00	0.00	-542,400.00
1. Others	0.00	-542,400.00	0.00	0.00	0.00	-542,400.00
Sub-total of items (1) and (2)	0.00	-542,400.00	0.00	0.00	153,047,916.38	152,505,516.38
(3) Profit distribution to shareholders	0.00	0.00	0.00	0.00	-25,797,952.90	-25,797,952.90
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	0.00	-25,797,952.90	-25,797,952.90
9. Balance as at 30 June 2012	469,053,689.00	88,742,126.11	0.00	102,709,180.46	653,013,276.43	1,313,518,272.00
Note: Changes in equity for January 2011 to June 2011 (unaudited)	469,053,689.00	89,364,857.89	0.00	78,233,317.08	328,933,226.95	965,585,090.92
1. Balance as at 31 December 2010	0.00	0.00	0.00	0.00	74,499,722.51	74,499,722.51
(1) Net profit	0.00	0.00	0.00	0.00	97,952,406.96	97,952,406.96
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00
1. Net changes in fair value of available-for-sale financial assets	0.00	0.00	0.00	0.00	0.00	0.00
2. Effect of changes of other equity holders' interest in investees by the equity method	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of items (1) and (2)	0.00	0.00	0.00	0.00	97,952,406.96	97,952,406.96
(3) Profit distribution to shareholders	0.00	0.00	0.00	0.00	-23,452,684.45	-23,452,684.45
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00
2. Profit distribution to shareholders	0.00	0.00	0.00	0.00	-23,452,684.45	-23,452,684.45
3. Balance as at 30 June 2011	469,053,689.00	89,364,857.89	0.00	78,233,317.08	403,432,949.46	1,388,017,994.51

The accompanying notes form an integral part of these financial statements.

PART B. NOTES TO THE FINANCIAL INFORMATION

SECTION I. GENERAL INFORMATION

(I) History of BYS

BYS is a joint stock company with limited liability approved by Sui Gai Gu Zi [1992] No.11* (穗改股字[1992] 11號文) issued by the Guangzhou Municipal Commission for Restructuring the Economic Systems* (廣州市經濟體制改革委員會) in 1992 to establish based on the reorganization of five pharmaceutical manufacturers under the original Guangzhou Baiyunshan Enterprise Group Co., Ltd* (原廣州白雲山企業集團有限公司) including Guangzhou Baiyunshan Pharmaceutical General Factory* (廣州白雲山製藥總廠) and has been approved by Gai Sheng [1992] No.31* (改生 [1992] 31號文) issued by the State Commission for Restructuring the Economic Systems* (國家經濟體制改革委員會) as a standardized stock enterprise.

In 1993, BYS was approved by Zheng Jian Fa Shen Zi [1993] No.31* (證監發審字 [1993] 31號文) issued by China Securities Regulatory Commission ("CSRC") and Shen Zheng Suo Zi No.265* (深證所字第265號文) issued by the Shenzhen Stock Exchange to issue shares to the public which are listed and traded on the Shenzhen Stock Exchange with the stock code of 000522.

In November 2000, upon the approval by the municipal government of Guangzhou, Guangzhou Baiyunshan Enterprise Group Co., Ltd（廣州白雲山企業集團有限公司), BYS's original controlling shareholder, was firstly entrusted to and then reorganized by Guangzhou Pharmaceutical Holdings Limited ("GPHL"). On 2 July 2001, upon the approval by Cai Qi [2001] No.433* (財企 [2001] 433號文) issued by the Ministry of Finance of the PRC, the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal transferred the 108.9 million State-owned shares in BYS held by it to GPHL, which then became the largest shareholder of BYS.

In 2001, BYS conducted material restructuring in assets and liabilities. To repay the amount due from Guangzhou Baiyunshan Enterprise Group Co., Ltd（廣州白雲山企業集團有限公司）and its associate companies to BYS and complete the debt restructuring among the Company, China Great Wall Asset Management Corporation* (中國長城資產管理公司) ("Great Wall Corporation") and China Orient Asset Management Corporation* (中國東方資產管理公司) ("Orient Corporation"), GPHL injected 6 pharmaceutical manufacturers it owned, with valuation of net assets totaling RMB659.8738 million, into BYS, and swapped pledges with state-owned shares in GPC it held to release BYS's guarantee obligations. BYS transferred Guangzhou Yin Shan Construction Development Company* (廣州銀山建設開發公司 ("Yin Shan")) to Guangzhou Baiyunshan Enterprise Group Co., Ltd（廣州白雲山企業集團有限公司). Through this material restructuring in assets and liabilities, the liabilities of BYS was alleviated and most external guarantee risks were released. It also resulted in a change in structure of BYS, with the addition of 6 enterprises including Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司), Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司), Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.* (廣州白雲山僑光製藥有限公司), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), Guangzhou Baiyunshan Wei Cai Pharmaceutical Co., Ltd.* (廣州白雲山衛材製藥有限公司) and Guangzhou Baiyunshan Hejigong Pharmaceutical Factory* (廣州白雲山何濟公製藥有限公司), and the subsidiary, Yin Shan was diverted from BYS.

In May 2004, under judgment of the Beijing First Intermediate People's Court, Guangzhou Baiyunshan Enterprise Group Co., Ltd（廣州白雲山企業集團有限公司）repaid the outstanding loan from GPHL with 57 million (out of 99 million) State-owned shares in BYS held by it. As such, shares of BYS held by GPHL increased to 165.9 million shares, representing 35.37% of the total share capital (after the reform of shareholder structure) and GPHL continued to be the largest shareholder of BYS.

Pursuant to the resolutions passed in its first extraordinary general meeting in 2005 and the requirements of its articles of association as amended, BYS, based on the then outstanding 156,544,355.00 shares and the ratio of 6.05 shares for every 10 shares, from its capital reserve issued 94,709,334.00 shares to all shareholders whose names appeared on the register on the record date. Upon the completion of shareholder structure reform on 17 April 2006, the total share capital of BYS increased from 374,344,355.00 shares to 469,053,689.00 shares.

On 10 December 2007, under civil judgment Sui Zhong Fa Zhi Zi [2003] No.000908-Hui Zi No. 1* ((2003) 穗中法執字第000908號恢字1號) of the Guangzhou Municipal Intermediate People's Court of Guangdong Province, 42 million shares of BYS held by Guangzhou Baiyunshan Enterprise Group Co., Ltd（廣州白雲山企業集團有限公司), the second largest shareholder of BYS, representing 8.95% by the total share capital, was put to auction and successfully bid by an individual, Jiang Fei* (蔣菲). Such transfer was completed on 19 December 2007. Jiang Fei sold her shares without restriction on the Shenzhen Stock Exchange, where she, in July 2008, reduced her shareholdings by 4,493,600 shares, representing 0.96% of the total share capital on the secondary market; reduced her shareholdings by 20,000,000 shares, representing 4.26% of the total capital through block deals platform with the counterparty of Shanghai Chongyang Investment Management Co., Ltd.* (上海重陽投資有限公司); in September 2008, reduced her shareholdings by 4,452,528 shares, representing 0.949% of the total share capital on the secondary market; in January 2009, reduced her shareholdings by 4,438,872 shares in BYS, representing 0.946% of the total share capital by way of centralised bidding; from 10 February to 11 March 2009, reduced her shareholdings by 4,935,332 shares in BYS, representing 1.052% of the total share capital by way of centralised bidding; as of 16 June 2009, Jiang Fei reduced her remaining shareholding to nil.

On 22 September 2008, GPHL's shareholding in BYS increased by 1 million shares, representing 0.21% of BYS's total share capital, following which GPHL held 166.90 million shares of BYS, representing 35.58% of BYS's total share capital.

(II) Nature of Industry of BYS: Pharmaceuticals manufacturing.

(III) Principal activities of BYS: Research, manufacture and sales of Chinese and Western medicine, chemical medicine raw materials, medicine for external use, child medicine and health medicine; commerce and materials supply and sales (except for state-operated & controlled products); providing securities investments, property development, product development and technology improvement and information consulting service; computer software development; real estate agency service; information service; technology service; operating and acting as agent for the import and export of various types of goods and technology(excluding commodities and technology limited to companies designated by the State for operation or prohibited from import and export (commodities list for import and export is not enclosed)); processing of incoming materials and operating of "three categories of processing and one category of compensation" business; counter trade and re-export trade. Manufacture of type II clinical testing and analytical apparatus and diagnosis reagent, type II medical sanitary materials and dressings (operated by specific branches only). Type II medical sanitary materials and dressings; Medical cold therapeutic, low-temperature and refrigeration equipment and apparatus (operated by specific branches only); Manufacture and sales of special nutritional food (operated by specific branches only); Manufacture and sales of beverage (excluding nutritional food and operated by specific branches only); Manufacture of skin care cosmetics (operated by specific branches only); general cargo transport.

Business License No. of BYS: 440101000121121; registered address: No. 88 Yunxiang Road, Tonghe Street, Baiyun District, Guangzhou; Headquarters address: No. 88 Yunxiang Road, Tonghe Street, Baiyun District, Guangzhou.

The parent company of BYS is GPHL, and its beneficial owner is State-owned Assets Supervision & Administration Commission of Guangzhou City.

SECTION II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS OF BYS AND ITS SUBSIDIARIES AND BYS

1. Basis of preparation of financial statements

The financial statements of BYS and its subsidiaries have been prepared on a going concern basis and based on the actual transactions and matters occurred; in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as the "Accounting Standards for Business Enterprises" or "CAS"), meanwhile in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

2. Statement of compliance with Accounting Standards for Business Enterprises

The financial statements of BYS and its subsidiaries have been prepared in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of BYS and its subsidiaries, operating results, changes in equity and cash flow and other related information for the Reporting Periods.

3. Accounting period

The accounting year of BYS and its subsidiaries is from 1 January to 31 December of each calendar year.

4. Reporting currency

The reporting currency of BYS and its subsidiaries is Renminbi ("RMB").

5. Accounting treatments for business combinations involving entities under and not under common control

(1) Business combinations involving entities under common control

The assets and liabilities acquired by BYS and its subsidiaries in business combination shall be measured at the carrying value of the acquiree on the date of combination. If there is an inconsistency between the accounting policies adopted by the acquirees and those of BYS and its subsidiaries, the adjustment will be made by BYS and its subsidiaries according to BYS's accounting policies at the date of the combination, and the adjusted carrying value will be recognized on this basis.

The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital premium in capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

The direct expenses incurred in business combination, including the audit fee, appraisal fee and legal service fee paid by BYS and its subsidiaries in connection with business combination shall be charged to the profit or loss when incurred.

The administrative charges and commission incurred upon issuance of equity securities in business combination shall be offset against the premium income from equity securities. If such amount cannot be offset by premium income, it shall be adjusted in retained earnings.

(2) Business combinations involving entities not under common control

The assets paid and liabilities incurred or committed as a consideration of business combination by BYS and its subsidiaries were measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be charged to the profit or loss for the period.

BYS and its subsidiaries shall allocate the cost of combination on the date of acquisition and recognize the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the acquiree.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, BYS and its subsidiaries shall recognize such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to the profit or loss for the period after review.

As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into BYS and its subsidiaries and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; if the fair value of any intangible asset can be measured reliably, it shall be separately recognized as an intangible asset and shall be measured in light of its fair value; as for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations are likely to result in any out-flow of economic benefits from BYS and its subsidiaries, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; as for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall separately recognized as liabilities and shall be measured in light of their fair values.

In a business combination, the acquiree's deductible temporary differences obtained by BYS and its subsidiaries are not recognized if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets on the date of acquisition. BYS and its subsidiaries recognizes the relevant deferred tax assets and reduces goodwill accordingly if within 12 months of the acquisition date, new or updated information indicates that on the date of combination, the obtained deferred tax benefit is expected to be realized in future periods. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognized in profit or loss for the current period. All other acquired deferred tax assets shall be charged to profit or loss for the current period.

For business combinations involving entities not under common control, the agency fee paid by the acquirer such as audit, legal service and evaluation consultation and other management fees shall be recognized as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued by the acquirer as the combination consideration shall be included in the amount of initial recognition of the equity securities or debt securities.

6. Preparation of consolidated financial statements

The scope of consolidation of the consolidated financial statements of BYS and its subsidiaries is based on controlling interests, and all the subsidiaries are included in the consolidated financial statements.

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of BYS and its subsidiaries. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between BYS and its subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of BYS and its subsidiaries. For subsidiaries acquired from a business combination involving entities not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets on the date of combination. Based on the financial statements of BYS and its subsidiaries, the consolidated financial statements are prepared by BYS according to other relevant information and after the long-term equity investments in the subsidiaries are adjusted in accordance with the equity method.

When consolidating the financial statements, the effects of intra-transactions between BYS and its subsidiaries, and among subsidiaries on the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity shall be offset.

Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the excess is allocated against the shareholders' interest if the articles of association or agreement do not provide that minority shareholders have the obligation to undertake; otherwise, the excess is allocated against minority shareholders interest.

For acquisition of subsidiaries due to business combination involving entities under common control during the Reporting Period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries from the beginning to the end of the Reporting Period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries from the beginning to the end of the Reporting Period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the consolidated reporting entity had been in existence since prior periods.

For acquisition of subsidiaries due to business combination involving entities not under common control, the opening balance of consolidated balance sheet needs not adjustment; the revenue, expense and profit of such subsidiaries from the date of acquisition to the end of the Reporting Period are included in the consolidated income statement; the cash flows of such subsidiaries from the date of acquisition to the end of the Reporting

Period are included in the consolidated cash flow statement. In a business combination involving entities not under common control achieved in stages, BYS and its subsidiaries remeasures its previously held equity interest in the acquiree on the acquisition date in light of the fair value of such equity interest on the date of acquisition. The difference between the fair value and the carrying value is recognized as investment income for the period. If other comprehensive income was recognized regarding the equity interest previously held in the acquiree before the acquisition date, the relevant other comprehensive income is transferred to investment income in the period in which the acquisition occurs.

For disposal of subsidiaries by BYS and its subsidiaries during the Reporting Period, the revenue, expense and profit of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated cash flow statement. Where control of a subsidiary is lost due to partial disposal of the equity investment held in a subsidiary, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the fair value of BYS and its subsidiaries' previous share of the subsidiary's net assets recorded from the acquisition date, is recognized in investment income in the period in which control is lost. Other comprehensive income related to the previous equity investment in the subsidiary, is transferred to investment income when control is lost.

Where BYS and its subsidiaries acquired a minority interest, the difference between the newly acquired long-term equity investments and the newly acquired share of the subsidiary's identifiable net assets is adjusted to the capital reserve within the capital premium in the consolidated balance sheet. Where BYS and its subsidiaries partially disposed an investment of a subsidiary that do not result in a loss of control, the difference between the proceeds and the corresponding share of the net assets of the subsidiary is adjusted to the capital reserve within the capital premium in the consolidated balance sheet. If the capital premium of the capital reserve is insufficient, any excess is adjusted to retained profits.

There are no significant differences between the accounting policies and accounting treatment adopted by the parent company and by the subsidiaries.

7. Cash and cash equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of BYS and its subsidiaries are recognized as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value change are recognized as cash equivalents.

8. Foreign currency transactions and translation of foreign currency financial statements

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange differences are recognized in profit or loss for the current period, except for those differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, construction or production of the qualified assets, which should be capitalized as cost of the assets. Foreign currency non-monetary items measured in historic cost shall still be translated using the spot exchange rate when the transaction occurred, and do not change the RMB amount. Foreign currency non-monetary items measured in fair value shall be translated using the spot exchange rate at the date when the fair value was determined. Exchange differences arising from the differences of exchange rate are included in profit or loss or capital reserve for the current period.

9. Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

(1) Classification of the financial instruments

① According to the purposes of acquisition and holding of financial assets, BYS and its subsidiaries classifies the financial instruments as: financial assets carried at fair value through profit or loss for the current period, including financial assets for trading; held-to-maturity investments; accounts receivable; available-for-sale financial assets.

② BYS and its subsidiaries classifies the financial liabilities held as financial liabilities carried at fair value through profit or loss for the current period and other financial liabilities.

③ A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

(I) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognizing the gains and losses on them on different bases;

(II) It applies to a group of financial assets, financial liabilities or financial assets and liabilities which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial assets is provided internally on that basis to key management personnel.

These financial assets and financial liabilities are managed on a fair value basis, and the relevant management data in the internal report to the management is also on fair value basis.

(2) Recognition and measurement of financial assets and financial liabilities

① *Financial assets or financial liabilities carried at fair value through profit or loss for the current period*

When obtained, the financial assets or financial liabilities shall be initially measured at their fair value (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn), its transaction costs are included in the profit or loss for the period.

The interest or cash dividend which was gained in the period are recognized as investment income. At the balance sheet date, the variation in the fair value of the financial asset or financial liability shall be included in the profit or loss for the period.

When the said financial assets or financial liabilities are on disposal, the difference between the fair value and the amount of initial recognition shall be recognized as investment income; meanwhile, the profits and losses arising from the variation in fair value shall be adjusted.

② *Held-to-maturity investments*

Held-to-maturity investments are initially measured at fair value when obtained (except for interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

Interest income is calculated according to the amortized cost and effective interest rate (If the difference between the effective interest rate and the coupon rate is small, the coupon rate will be used) and recorded into investment income. The effective interest rate, ascertained when initially obtained, shall remain unchanged within the predicted term of existence or within a shorter applicable term.

When disposed, the difference between the consideration obtained and the carrying amount of the investment shall be recorded into investment income.

③ *Accounts receivable*

The receivables that are formed in sale of goods or rendering of services to external parties, and the receivables, except for the debt instruments quoted in an active market, due to BYS and its subsidiaries from other entities, including accounts receivable, other receivables, prepayments, etc., are initially recognized at the consideration of the contract or agreement to be received from the buyers.

Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

④ *Available-for-sale financial assets*

Available-for-sale financial assets are initially measured at fair value when obtained (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

The interests or cash dividends to be obtained during the period the available-for sale financial assets are held shall be recorded into investment income. By the end of the period, financial assets are measured at fair value, and the change in fair value shall be recorded into capital reserves (other capital reserves).

When disposed of, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment income; meanwhile, the corresponding portion of accumulated change in fair value previously recorded into owners' equity shall be transferred to profit or loss.

⑤ *Other financial liabilities*

Other financial liabilities are initially measured at fair value plus relevant transaction costs, and subsequently measured at amortized cost.

(3) Recognition and measurement of transfer of financial assets

A financial asset shall be derecognized while BYS and its subsidiaries has transferred nearly all the risks and rewards related to the ownership of the financial asset to the transferee, and it shall not be derecognized if BYS and its subsidiaries has retained nearly all the risks and rewards related to the ownerships of the financial asset.

The substance-over-form principle shall be adopted while making a judgment on whether the transfer of financial assets satisfies the above conditions for termination of recognition. The transfer of financial assets by BYS and its subsidiaries could be classified into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for termination of recognition, the difference between the two amounts below shall be recorded into profit or loss for the period:

① The carrying amount of the financial asset transferred;

② The consideration received as a result of the transfer, plus the accumulative amount of the change in fair value previously recorded into the owners' equities (in cases where the transferred financial asset is available-for-sale financial asset).

If the partial transfer of financial assets satisfies the conditions for termination of recognition, the overall carrying amount of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognized part and the remaining part (in this case, the remaining service assets are deemed to be part of the remaining financial assets), and the difference between the two amounts below shall be recorded into profit or loss for the current period:

① The carrying amount of the derecognized part;

② The sum of consideration of the derecognized portion and the corresponding portion of accumulated change in fair value previously recorded into owners' equity (in cases where the transferred financial assets are available-for-sale financial assets).

Financial assets will still be recognized if they fail to satisfy the conditions for termination of recognition, with the consideration received recognized as a financial liability.

(4) Conditions for derecognition of financial liabilities

When the current obligation under a financial liability is completely or partially discharged, the whole or relevant portion of the liability is derecognized; an agreement is entered between BYS and its subsidiaries and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognize the original financial liabilities as well as recognize the new financial liabilities.

If all or part of the contract terms of the original financial liabilities are substantially amended, the original financial liabilities will be derecognized in full or in part, and the financial liabilities whose terms have been amended shall be recognized as a new financial liability.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Where BYS and its subsidiaries repurchases part of its financial liabilities, the carrying amount of such financial liabilities will be allocated according to the relative fair value between the continued recognized part and derecognized part on the repurchase date. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

(5) Method of determining the fair values of financial assets and liabilities

All the financial assets and liabilities measured at fair value of BYS and its subsidiaries refer to the quotation in an active market.

(6) Impairment provision of financial assets (excluding accounts receivable)

BYS and its subsidiaries shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, BYS and its subsidiaries shall make provision of any impairment.

① Impairment provision for available-for-sale financial asset:

While the fair value of available-for-sale financial asset falls significantly, or judged by BYS and its subsidiaries that descending trend is not temporary after taking into account related data comprehensively at the end of the period, they will be recognized as impaired, the cumulative loss arising from decline in fair value that had been recognized directly in the owner's equity shall be removed from the owner's equity and recognized in the profit or loss.

② Impairment provision for held-to-maturity investments:

The measurement of the impairment loss for held-to-maturity investments shall be treated with reference to that for the accounts receivable.

10. Provision of bad debts for accounts receivable

If there is objective evidence that the accounts receivable is impaired at the end of the period, its carrying amount shall be written down the recoverable amount. The written-down amount is recognized as asset impairment loss, and will be included in the profit or loss of the current period. The recoverable amount is determined by discounting its expected future cash flow (excluding the credit loss not incurred) at the original effective interest rate taking into account the value of the collateral (net of the expected disposal expenses). The original effective interest rate is the one calculated and determined at the initial recognition of such accounts receivable. For the short-term accounts receivable, the difference between the expected future cash flow and its present value is very small, so its expected future cash flow will not be discounted in determining the relevant impairment loss.

(1) Recognition standard and method of provision of bad debts for accounts receivable that are individually significant and subject to separate provision:

Individually significant accounts receivable: accounts receivable whose individual amount accounts for more than 10% of the total accounts receivable, and is subject to separate provision after impairment test.

At the end of the period, individually significant accounts receivable (including accounts receivable, notes receivable, advances to suppliers and other receivables) are subject to separate impairment test, and if there is objective evidence that they are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount.

(2) Recognition standard and method of provision of bad debts for accounts receivable that are subject to provision by groups:

Accounts receivable that are subject to provision by groups: accounts receivable which has significant or insignificant amount and is not subject to separate provision after impairment test.

Method of provision of bad debts for accounts receivable that are subject to provision by groups: The provision for bad debts are determined based on the aging groups and included in the profit or loss of the current period.

Where aging analysis method is used for provision of bad debts:

Aging	**Provision ratios**
Within 1 year (including 1 year)	1%
1 to 2 years (including 2 years)	10%
2 to 3 years (including 3 years)	30%
3 to 4 years (including 4 years)	50%
4 to 5 years (including 5 years)	80%
Over 5 years	100%

Method of provision of bad debts for other receivables that are subject to provision by groups: At the end of the period, bad debts will be provided for at 6% of the ending balance for other receivables that are subject to provision by groups after deducting amounts due from the related parties, and included in the profit or loss of the current period.

(3) Accounts receivable which are individually insignificant but subject to separate provision: for individually insignificant accounts receivable, if there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount.

11. Inventories

i. Classification of inventories

Inventories include raw materials, self-made semi-products, packaging materials, finished goods, work in progress, low-value consumables, goods in-stock and goods in processing contract, etc.

ii. Cost of inventories

Cost of inventories is determined using the weighted average method.

iii. Basis for the determination of net realizable value and the method of provisions for impairment of inventories

At the end of the period, after a thorough inspection of the inventories, provision for decline in value of inventories will be made and adjusted at the lower of the cost and the net realizable value.

Net realizable value of held-for-sale commodity stocks, such as finished goods, goods in-stock, and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated sales less the related selling expenses and taxes; the net realizable value of material inventories, which need to be processed, during the normal course of production and operation, shall be determined by the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

Decline in value of inventories is made on an item-by-item basis at the end of the period. For large quantity and low value items of inventories, provision may be made based on categories of inventories; for items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicable evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

Where the influencing factors that resulted in writing down the value of the inventories disappear, the written-down amount will be restored, and reversed in the amount of provision in the decline of value of the inventories. The reversed amount will be included in the profit or loss of the current period.

iv. Inventory system

BYS and its subsidiaries adopted the perpetual inventory system.

v. Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

12. Long-term equity investments

i. Initial Recognition

① *Long-term equity investments formed through business combination of entities*

For business combinations involving entities under common control: where BYS and its subsidiaries pays cash, transfers non-cash assets, bear debts or issue equity securities as consideration of combinations, the initial investment cost of long-term equity investments are the share with reference to the book value of the shareholders' equity of the acquiree on the date of combinations. Capital premium within the capital reserve is adjusted by differences between initial investment cost of long term equity investments and the considerations paid; amounts that cannot be sufficiently released by the capital premium in the capital reserve serve the purpose of adjusting retained earnings. The direct expenses incurred in business combination, including the audit fee, appraisal fee and legal service fee paid in connection with business combination shall be charged to the profit or loss for the current period when incurred.

Business combinations involving entities not under common control: the cost of the combination paid by BYS and its subsidiaries ascertained on the date of acquisition shall be taken as the initial investment cost of the long-term equity investments. The cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer to be paid by the acquirer, in exchange for control of the acquire. The agency fee such as audit, legal service and evaluation consultation and other management fees incurred by the acquirer for the business combination shall be charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial costs. When the business combination is achieved in stages through a number of exchange transactions, the aggregate of the book value of the previously held equity interest in the acquiree before the acquisition date and the new investment cost on the date of acquisition, shall be taken as the initial investment cost of the long-term equity investments. Where BYS and its subsidiaries regards the contingent consideration agreed in the combination agreement as part of the consideration of the transfer in business combinations, such contingent consideration shall be included in the cost of business combinations at its fair value on the date of acquisition.

② *Long-term equity investments acquired by other means*

The initial cost of investment of a long-term equity investment obtained by BYS and its subsidiaries by cash payment shall be the purchase cost which is actually paid.

The initial cost of investment of a long-term equity investment obtained by BYS and its subsidiaries by means of issuance of equity securities shall be the fair value of the equity securities issued.

The initial cost of investment of a long-term equity investment contributed by the investors shall be the value stipulated in the investment contract or agreement (except for cash dividends or profits which are declared but not distributed) except for cases where the value stipulated in the contract or agreement is not fair.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the initial cost of investment of a long-term equity investment received under the non-monetary assets transaction shall be determined on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the initial cost of investment of a long-term equity investment received shall be the book value of the assets surrendered and the relevant taxes and expenses payable.

The initial cost of investment of a long-term equity investment obtained by BYS and its subsidiaries through debt restructurings shall be ascertained based on their fair value.

ii. Subsequent measurement and recognition of profit or loss

① *Subsequent measurement*

Long-term equity investment in subsidiaries of BYS and its subsidiaries is accounted for by cost method, subject to adjustment pursuant to equity method during preparation of the combined financial statement.

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured.

Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets, the difference shall be charged to profit or loss for the current period.

Treatment of the changes in owners' equity other than the share of the investee's net profit and loss: As for the changes in owners' equity other than the share of the investee's net profit and loss, BYS and its subsidiaries shall calculate its proportion, provided that BYS and its subsidiaries' proportion of shareholding in the investee remains unchanged, adjust the book value of the long-term equity investment and increase or decrease the capital reserve (other capital reserve).

② *Recognition of profit or loss*

Under the cost method, except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains is recognized as BYS and its subsidiaries' shares of the cash dividends or profits declared by the investee.

Under the equity method, on the basis of the carrying amount of net profits of the investees, the following will be considered: Where the accounting policies and accounting periods of the investees are inconsistent with those adopted by BYS and its subsidiaries, the financial statements of the investees shall be adjusted according to BYS and its subsidiaries accounting policies and accounting periods; the effects of the amount of depletion or amortization or the relevant assets impairment provision provided based on the fair values of fixed assets or intangible assets of the investees when acquiring the investment; appropriate adjustments are made to the matters, such as offsetting the unrealized inter-transactions occurred between BYS and its subsidiaries and associates and jointly controlled entities, BYS and its subsidiaries' share of net profits or losses in the investees shall be recognized.

In recognizing BYS and its subsidiaries' share of losses incurred by the investees, treatment shall be made in the following order: First, to reduce the carrying amount of the long-term equity investment. Second, where the carrying amount of the long-term equity investment is not sufficient to reduce, the investment loss shall continue to be recognized to the extent of the carrying amount of other long-term equities that in substance constitute the net investment in the investees, and reduce the carrying amount of long-term receivables and other items. Finally, after the above treatments, where the enterprise still bears additional obligations as stipulated in the investment contract or agreement, the expected liabilities shall be recognized based on the obligations expected to be undertaken, and charged to the profit or loss for the current period. Where the investees realize profits in subsequent periods, after deducting its share of unrecognized losses, BYS and its subsidiaries shall treat in a reverse order with the above: write down the carrying amount of expected liabilities expected, restore the carrying amount of other long-term equities that in substance constitute the net investment in the investees and long-term equity investment, and recognize investment income simultaneously.

During the period the investments are held, where the investees were able to provide consolidated financial statements, accounting shall be made based on the net profits or changes in other equities in the consolidated financial statements.

iii. Basis for determination of joint control and significant influence over the investees

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the significant financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Where the investor can jointly control over the investee with other parties, the investee is joint venture of the investor and the said parties.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the investor can exercise significant influence over the investee, the investee is an associate of the investor.

iv. Impairment test method and impairment provision

Where a long-term equity investment is of below significant influence and is not quoted in an active market and its fair value cannot be reliably measured, its impairment loss shall be determined based on the difference between its carrying amount and the present value determined by discounting its future cash flows at a the prevailing market yield for similar financial assets.

For other long-term equity investments for which there are any indicators of impairment other than the goodwill arising from the business combinations, if the results of the measurement of the recoverable amount indicate the recoverable amount of such long-term equity investment is lower than its carrying amount, such difference shall be recognized as impairment loss.

Once the impairment loss for the long-term equity investment is recognized, it shall not be reversed.

13. Investment properties

i. Types of investment properties

Investment property is property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out; a land use right held for transfer upon capital appreciation; and a building (including the self-constructed or developed building for lease or the building which is being constructed or developed for future lease) that is leased out.

ii. Model of measurement for investment properties

Investment properties are initially measured at cost upon acquisition.

On the balance sheet date, the fair value model was adopted for the subsequent measurement of the investment properties. No depreciation or amortization is provided for the investment properties, and the carrying amount of the investment properties will be adjusted based on their value on the balance sheet date. The difference between the fair value and the cost shall be included in the profit or loss of the current period.

The fair value model of measurement will be adopted for the investment properties of BYS and its subsidiaries when the following conditions are satisfied:

① there are active real estate markets where the investment properties locate;

② market price and related information of similar properties are available in the real estate market, and therefore reasonable estimation about the fair value of the investment properties can be made.

14. Fixed assets

i. Initial recognition

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one year. Fixed asset is recognized when it meets the following conditions:

① it is probable that the economic benefits associated with the fixed asset will flow to BYS and its subsidiaries;

② and its cost can be reliably measured.

ii. Types of fixed assets

The fixed assets include buildings, machinery equipment, transportation equipment, electronic equipment and other equipment.

iii. Initial measurement of fixed assets

① Fixed assets are initially measured at actual cost upon acquisition;

② The costs of an externally purchased fixed asset include the purchase price, relevant taxes and expenses paid, and freights, loading and unloading fees, professional service fees and other expenses attributable to putting the asset into condition for its intended use.

If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the fixed assets shall be ascertained based on the present value of the purchase price.

③ The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.

④ The amount of fixed assets acquired from debt restructuring should be recorded at the fair value of such fixed assets, and the difference between the carrying amount of the restructured debt and the fair value of the fixed assets acquired from debt restructuring should be included in the profit or loss for the current period.

⑤ If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the fixed assets received shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; for non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognized.

⑥ The fixed assets acquired in the business combinations involving entities under common control by way of absorption shall be recorded at the carrying amount of the acquiree; and the fixed assets acquired in the business combinations involving entities not under common control by way of absorption shall be recorded at its fair value.

iv. Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values.

Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

The estimated useful lives and the annual depreciation rates of fixed assets are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings			
General buildings for production	30-50 years	3%	3.23%-1.94%
Corroded plant	20 years	3%	4.85%
Heavily corroded plant	10 years	3%	9.7%
Buildings not for production or operation	40-50 years	3%	2.425%-1.94%
Other buildings	20 years	3%	4.85%
Machinery equipment and general testing meters and equipment	10 years	3%	9.7%
Motor vehicles	10 years	3%	9.7%
Electronic equipment	5 years	3%	19.4%
Renovation on fixed assets	5 years	0%	20%
Other equipment	5 years	3%	19.4%

If provision for impairment of fixed assets has been provided in a full amount, no depreciation shall be made.

For fixed assets accrued with provision for impairment, depreciation rate and depreciation amount should be recomputed at the book amount of fixed assets and their useful years.

v. Impairment testing methods and provision for impairment methods on fixed assets

BYS and its subsidiaries will judge if there is any indication of impairment as at the end of each period in respect of fixed assets.

If there is any indication that a fixed asset may be impaired, recoverable amount shall be estimated. The recoverable amount of a fixed asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the fixed asset.

If the recoverable amount of a fixed asset is less than its carrying amount, the carrying amount of the fixed asset will be reduced to its recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on fixed assets will be provided for.

After the impairment loss for the fixed asset is recognized, corresponding adjustment will be made to the depreciation of the impaired fixed asset in subsequent periods, so as to amortize systematically the adjusted carrying amount (net of estimated net residual value) of the fixed asset over its remaining useful lives.

Once an impairment loss is made for a fixed asset, it shall not be reversed.

Where there is any indication that a fixed asset may be impaired, the recoverable amount of a fixed asset will be assessed by BYS and its subsidiaries on an individual basis. If assessment of the recoverable amount for individual assets is difficult, the recoverable amount of an asset group will be determined based on the asset group to which the asset belongs.

15. Construction in progress

i. Types of constructions in progress

Constructions in progress are accounted for by individual projects.

ii. Criteria and timing for construction in progress being transferred to the fixed asset

Construction in progress is measured at all the expenditures incurred to bring the fixed assets ready for their intended use. If the construction in progress fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and depreciation should be provided according to deprecation policy for fixed assets of BYS and its subsidiaries from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the depreciation charge will not be adjusted.

iii. Impairment testing methods and provision for impairment methods on construction in progress

BYS and its subsidiaries will judge if there is any indication of impairment as at the end of each period in respect of construction in progress.

Where there is any indication that construction in progress may be impaired, its recoverable amount will be assessed. Where there is any indication that a construction in progress may be impaired, the recoverable amount of the construction in progress will be assessed by BYS and its subsidiaries on an individual basis. If assessment of the recoverable amount for individual constructions in progress is difficult, the recoverable amount of a construction in progress will be determined based on the asset group to which the construction in progress belongs.

The recoverable amount of a construction in progress is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the construction in progress.

If the recoverable amount of a construction in progress is less than its carrying amount, the carrying amount of the construction in progress will be reduced to its recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on the construction in progress will be provided for.

Once an impairment loss is made for a construction in progress, it shall not be reversed.

16. Borrowing costs

i. Criteria for recognition of capitalized borrowing costs

Borrowing costs refers to the interests incurred on borrowings, amortization of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings, etc.

For borrowing costs incurred by BYS and its subsidiaries that are directly attributable to the acquisition, construction or production of assets qualified for capitalization, the costs will be capitalized and included in the costs of the related assets. Other borrowing costs shall be recognized as expense in the period in which they are incurred and included in profit or loss for the current period.

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 begins when the following three conditions are fully satisfied:

① expenditures for the assets (including cash paid, transferred non-currency assets or holding debt liability for the acquisition, construction or production of assets qualified for capitalization) have been incurred;

② borrowing costs have been incurred;

③ acquisition, construction or production that are necessary to enable the asset to reach its intended usable or saleable condition have commenced.

ii. Capitalization period of borrowing costs

The capitalization period shall refer to the period between the commencement and the cessation of capitalization of borrowing costs, excluding the period in which capitalization of borrowing costs is temporarily suspended.

Capitalization of borrowing costs shall be suspended during periods in which the qualifying asset under acquisition and construction or production ready for the intended use or sale.

If part of an asset being acquired, constructed or produced has been completed respectively and put into use individually, capitalization of such part of borrowing costs should be suspended.

If different parts of the assets acquired, constructed or produced are completed separately, but such asset will not be ready for the intended use or sale until all parts have been completed, then the borrowing costs will be capitalized until the completion of all parts of the said asset.

iii. Suspension of capitalization period

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; if the interruption is a necessary step for making the qualifying asset under acquisition, construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as profits and losses of the current period, until the acquisition, construction or production of the asset resumes.

iv. Calculation of capitalization of borrowing costs

For borrowings specifically for acquisition, construction or production of qualifying asset, capitalization of such borrowings are measured as actual borrowings incurred in the period less the interest income earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

For general borrowings occupied for acquisition, construction or production of qualifying asset, interests on such borrowings to be capitalized are measured as weighted average of the excess of accumulated assets expenditure over specific borrowings multiplied by capitalization rate of the general borrowings occupied, where the capitalization rate is the weighted average interest rate of the general borrowings.

Where there is any discount or premium for the borrowings, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined based on the effective interest method and an adjustment shall be made to the amount of interests in each period.

17. Intangible assets

i. Valuation method of intangible assets

Intangible assets are initially measured at cost upon acquisition;

① The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

② The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period.

③ If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; for non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognized.

④ The intangible assets acquired in the business combinations involving entities under common control by way of absorption shall be recorded at the carrying amount of the acquiree; and the intangible assets acquired in the business combinations involving entities not under common control by way of absorption shall be recorded at its fair value.

⑤ The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

Subsequent measurement

① BYS and its subsidiaries shall analyse and judge the useful life of intangible assets upon acquisition.

② The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period;

ii. Useful life and amortization of intangible assets

① Estimated useful lives for the intangible assets with finite useful life:

BYS and its subsidiaries shall analyse and judge the useful life of intangible assets upon acquisition. As for the intangible assets with a finite useful life, years of its useful life, or the amount of the output or any other similar measurement unit shall be estimated. For an intangible asset with a finite useful life, review on its useful life and amortization method is performed at each period-end.

During the Reporting Period, the intangible assets with finite useful lives of BYS and its subsidiaries include land use rights, industrial property and patent technology, and non-patent technology, and the trademark of an individual product.

Upon review, useful life and amortization method for the intangible assets are no different from the previous estimate at the end of this period.

② Judgement basis for the intangible assets with indefinite useful lives:

BYS and its subsidiaries has Baiyunshan trademark and product trademark, including 大神, and BYS and its subsidiaries is of the view that such trademark will be used and bring the expected inflow of economic benefits in the foreseeable future, therefore, its useful life is indefinite.

Upon review, the useful life of such intangible assets remains indefinite.

③ Amortization of intangible assets:

As for intangible assets with a definite useful life, they are amortized using the straight-line method over the term in which economic benefits are brought to BYS and its subsidiaries; If the term in which economic benefits are brought to BYS and its subsidiaries by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortized.

The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

Internal research and development costs will be firstly accumulated in the "research and development expenditure" when incurred, expensed expenditures will be transferred to "general and administrative fee" at the end of the period, and will be transferred to "intangible assets" where they reach the intended use and form intangible assets.

iii. Impairment provision for intangible assets

For the intangible assets with finite useful life, if there is an obvious sign of impairment, an impairment test will be conducted at the period-end.

For the goodwill arising from the business combinations and the intangible assets with indefinite useful life, an impairment test will be conducted at each period-end.

An impairment test is conducted for the intangible assets to estimate its recoverable amount. Where there is any indication that an intangible asset may be impaired, the recoverable amount of an intangible asset will be assessed by BYS and its subsidiaries on an individual basis. If assessment of the recoverable amount for individual assets is difficult, the recoverable amount of an asset group will be determined based on the asset group to which the intangible asset belongs.

The recoverable amount of an intangible asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the intangible asset.

If the recoverable amount of an intangible asset is less than its carrying amount, the carrying amount of the fixed asset will be reduced to its recoverable amount. The written-down amount will be recognized as impairment loss of the intangible assets and included in profit and loss for the period and the corresponding impairment loss on intangible asset will be provided for.

After the impairment loss for the intangible asset is recognized, the corresponding adjustment will be made to the depreciation or amortization costs of the impaired intangible asset in subsequent periods, so as to amortize systematically the adjusted carrying amount (net of estimated net residual value) of the intangible asset over its remaining useful lives.

Once the impairment loss is recognized for an intangible asset, it will not be reversed.

iv. Specific criteria for the division of research phase and development phase for internal research and development projects of the Company

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase.

Research phase: Scheduled innovative investigations and research activities to obtain and understand scientific or technological knowledge.

Development phase: Application of the research outcomes or other knowledge to a plan or design prior to a commercial production or use in order to produce new or essentially-improved materials, devises, products, etc.

v. Specific criteria for development phase qualified for capitalization

The expenses in the development phase for internal research and development projects are recognized as intangible assets if the following conditions are fulfilled:

① it is technically feasible to complete such intangible asset so that it will be available for use or for sale;

② there is intention to complete the intangible asset for use or sale;

③ the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;

④ there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;

⑤ the expenses attributable to the development stage of the intangible asset can be measured reliably.

18. Long-term prepaid expenses

Long-term prepaid expenses are expenditures and other expenses which have occurred but will benefit over 1 year and shall be amortized over the current period and subsequent periods.

Long-term prepaid expenses are amortized evenly over the estimated benefit period, of which:

(1) Rental for the operating leases rent-in fixed assets prepaid shall be amortized evenly over the term of the leasing contract.

(2) Expenses for the operating leases rent-in fixed assets innovation shall be amortized evenly over the shorter of the remaining lease term and the remaining useful life of the lease assets.

19. Provisions

When BYS and its subsidiaries is involved in litigations, guarantees provided to debts, onerous contracts or restructuring which are likely to require to deliver assets or to provide labour in the future and whose amounts can be measured reliably, provisions will be recognized.

i. Recognition criteria for provisions

BYS and its subsidiaries shall recognize the obligations related to contingencies as provisions, when all of the following conditions are satisfied:

Liabilities shall be recognized when the obligations related to contingencies satisfy all of the following conditions:

① the obligation is a present obligation of BYS and its subsidiaries;

② it is probable that an outflow of economic benefits will be required to settle the obligation;

③ the amount of the obligation can be measured reliably.

ii. Method of measuring the provisions

Provisions shall be initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

Where the expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, the best estimate should be determined as the middle value for the range, i.e. the average of the upper and lower limit.

Where the expenses required does not have a successive range (or band), or although there is a successive range, the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the provision recognized.

20. Revenue

i. Specific criteria for judging the timing of recognition of the revenue from sales of goods

Revenue from the sale of goods is recognized when all of the following conditions are satisfied:

① when all the significant risks and rewards of ownership of the goods have been transferred to the buyer;

② BYS and its subsidiaries does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the sold goods;

③ the amount of revenue can be reliably measured;

④ when it is probable that the economic benefits associated will flow to BYS and its subsidiaries;

⑤ when the relevant amount of costs incurred or to be incurred can be measured reliably.

ii. Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably on the balance sheet date, revenue from the rendering of services is recognized by reference to the stage of completion of the transaction based on the progress of work performed.

The total revenue arising from the rendering of services shall be determined with reference to the amount stipulated in the contract or agreement received or receivable, except for cases where the amount stipulated in the contract or agreement is not fair. On the balance sheet date, the revenue arising from the rendering of services for the current period will be recognized with reference to the total revenue of rendering of services multiplied by stage of completion (net of the cumulative recognized amount of revenue during the prior accounting periods); meanwhile, the service cost for the current period will be carried forward with reference to the total cost of rendering of services multiplied by stage of completion (net of the cumulative recognized amount of service costs during the prior accounting periods).

Where the outcome of rendering of services cannot be estimated reliably on the balance sheet date, it shall be treated as following respectively:

① if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost.

② If the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss for the current period and no service revenue is recognized.

iii. Recognition of revenue from transfer of asset use rights

Revenue from transfer of asset use rights shall be recognized when it is probable that the economic benefit associated with the transaction can flow into BYS and its subsidiaries, and the amount of revenue can be measured reliably:

① Revenue from transfer of asset use rights shall be recognized when it is probable that the economic benefit associated with the transaction can flow into BYS and its subsidiaries, and the amount of revenue can be measured reliably.

② The amount of interest income will be calculated and determined by the time when others use BYS and its subsidiaries' monetary capital and the effective interest rate; income from the use of the assets is calculated and determined with reference to the agreed chargeable hours and calculation method stipulated in the relevant contracts or agreements.

21. Government grants

(1) Types

Government grants are transfer of monetary assets or non-monetary assets from the government to BYS and its subsidiaries at no consideration, and are classified into government grant related to asset and government grant related to income.

(2) Accounting treatment

Government grants relating to the purchase of fixed assets, intangible assets and other long-term assets should be presented as deferred income and recognized as non-operating income evenly over the useful life of the assets constructed or procured;

A government grant related to income is used for compensation for related expenses or losses to be incurred by the enterprise in subsequent periods. The grant shall be recognized as deferred income upon receiving and recognized in non-operating income for the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognized immediately in non-operating income for the current period.

22. Deferred tax assets and liabilities

Deferred tax assets are recognized for deductible temporary difference to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Save as the exceptions, deferred tax liabilities shall be recognized for the taxable temporary difference.

The exceptions for not recognition of deferred tax assets and liabilities include: the initial recognition of the goodwill; other transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

After granted the legal rights of net settlement and with the intention to use net settlement or to carry out acquisition of assets and settlement of liabilities at the same time, BYS and its subsidiaries records the net amount after offsetting its current income tax assets and current income tax liabilities.

Where BYS and its subsidiaries was granted the legal rights of net settlement of current income tax assets and current income tax liabilities and that the deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or to carry out acquisition of assets and settlement of liabilities at the same time whenever every deferred income tax assets and liabilities with importance would be reversed in the future, BYS and its subsidiaries records the net amount after offsetting its current income tax assets and current income tax liabilities.

23. Operating leases

Leasing expenditure paid by BYS and its subsidiaries for the assets leased in shall be amortized in a straight-line basis over the lease term without deducting the rent-free periods, and charged to current expenses. The initial direct fee related to the leasing transactions paid by BYS and its subsidiaries shall be charged to current expenses.

When the lessor of asset undertakes the leasing-related expenditure that should have been taken by BYS and its subsidiaries, BYS and its subsidiaries shall deduct such expenditure from the total rental, amortize the rental fee after deduction over the lease term and charge it to current expenses.

Leasing charges received by BYS and its subsidiaries for the assets leased out shall be amortized in a straight-line basis over the lease term without deducting the rent-free periods, and recognized as leasing income. The initial direct fee related to the leasing transactions paid by BYS and its subsidiaries shall be charged to current expenses; if the amount is significant, it shall be capitalized and charged to current income evenly on the same basis as the leasing income is recognized over the lease term.

When BYS and its subsidiaries undertakes the leasing-related expenditure that should have been taken by the lessee, BYS and its subsidiaries shall deduct such expenditure from the total rental income, and allocate the rental fee after deduction over the lease term.

24. Related party

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party. Parties are also considered to be related if they are subject to common control. A related party can be a natural person or a corporate entity. An enterprise merely under common control of the State but without any other related party connections does not constitute a related party of BYS and its subsidiaries.

The related parties for the Group including but not limited to:

(1) the parent company of BYS;

(2) the subsidiaries of BYS;

(3) other enterprises of a common parent;

(4) the investor with common control over BYS;

(5) the investor with significant influence over BYS;

(6) the jointly controlled entities of BYS and its subsidiaries, including their subsidiaries;

(7) the associates of BYS and its subsidiaries, including their subsidiaries;

(8) major individual investors of BYS and their close family members;

(9) key management personnel of BYS or its parent company and their close family members;

(10) other enterprises under the control or common control of BYS' major individual investors, key management personnel or their close family members.

25. Segment reporting

Operating segment has been identified on the basis of internal organization structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments. An operating segment represents a component of BYS and its subsidiaries that satisfied the following criteria:

(1) that may earn revenue and incur expenses in daily business activities;

(2) whose operating results are regularly reviewed by BYS and its subsidiaries' management to allocate its resources and assess its performance;

(3) for which discrete financial information on financial positions, operating results and cash flow is available.

Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

① the nature of each product and service;

② the nature of production process;

③ the type or class of customers for their products and services;

④ the methods used to distribute their products or provide their services;

⑤ the influence brought by law and administrative regulations on production of products and provision of services.

26. Change in significant accounting policies and accounting estimates

i. Nature, content and reason for the change in accounting policies

There were no change in major accounting policies during the Reporting Periods.

ii. Content and reason for the change in accounting estimates

There were no changes in major accounting estimates during the Reporting Periods.

iii. Correction of prior period's accounting errors

There was no correction of significant accounting errors during the Reporting Periods.

27. Significant accounting estimates and judgments

BYS and its subsidiaries are subject to income taxes in the PRC. Significant judgment is required in calculating the income tax expenses. There are many transactions and calculations for which the ultimate tax determination is uncertain. BYS and its subsidiaries recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as BYS management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets and income tax expenses in the period in which such estimate is changed.

As described in no. 2 in note 3, the effective period of BYS and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.*（廣州白雲山光華製藥股份有限公司）, a subsidiary of BYS, is 2009 to 2011. In June 2012, BYS management filed an application to relevant department for re-examine as a new high-tech enterprise. BYS management anticipated that BYS and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.*（廣州白雲山光華製藥股份有限公司）continued to be recognized as a new high-tech enterprise and continued to enjoy a preferential enterprise income tax of 15%. Therefore, the tax rate for BYS and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.*（廣州白雲山光華製藥股份有限公司）in calculating income tax for the current period is 15%.

SECTION III. TAXATION

1. Main types of taxes and corresponding tax rates

Tax	**Tax basis**	**Tax rate**
Value-added Tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	17%
Business tax	Based on taxable revenue	5%
City maintenance and construction tax	Based on business tax, VAT and consumption tax paid	7%
Education surcharge	Based on business tax, VAT and consumption tax paid	3%
Local education surcharge	Based on business tax, VAT and consumption tax paid	2%
Enterprise income tax	Based on taxable income	15%, 25%

2. Tax preference and approval documents

Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), subsidiaries of BYS were recognized as the new high-tech enterprises with the respective certificate numbers of GR200844000382 and GR200844000381 for an effective period of three years. They are entitled to the enterprise income tax rate of 15% from 2008 to 2010. In 2011, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) passed the review of the new high-tech enterprise recognition with the respective certificate numbers of GF201144000016 and GF201144000599, the effective period was extended for three further years. Their enterprise income tax will continue to be charged at 15% from 2011 to 2013.

BYS and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司), a subsidiary of BYS, were recognized as the new high-tech enterprises in 2009 with the respective certificate numbers of GR200944000225 and GR200944000224 for an effective period of three years. They are entitled to the enterprise income tax rate of 15% from 2009 to 2011. According to the SAT Notice No.4 (2011) "Notice on Issues Concerning the Prepayment of Enterprise Income Tax During High and New Tech Enterprises Qualification Reexamination (《關於高新技術企業資格複審期間企業所得稅預繳問題的公告》)", high and new tech enterprises should prepay their enterprise income tax at the rate of 15% before the announcement of the reexamination results. The qualification of the new and high enterprise of BYS and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司), a subsidiary of BYS, is currently in a process of reexamination, therefore, the enterprise income tax is provisionally be applicable at the rate of 15%.

SECTION IV. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(In the following tables of this section, all amounts are in Renminbi '0000 unless otherwise stated)

(I) Information of subsidiaries

1. *Subsidiaries acquired from establishment or investment*

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	Actual investment at the end of June 2012	Other assets constituting investment in substance	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at the end of June 2012	Amount of minority interests adjusted against minority interest in the profit or loss	Ending balance after the Company's equity interest adjusted against the amount of the Reporting Periods' losses in subsidiary shared by minority interest exceeded the opening balance of minority interest
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	Subsidiary	Guangzhou	Pharmaceutical trading	200	Wholesale of Chinese patent medicines, active pharmaceutical ingredients and chemical preparation antibiotics	102	0	51	51	Yes	1,516.84	0	0
Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)	Subsidiary	Bozhou	Pharmaceutical Manufacturing	50	Manufacture and sales of tablets and granules	40	0	80	80	Yes	0	0	0
Guangzhou Baiyunshan Pharmacy* (廣州白雲山大藥房)	Subsidiary	Guangzhou	Retail	100	Retail of Chinese raw medicine, commonly-used Chinese and Western patent medicines, cigarette and wine, sales of subsidiary foodstuffs and other food as well as general merchandise	100	0	100	100	Yes	0	0	0
Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd.* (廣州廣藥白雲山大健康酒店有限公司)	Subsidiary	Guangzhou	Hospitality	50	Retail trading, hospitality, manufacture and sales of Chinese food	50	0	100	100	Yes	0	0	0

2. *Subsidiaries acquired in a business combination involving enterprises under common control*

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	Actual investment at the end of June 2012	Other assets constituting investment in substance	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at the end of June 2012	Amount of minority interests adjusted against minority interest in the profit or loss	Ending balance after the Company's equity interest adjusted against the amount of the Reporting Periods' losses in subsidiary shared by minority interest exceeded the opening balance of minority interest
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	4,569.30	Manufacture, processing and sales of chemical preparation, Chinese patent medicines, bulk medicine and healthcare product	3,769.23	0	82.49	82.49	Yes	3,605.05	0	0
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	5,528.50	Manufacture of active pharmaceutical ingredients, chemical preparation, Chinese patent medicines, veterinary pharmaceutical and cosmetics	4,670.48	0	84.48	84.48	Yes	1,851.48	0	0
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	2,649.46	Manufacture and processing of active pharmaceutical ingredients, chemical preparation, Chinese patent medicines and health care products	2,649.46	0	100	100	Yes	0	0	0
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	Subsidiary	Jiexi	Pharmaceutical manufacturing	1,179.00	Manufacture and sales of tablets, capsules and granules	1,179.00	0	100	100	Yes	0	0	0

SECTION V. NOTES TO THE FINANCIAL STATEMENTS OF BYS AND ITS SUBSIDIARIES
(All amounts are in Renminbi yuan unless otherwise stated)

(1) Cash in bank and cash on hand

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Cash on hand	347,500.88	199,629.39	165,323.47	156,201.80
Bank deposits	421,589,510.73	267,933,569.37	340,689,057.92	325,290,817.87
Total	421,937,011.61	268,133,198.76	340,854,381.39	325,447,019.67

Of which, details of restricted cash are as follows:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Deposits for issuance of bank acceptance notes	123,245.12	11,221,976.70	14,596,565.16	8,556,810.00
Frozen bank deposits	0.00	432,787.53	0.00	0.00
	123,245.12	11,654,764.23	14,596,565.16	8,556,810.00

1. The above restricted cash is not taken as cash and cash equivalent when preparing the cash flow statement.

2. For the details of frozen bank deposits at the end of 2011, please refer to Note 1② of Section VII. The bank deposits have been released as at May 2012.

(2) Notes receivable

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Bank acceptance notes	531,301,630.90	323,063,531.79	199,373,776.89	398,719,568.73

1. At the end of June 2012, the notes receivable that are not matured but have been endorsed amounted to RMB1,225,690,209.98. All of them are bank acceptance notes, and will mature by 31 December 2012.

2. At the end of 2011, the notes receivable that are not matured but have been endorsed amounted to RMB877,984,607.37. All of them are bank acceptance notes, and will mature by 30 June 2012.

3. At the end of 2010, the notes receivable that are not matured but have been endorsed amounted to RMB868,984,014.27. All of them are bank acceptance notes, and would mature in period of January to June 2011.

4. At the end of 2009, the notes receivable that are not matured but have been endorsed amounted to RMB423,855,454.61. All of them are bank acceptance notes, and would mature in period of January to June 2010.

5. The unexpired bank acceptance notes of BYS and its subsidiaries that have been discounted at the end of June 2012, 2011, 2010 and 2009 were nil.

6. The notes receivable of BYS and its subsidiaries that have been pledged at the end of June 2012, 2011, 2010 and 2009 were nil.

7. As at the end of June 2012, 2011, 2010 and 2009, there were no notes receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

8. As at the end of June 2012, 2011, 2010 and 2009, the notes receivable of BYS and its subsidiaries due from the related parties amounted to RMB11,137,387.06, RMB68,287,149.76, RMB24,062,657.16 and RMB23,377,411.11, respectively, accounting for 2.10%, 21.14%, 12.07% and 5.86% of the total at the end of the respective period. For details, please refer to Note (II)5 of Section VI.

(3) Dividends receivable

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Dividends receivable within one year	20,000,000.00	20,000,000.00	0.00	0.00
Including: Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	20,000,000.00	20,000,000.00	0.00	0.00

As at 20 April 2011, Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd., a joint company of BYS, convened a board meeting and decided to distribute cash dividends of RMB80.00 million which fully paid up before 30 June 2012. The Company entitled to receive RMB40.00 million and received RMB10.00 million each in July and August 2011 respectively, the remaining dividend of RMB20.00 million received between March to June 2012.

As at 29 June 2012, Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd., a joint company of BYS, convened a board meeting and decided to distribute cash dividends of RMB40.00 million which fully paid up before 31 December 2012. The Company entitled to receive RMB20.00 million and is not yet to receive the dividend at the end of this period.

(4) Accounts receivable

1. The aging of accounts receivable is analysed as below:

	30 June 2012			
Aging	**Ending balance**	**% of total balance**	**Provision of bad debts**	**Ratio**
Within 1 year	258,350,394.82	81.96%	4,068,503.94	1.57%
1 to 2 years	1,355,529.75	0.43%	135,552.97	10.00%
2 to 3 years	1,204,814.02	0.38%	361,444.21	30.00%
3 to 4 years	1,397,778.89	0.44%	698,889.46	50.00%
4 to 5 years	1,644,505.89	0.52%	1,315,604.70	80.00%
Over 5 years	51,296,257.55	16.27%	51,296,257.55	100.00%
Total	315,249,280.92	100.00%	57,876,252.83	18.36%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
		31 December 2011		
Within 1 year	237,326,313.79	80.20%	3,858,263.13	1.63%
1 to 2 years	1,115,493.40	0.38%	111,549.34	10.00%
2 to 3 years	1,840,582.20	0.62%	552,174.66	30.00%
3 to 4 years	2,797,148.24	0.95%	1,398,574.13	50.00%
4 to 5 years	2,570,104.08	0.87%	2,119,185.02	82.46%
Over 5 years	50,275,778.20	16.98%	50,275,778.20	100.00%
Total	295,925,419.91	100.00%	58,315,524.48	19.71%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
		31 December 2010		
Within 1 year	198,753,370.30	75.38%	2,012,595.71	1.01%
1 to 2 years	4,760,602.80	1.81%	476,060.28	10.00%
2 to 3 years	4,559,896.52	1.73%	1,367,968.96	30.00%
3 to 4 years	3,434,959.73	1.30%	1,875,234.23	54.59%
4 to 5 years	3,640,569.08	1.38%	3,109,078.76	85.40%
Over 5 years	48,517,220.78	18.40%	48,517,220.78	100.00%
Total	263,666,619.21	100.00%	57,358,158.72	21.75%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
		31 December 2009		
Within 1 year	192,476,319.61	74.61%	1,924,763.20	1.00%
1 to 2 years	6,154,531.34	2.39%	615,453.13	10.00%
2 to 3 years	4,609,121.08	1.79%	1,382,736.34	30.00%
3 to 4 years	3,269,941.61	1.27%	1,634,970.81	50.00%
4 to 5 years	2,353,105.36	0.91%	1,882,484.29	80.00%
Over 5 years	49,116,195.81	19.04%	49,116,195.81	100.00%
Total	257,979,214.81	100.00%	56,556,603.58	21.92%

2. Accounts receivable by categories are analyzed as follows:

Category	Ending Balance	% of total balance	Provision for bad debts	Ratio
		30 June 2012		
Individually significant and subject to separate provision	1,441,606.84	0.46%	1,441,606.84	100.00%
Subject to provision by groups	309,835,929.33	98.28%	52,462,901.24	16.93%
Individually insignificant but subject to separate provision	3,971,744.75	1.26%	3,971,744.75	100.00%
Total	315,249,280.92	100.00%	57,876,252.83	18.36%

Category	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2011			
Individually significant and subject to separate provision	1,441,606.84	0.49%	1,441,606.84	100.00%
Subject to provision by groups	290,512,068.32	98.17%	52,902,172.89	18.21%
Individually insignificant but subject to separate provision	3,971,744.75	1.34%	3,971,744.75	100.00%
Total	295,925,419.91	100.00%	58,315,524.48	19.71%

Category	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2010			
Individually significant and subject to separate provision	1,441,606.84	0.55%	1,441,606.84	100.00%
Subject to provision by groups	259,682,531.72	98.49%	53,374,071.23	20.55%
Individually insignificant but subject to separate provision	2,542,480.65	0.96%	2,542,480.65	100.00%
Total	263,666,619.21	100.00%	57,358,158.72	21.75%

Category	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2009			
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Subject to provision by groups	254,424,118.33	98.62%	53,001,507.10	20.83%
Individually insignificant but subject to separate provision	3,555,096.48	1.38%	3,555,096.48	100.00%
Total	257,979,214.81	100.00%	56,556,603.58	21.92%

3. Accounts receivable that are individually significant and subject to separate provision during the Reporting Periods:

① As at the end of June 2012

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Beijing Henghe Kangjian Pharmaceuticals Corporation* (北京恒和康建醫藥有限公司)	1,441,606.84	100.00%	1,441,606.84	Aging of over 5 years, unable to be collected following a number of collections

② As at the end of 2011:

Accounts receivable	**Ending balance**	**Percentage of provision**	**Amount of provision for bad debts**	**Reason**
Beijing Henghe Kangjian Pharmaceuticals Corporation* (北京恒和康建醫藥有限公司)	1,441,606.84	100.00%	1,441,606.84	Aging of over 5 years, unable to be collected following a number of collections

③ As at the end of 2010:

Accounts receivable	**Ending balance**	**Percentage of provision**	**Amount of provision for bad debts**	**Reason**
Beijing Henghe Kangjian Pharmaceuticals Corporation* (北京恒和康建醫藥有限公司)	1,441,606.84	100.00%	1,441,606.84	Aging of over 5 years, unable to be collected following a number of collections

④ As at the end of 2009, BYS and its subsidiaries had no accounts receivable that are individually significant and subject to separate provision.

4. The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	30 June 2012			
Aging	**Ending Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	256,850,394.82	82.90%	2,568,503.94	1.00%
1 to 2 years	1,355,529.75	0.44%	135,552.97	10.00%
2 to 3 years	1,204,814.02	0.39%	361,444.21	30.00%
3 to 4 years	1,397,778.89	0.45%	698,889.46	50.00%
4 to 5 years	1,644,505.89	0.53%	1,315,604.70	80.00%
Over 5 years	47,382,905.96	15.29%	47,382,905.96	100.00%
Total	309,835,929.33	100.00%	52,462,901.24	16.93%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2011			
Within 1 year	235,826,313.79	81.18%	2,358,263.13	1.00%
1 to 2 years	1,115,493.40	0.38%	111,549.34	10.00%
2 to 3 years	1,840,582.20	0.63%	552,174.66	30.00%
3 to 4 years	2,797,148.24	0.96%	1,398,574.13	50.00%
4 to 5 years	2,254,595.34	0.78%	1,803,676.28	80.00%
Over 5 years	46,677,935.35	16.07%	46,677,935.35	100.00%
Total	290,512,068.32	100.00%	52,902,172.89	18.21%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2010			
Within 1 year	198,753,370.30	76.54%	2,012,595.71	1.00%
1 to 2 years	4,760,602.80	1.83%	476,060.28	10.00%
2 to 3 years	4,559,896.52	1.76%	1,367,968.96	30.00%
3 to 4 years	3,119,450.99	1.20%	1,559,725.49	50.00%
4 to 5 years	2,657,451.58	1.02%	2,125,961.26	80.00%
Over 5 years	45,831,759.53	17.65%	45,831,759.53	100.00%
Total	259,682,531.72	100.00%	53,374,071.23	20.55%

Aging	Ending Balance	% of total balance	Provision for bad debts	Ratio
	31 December 2009			
Within 1 year	192,476,319.61	75.65%	1,924,763.20	1.00%
1 to 2 years	6,154,531.34	2.42%	615,453.13	10.00%
2 to 3 years	4,609,121.08	1.81%	1,382,736.34	30.00%
3 to 4 years	3,269,941.61	1.29%	1,634,970.81	50.00%
4 to 5 years	2,353,105.36	0.92%	1,882,484.29	80.00%
Over 5 years	45,561,099.33	17.91%	45,561,099.33	100.00%
Total	254,424,118.33	100.00%	53,001,507.10	20.83%

5. Accounts receivable that are individually insignificant but subject to separate provision:

① As at the end of June 2012

Accounts receivable	Ending balance	Percentage of provision	Amounts of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 5 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amounts of provision for bad debts	Reason
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.00	100.00%	270,080.00	Aging of over 5 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 5 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmachemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 4 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 5 years, unable to be collected following a number of collections
Wuhan Jingying Medical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 5 years, unable to be collected following a number of collections
Hengyang City Kanghong Pharmaceutical Company* (衡陽市康紅醫藥有限公司)	460,314.10	100.00%	460,314.10	Aging of over 5 years, filed lawsuit but there was no judgement
Guangzhou Maite Xinghua Pharmaceutical Co., Ltd.* (廣州邁特興華製藥廠有限公司)	284,718.51	100.00%	284,718.51	Aging of over 5 years, filed lawsuit but there was no judgement
Shenzhen Xinguang United Pharmaceutical Co., Ltd.* (深圳市新光聯合制藥有限公司)	158,005.50	100.00%	158,005.50	Aging of over 5 years, filed lawsuit but there was no judgement

Accounts receivable	Ending balance	Percentage of provision	Amounts of provision for bad debts	Reason
Zhongxin Pharmacy Tangshan Xinhua Co., Ltd.* (中新藥業唐山新華有限公司)	1,500,000.00	100.00%	15,000,000.00	Aging of within 1 year, bills has been reported loss and judged by the court to stop payment, which resulted in the amount was unable to be collected.
Sub-total	3,791,744.75		3,971,744.75	

② As at the end of 2011:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 5 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 5 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 5 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmachemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 4 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 5 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Wuhan Jingying Medical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 5 years, unable to be collected following a number of collections
Hengyang City Kanghong Pharmaceutical Company* (衡陽市康紅醫藥有限公司)	460,314.10	100.00%	460,314.10	Aging of over 5 years, filed lawsuit but there was no judgement
Guangzhou Maite Xinghua Pharmaceutical Co., Ltd.* (廣州邁特興華製藥廠有限公司)	284,718.51	100.00%	284,718.51	Aging of over 5 years, filed lawsuit but there was no judgement
Shenzhen Xinguang United Pharmaceutical Co., Ltd.* (深圳市新光聯合制藥有限公司)	158,005.50	100.00%	158,005.50	Aging of over 5 years, filed lawsuit but there was no judgement
Zhongxin Pharmacy Tangshan Xinhua Co., Ltd.* (中新藥業唐山新華有限公司)	1,500,000.00	100.00%	1,500,000.00	Aging of within 1 year, bills has been reported loss and judged by the court to stop payment, which resulted in the amount was unable to be collected.
Sub-total	3,971,744.75		3,971,744.75	

③ As at the end of 2010:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 4 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 5 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 4 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmachemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 3 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 4 years, unable to be collected following a number of collections
Wuhan Jingying Medical Technology Development Company* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 4 years, unable to be collected following a number of collections
Hengyang City Kanghong Pharmaceutical Co., Ltd.* (衡陽市康紅醫藥有限公司)	531,050.00	100.00%	531,050.00	Aging of over 5 years, filed lawsuit but there was no judgement
Guangzhou Maite Xinghua Pharmaceutical Co., Ltd.* (廣州邁特興華製藥廠有限公司)	284,718.51	100.00%	284,718.51	Aging of over 5 years, filed lawsuit but there was no judgement
Shenzhen Xinguang United Pharmaceutical Co., Ltd.* (深圳市新光聯合制藥有限公司)	158,005.50	100.00%	158,005.50	Aging of over 5 years, filed lawsuit but there was no judgement
Sub-total	2,542,480.65		2,542,480.65	

④ As at the end of 2009:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 3 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 3 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 3 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmachemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 3 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 3 years, unable to be collected following a number of collections
Wuhan Jingying Medical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 3 years, unable to be collected following a number of collections
Beijing Henghe Kangjian Pharmaceuticals Corporation* (北京恒和康建醫藥有限公司)	1,441,606.84	100.00%	1,441,606.84	Aging of over 3 years, unable to be collected following a number of collections
Hengyang City Kanghong Pharmaceutical Co., Ltd.* (衡陽市康紅醫藥有限公司)	531,050.00	100.00%	531,050.00	Aging of 4 to 5 years, filed lawsuit but there was no judgement

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Guangzhou Maite Xinghua Pharmaceutical Co., Ltd.* (廣州邁特興華製藥廠有限公司)	13,733.00	100.00%	13,733.00	Aging of 4 to 5 years, filed lawsuit but there was no judgement
Sub-total	3,555,096.48		3,555,096.48	

6. Changes in the provision for bad debt of accounts receivable are as follows:

	Balance at the beginning of the year	Amount of provision for the period	Decrease for the period		Balance at the end of the period
			Reversal	Write-off	
2009	56,081,018.15	2,019,801.80	-6,000.00	1,550,216.37	56,556,603.58
2010	56,556,603.58	751,170.83	0.00	-50,384.31	57,358,158.72
2011	57,358,158.72	229,028.75	0.00	-728,337.01	58,315,524.48
January 2012 to June 2012	58,315,524.48	-439,271.65	0.00	0.00	57,876,252.83

7. There were accounts receivable the provision of which were fully made or large proportion of which were made prior to the Reporting Periods but were collected in full or part during the Reporting Periods. Details are as follows:

① During 2009:

Account receivable	Reason for reversal or collection	Basis for determining the previous provision of bad debts	Reversed or collected amount	Accumulated provision of bad debts before reversal or collection
Xi'an Putian Pharmaceutical Co., Ltd.* (西安普天醫藥有限責任公司)	Collected partial payments during the year	Provided with aging method	21,000.00	21,000.00

② During 2010, there were no accounts receivable the provision of which were fully made or large proportion of which were made in prior years but were collected in full or part during the period.

③ During 2011:

Account receivable	Reason for reversal or collection	Basis for determining the previous provision of bad debts	Reversed or collected amount	Accumulated provision of bad debts before reversal or collection
Hengyang City Kanghong Pharmaceutical Company* (衡陽市康紅醫藥有限公司)	Collected partial payments during the year	Payments for the pending litigation	70,735.90	70,735.90

④ During January 2012 to June 2012, there were no accounts receivable the provision of which were fully made or large proportion of which were made in prior years but were collected in full or part during the period.

8. Accounts receivable from non-related parties that were written off during the Reporting Periods and accounts receivable that were written off in prior years and were collected during the Reporting Periods are analyzed as follows:

① During 2009:

Accounts receivable	Amount	Reason
Kaiping Pharmaceutical Co., Ltd （開平市醫藥公司）	256,900.00	The court granted a judgment of termination of execution.
Medicine kit branch factory* （藥包分廠）	775,887.57	Medicine kit branch factory ceased the operation.
Others	517,428.80	The counterparty was deregistered.
Sub-total	1,550,216.37	

② During 2010:

Accounts receivable	Amount	Reason
Hunan Double-Crane Pharmaceutical Co., Ltd.* (湖南雙鶴醫藥有限責任公司)	36,256.90	The counterparty was deregistered.
Shandong Pharmaceutical Industrial Co., Ltd.* (山東省醫藥實業公司)	12,162.00	The business licence of the counterparty was revoked.
Yangzhou Pharmaceutical Group Co., Ltd., Western Medicine Wholesale Company* (楊州醫藥集團有限公司西藥批發公司)	21,491.99	The counterparty was deregistered.
Northeast Pharmaceutical Group Co., Ltd, Supply and Sales Company* (東北製藥集團公司供銷公司)	-120,295.20	Written off in prior years, collected during the period
Sub-total	-50,384.31	

③ During 2011:

Accounts receivable	Amount	Reason
Hainan Medical Devices Special Drugs Ministry and Trade Corporation* (海南省醫藥器械工貿總公司新特藥部)	-35,000.00	Written off in prior years, collected during the period
Magosawa County Pharmaceutical Company Town Wholesale Department* (孫澤縣醫藥公司大鎮批發部)	-800,000.00	Written off in prior years, collected during the period
Hebei Taikang Pharmaceutical Co., Ltd.* (河北省泰康醫藥公司)	106,662.99	The counterparty was deregistered.
Sub-total	-728,337.01	

④ During January to June 2012, BYS and its subsidiaries had neither accounts receivable from non-related parties that were written off nor accounts receivable that were written off in prior years and were collected.

9. As at the end of June 2012, 2011, 2010 and 2009, there were no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

10. As at the end of June 2012, 2011, 2010 and 2009, the accounts receivable due from the related parties amounted to RMB22,802,046.86, RMB52,156,788.62, RMB50,929,204.34 and RMB47,687,445.73, respectively, representing 7.23%, 17.62%, 19.32% and 18.49% of the total accounts receivable at the end of the respective period. For details, please refer to Section VI Note (II) 5.

11. There were no securitisations that targeted at accounts receivable occurred in BYS and its subsidiaries during the Reporting Periods.

12. BYS and its subsidiaries offer credit periods from 30 days to 180 days to its customers according to their respective credibilities, the credit periods commence from the date of which the goods are delivered and the invoices are issued.

(5) Other receivables

1. The aging of other receivables is analysed as below:

	30 June 2012			
Aging	**Ending balance**	**% of total balance**	**Provision for bad debt**	**Ratio**
Within 1 year	30,952,471.43	56.26%	1,616,750.57	5.22%
1 to 2 years	2,536,395.01	4.61%	79,397.95	3.13%
2 to 3 years	356,729.82	0.65%	15,889.79	4.45%
3 to 4 years	1,050,369.74	1.91%	129,071.69	12.29%
4 to 5 years	639,493.11	1.16%	35,918.41	5.62%
Over 5 years	19,478,115.24	35.41%	17,543,369.11	90.07%
Total	55,013,574.65	100.00%	19,420,397.52	35.30%

	31 December 2011			
Aging	**Ending Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	17,305,408.15	41.51%	960,688.91	5.55%
1 to 2 years	1,397,644.01	3.35%	69,270.38	4.96%
2 to 3 years	1,288,750.29	3.09%	72,525.01	5.63%
3 to 4 years	1,987,791.02	4.77%	119,267.47	6.00%
4 to 5 years	776,189.18	1.86%	46,571.35	6.00%
Over 5 years	18,934,212.85	45.42%	17,537,315.29	92.62%
Total	41,689,995.50	100.00%	18,805,638.41	45.11%

	31 December 2010			
Aging	**Ending Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	20,907,729.29	46.46%	1,232,629.48	5.90%
1 to 2 years	1,969,489.62	4.38%	113,369.37	5.76%
2 to 3 years	2,146,774.12	4.77%	128,806.48	6.00%
3 to 4 years	823,265.93	1.83%	49,395.96	6.00%
4 to 5 years	713,739.60	1.59%	42,824.38	6.00%
Over 5 years	18,438,721.18	40.97%	17,516,415.03	95.00%
Total	44,999,719.74	100.00%	19,083,440.70	42.41%

	31 December 2009			
Aging	**Ending Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	21,598,778.58	26.68%	1,247,944.78	5.78%
1 to 2 years	2,838,350.34	3.51%	170,193.02	6.00%
2 to 3 years	846,601.08	1.05%	50,796.06	6.00%
3 to 4 years	1,194,529.01	1.48%	70,691.74	5.92%
4 to 5 years	32,669,827.38	40.35%	41,117.73	0.13%
Over 5 years	21,816,558.64	26.95%	20,731,913.97	95.03%
Total	80,964,645.03	100.00%	22,312,657.30	27.56%

2. Other receivables by categories are analyzed as follows:

	30 June 2012			
Category	**Ending Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	1,313,447.49	2.39%	1,313,447.49	100.00%
Subject to provision by groups	37,556,030.23	68.26%	1,962,853.10	5.23%
Individually insignificant but subject to separate provision	16,144,096.93	29.35%	16,144,096.93	100.00%
Total	55,013,574.65	100.00%	19,420,397.52	35.30%

Category	31 December 2011 Ending Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	1,313,447.49	3.15%	1,313,447.49	100.00%
Subject to provision by groups	24,232,451.08	58.13%	1,348,093.99	5.56%
Individually insignificant but subject to separate provision	16,144,096.93	38.72%	16,144,096.93	100.00%
Total	41,689,995.50	100.00%	18,805,638.41	45.11%

Category	31 December 2010 Ending Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	1,313,447.49	2.92%	1,313,447.49	100.00%
Subject to provision by groups	27,542,175.32	61.20%	1,625,896.28	5.90%
Individually insignificant but subject to separate provision	16,144,096.93	35.88%	16,144,096.93	100.00%
Total	44,999,719.74	100.00%	19,083,440.70	42.41%

Category	31 December 2009 Ending Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,091,915.32	5.05%	4,091,915.32	100.00%
Subject to provision by groups	60,273,072.61	74.45%	1,621,084.88	2.69%
Individually insignificant but subject to separate provision	16,599,657.10	20.50%	16,599,657.10	100.00%
Total	80,964,645.03	100.00%	22,312,657.30	27.56%

3. During the Reporting Periods, other receivables that are individually significant and subject to separate provision:

① As at the end of June 2012:

Other Receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100%	430,077.57	Aging of over 5 years, and the counterparty has been deregistered
Guangzhou Huamei Construction and Development Co., Ltd.* (廣州華美建設開發公司)	442,191.75	100%	442,191.75	Aging for over 5 years, prepayment for purchase of properties, the counterparty was unable to deliver the building
Baiyunshan Enterprise Group Qinghai Branch* (白雲山企業集團青海分公司)	100,000.00	100%	100,000.00	Aging of over 5 years, unable to be collected
Jiedong Yunfoung Chinese Herbal Medicine Processing Co., Ltd.* (揭東雲方中草藥加工有限公司)	341,178.17	100%	341,178.17	Aging of over 5 years, unable to be collected
	1,313,447.49	100%	1,313,447.49	

② As at the end of 2011:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	Aging of over 5 years, and the counterparty has been deregistered
Guangzhou Huamei Construction and Development Co., Ltd.* (廣州華美建設開發公司)	442,191.75	100.00%	442,191.75	Aging of over 5 years, prepayment for purchase of properties, the counterparty was unable to deliver building
Baiyunshan Enterprise Group Qinghai Branch* (白雲山企業集團青海分公司)	100,000.00	100.00%	100,000.00	Aging of over 5 years, unable to be collected
Jiedong Yunfoung Chinese Herbal Medicine Processing Co., Ltd.* (揭東雲方中草藥加工有限公司)	341,178.17	100.00%	341,178.17	Aging of over 5 years, unable to be collected
Sub-total	1,313,447.49		1,313,447.49	

③ As at the end of 2010:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	The counterparty has been deregistered.
Guangzhou Huamei Construction and Development Co., Ltd.* (廣州華美建設開發公司)	442,191.75	100.00%	442,191.75	Prepayment for purchase of properties, the counterparty was unable to deliver building
Baiyunshan Enterprise Group Qinghai Branch* (白雲山企業集團青海分公司)	100,000.00	100.00%	100,000.00	Aging of over 5 years, unable to be collected
Jiedong Yunfang Chinese Herbal Medicine Processing Co., Ltd.* (揭東雲方中草藥加工有限公司)	341,178.17	100.00%	341,178.17	Aging of over 5 years, unable to be collected
Sub-total	1,313,447.49		1,313,447.49	

④ As at the end of 2009:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Land transfer cost from Zhenlong Town Government, Zengcheng* (增城鎮龍鎮政府)	2,533,518.00	100.00%	2,533,518.00	Aging of over 5 years, unable to be collected
Guangdong Guancheng Real Estate Development Co., Ltd.* (廣東冠城房地產開發有限公司)	686,128.00	100.00%	686,128.00	Aging of over 5 years, unable to be collected
Guangzhou Huamei Construction and Development Co., Ltd.* (廣州華美建設開發公司)	442,191.75	100.00%	442,191.75	Prepayment for purchase of properties, the counterparty was unable to deliver building
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	The counterparty has been deregistered.
Sub-total	4,091,915.32		4,091,915.32	

4. The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

	30 June 2012			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	30,952,471.73	82.42%	1,616,750.56	5.22%
1 to 2 years	2,536,395.01	6.75%	79,397.95	3.13%
2 to 3 years	356,729.82	0.95%	15,889.79	4.45%
3 to 4 years	1,050,369.74	2.80%	129,071.69	12.29%
4 to 5 years	639,493.11	1.70%	35,918.41	5.62%
Over 5 years	2,020,570.82	5.38%	85,824.70	4.25%
Total	37,556,030.23	100.00%	1,962,853.10	5.23%

	31 December 2011			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	17,305,408.15	71.42%	960,688.91	5.55%
1 to 2 years	1,397,644.01	5.77%	69,270.38	4.96%
2 to 3 years	1,288,750.29	5.32%	72,525.01	5.63%
3 to 4 years	1,987,791.02	8.20%	119,267.47	6.00%
4 to 5 years	776,189.18	3.20%	46,571.35	6.00%
Over 5 years	1,476,668.43	6.09%	79,770.87	5.40%
Total	24,232,451.08	100.00%	1,348,093.99	5.56%

	31 December 2010			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	20,907,729.29	75.92%	1,232,629.48	5.90%
1 to 2 years	1,969,489.62	7.15%	113,369.37	5.76%
2 to 3 years	2,146,774.12	7.79%	128,806.48	6.00%
3 to 4 years	823,265.93	2.99%	49,395.96	6.00%
4 to 5 years	713,739.60	2.59%	42,824.38	6.00%
Over 5 years	981,176.76	3.56%	58,870.61	6.00%
Total	27,542,175.32	100.00%	1,625,896.28	5.90%

	31 December 2009			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	21,598,778.58	35.83%	1,247,944.78	5.78%
1 to 2 years	2,838,350.34	4.71%	170,193.02	6.00%
2 to 3 years	846,601.08	1.40%	50,796.06	6.00%
3 to 4 years	1,194,529.01	1.98%	70,691.74	5.92%
4 to 5 years	32,669,827.38	54.21%	41,117.73	0.13%
Over 5 years	1,124,986.22	1.87%	40,341.55	3.59%
Total	60,273,072.61	100.00%	1,621,084.88	2.69%

5. During the Reporting Periods, other receivables which are individually insignificant but subject to separate provision are analyzed below:

① As at the end of June 2012:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Transferred from the old account of the headquarter	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Old account of Wei Ling Company* (威靈公司)	343,442.95	100%	343,442.95	Aging of over 5 years, unable to be collected
Shipai Large Pharmacy* (石牌大藥房)	643,040.30	100%	643,040.30	Aging of over 5 years, the counterparty has been deregistered

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 4 years, unable to be collected
Guangyuan Company* (廣源公司)	166,660.33	100%	166,660.33	Aging of over 5 years, unable to be collected
Security of Property Management Co., Ltd.* (省保安物業管理公司)	100,691.88	100%	100,691.88	Aging of over 5 years, unable to be collected
Guangzhou Administration of Medicine* (廣州市醫藥管理局)	91,090.97	100%	91,090.97	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Beijing Ronghe Gear Manufacturing Co., Ltd.* (北京榮合齒輪製造有限公司)	26,000.00	100%	26,000.00	Aging of over 5 years, unable to be collected
Kaiping People's Court* (開平市人民法院)	7,715.00	100%	7,715.00	Aging of over 5 years, unable to be collected
Shanghai Waton Pharmaceutical Machinery Co., Ltd.* (上海華東製藥機械有限公司)	2,845.00	100%	2,845.00	Aging of over 5 years, unable to be collected
Other	12,341.44	100%	12,341.44	Aging of over 5 years, unable to be collected
Total	16,144,096.93		16,144,096.93	

② As at the end of 2011:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Transferred from the old account of the headquarter	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Old account of Wei Ling Company* (威靈公司)	343,442.95	100%	343,442.95	Aging of over 5 years, unable to be collected
Shipai Large Pharmacy* (石牌大藥房)	643,040.30	100%	643,040.30	Aging of over 5 years, the counterparty has been deregistered
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 4 years, unable to be collected
Guangyuan Company* (廣源公司)	166,660.33	100%	166,660.33	Aging of over 5 years, unable to be collected
Security of Property Management Co., Ltd.* (省保安物業管理公司)	100,691.88	100%	100,691.88	Aging of over 5 years, unable to be collected
Guangzhou Administration of Medicine* (廣州市醫藥管理局)	91,090.97	100%	91,090.97	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Beijing Ronghe Gear Manufacturing Co., Ltd.* (北京榮合齒輪製造有限公司)	26,000.00	100%	26,000.00	Aging of over 5 years, unable to be collected
Kaiping People's Court* (開平市人民法院)	7,715.00	100%	7,715.00	Aging of over 5 years, unable to be collected
Shanghai Waton Pharmaceutical Machinery Co., Ltd.* (上海華東製藥機械有限公司)	2,845.00	100%	2,845.00	Aging of over 5 years, unable to be collected
Other	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Other (Alexander Pharmacy*) (大藥房)	441.44	100%	441.44	Aging of over 5 years, unable to be collected
Sub-total	16,144,096.93		16,144,096.93	

③ As at the end of 2010:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 3 years, unable to be collected
Transferred from the old account of the headquarter	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Other (Alexander Pharmacy*) (大藥房)	441.44	100%	441.44	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Other	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Guangzhou Administration of Medicine* (廣州市醫藥管理局)	91,090.97	100%	91,090.97	Aging of over 5 years, unable to be collected

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Security of Property Management Co., Ltd.* (省保安物業管理公司)	100,691.88	100%	100,691.88	Aging of over 5 years, unable to be collected
Guangyuan Company* (廣源公司)	166,660.33	100%	166,660.33	Aging of over 5 years, unable to be collected
Shanghai Waton Pharmaceutical Machinery Co., Ltd.* (上海華東製藥機械有限公司)	2,845.00	100%	2,845.00	Aging of over 5 years, unable to be collected
Beijing Ronghe Gear Manufacturing Co., Ltd.* (北京榮合齒輪製造有限公司)	26,000.00	100%	26,000.00	Aging of over 5 years, unable to be collected
Kaiping People's Court* (開平市人民法院)	7,715.00	100%	7,715.00	Aging of over 5 years, unable to be collected
Shipai Large Pharmacy* (石牌大藥房)	643,040.30	100%	643,040.30	The counterparty has been deregistered
Old account of Wei Ling Company* (威靈公司)	343,442.95	100%	343,442.95	Aging of over 5 years, unable to be collected
Sub-total	16,144,096.93		16,144,096.93	

④ As at the end of 2009:

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 3 years, unable to be collected
Transferred from the old account of the headquarter	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Other (Alexander Pharmacy*) (大藥房)	441.44	100%	441.44	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Other	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Guangzhou Administration of Medicine* (廣州市醫藥管理局)	91,090.97	100%	91,090.97	Aging of over 5 years, unable to be collected

Other receivables	Ending balance	Percentage of provision	Provision for bad debts	Reason
People's Court of Haizhu District, Guangzhou* (廣州市海珠區人民法院)	61,835.00	100%	61,835.00	Aging of over 5 years, unable to be collected
Security of Property Management Co., Ltd.* (省保安物業管理公司)	100,691.88	100%	100,691.88	Aging of over 5 years, unable to be collected
Guangyuan Company* (廣源公司)	166,660.33	100%	166,660.33	Aging of over 5 years, unable to be collected
Shanghai Waton Pharmaceutical Machinery Co., Ltd.* (上海華東製藥機械有限公司)	2,845.00	100%	2,845.00	Aging of over 5 years, unable to be collected
Beijing Ronghe Gear Manufacturing Co., Ltd.* (北京榮合齒輪製造有限公司)	26,000.00	100%	26,000.00	Aging of over 5 years, unable to be collected
Kaiping People's Court* (開平市人民法院)	7,715.00	100%	7,715.00	Aging of over 5 years, unable to be collected
Shipai Large Pharmacy* (石牌大藥房)	643,040.30	100%	643,040.30	The counterparty has been deregistered
Old account of Wei Ling Company* (威靈公司)	737,168.12	100%	737,168.12	Aging of over 3 years, unable to be collected
Sub-total	16,599,657.10		16,599,657.10	

6. Changes in the provision for bad debt of other receivables are as follows:

	Balance at the beginning of the year	Amount of provision for the period	Decrease for the period		Balance at the end of the period
			Reversal	Write-off	
2009	20,194,042.06	2,157,403.29	0.00	38,788.05	22,312,657.30
2010	22,312,657.30	-2,543,088.60	0.00	686,128.00	19,083,440.70
2011	19,083,440.70	-277,802.29	0.00	0.00	18,805,638.41
January 2012 to June 2012	18,805,638.41	614,759.11	0.00	0.00	19,420,397.52

7. In 2010, BYS and its subsidiaries reversed other receivables of RMB2,533,518.00 for which bad debt provision has been made in full in prior years, and there was no such reversal in January 2012 to June 2012, the years of 2011 and 2009.

8. Other receivables that were written off during the Reporting Periods are set out as below:

① There were no other receivables that were written off during January 2012 to June 2012.

② There were no other receivables that were written off during 2011.

③ During 2010:

Item	Amount written-off	Nature	Reason	Related party
Guangdong Guancheng Real Estate Development Co., Ltd.* (廣東冠城房地產開發有限公司)	686,128.00	Payment of third party	Judgment from the court which terminated the enforcement	No

④ During 2009:

Item	Amount written-off	Nature	Reason	Related party
Hejigong Trading Company* (何濟公經貿公司)	38,788.05	Engineering payment	The company has been deregistered, unable to be collected	No

9. As at the end of June 2012, 2011, 2010 and 2009, there were no other receivables due from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

10. As at the end of June 2012, 2011, 2010 and 2009, other receivables due from the related parties amounted to RMB7,209,810.12, RMB1,929,144.33, RMB2,102,904.05 and RMB34,323,962.52 respectively, representing 13.11%, 4.63%, 4.67% and 42.39% of the total other receivables at the end of the Reporting Periods. For details, please refer to note (II) 5 of Section VI.

11. There were no securitisations that targeted at other receivables during the Reporting Periods.

(6) Advances to suppliers

1. The aging of advances to suppliers is analyzed as follows

	30 June 2012		31 December 2011		31 December 2010		31 December 2009	
Aging	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Within 1 year	50,588,618.72	97.70%	38,167,858.92	96.98%	17,835,758.36	94.08%	13,621,945.53	93.18%
1 to 2 years	119,919.10	0.23%	102,205.18	0.26%	665,628.14	3.51%	471,243.21	3.22%
2 to 3 years	613,452.34	1.18%	630,968.03	1.60%	329,442.91	1.74%	28,945.87	0.20%
Over 3 years	458,593.69	0.89%	457,163.22	1.16%	127,720.31	0.67%	496,505.04	3.40%
Total	51,780,583.85	100.00%	39,358,195.35	100.00%	18,958,549.72	100.00%	14,618,639.65	100.00%

2. As at the end of June 2012, 2011, 2010 and 2009, there were no advances to shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

3. As at the end of June 2012, 2011, 2010 and 2009, the advances to the related parties amounted to RMB7,696,086.41, RMB581,278.62, RMB268,032.78 and RMB210,278.62 respectively, representing 14.86%, 1.48%, 1.41% and 1.44% of the total advances to suppliers at the end of the Reporting Periods. For details, please refer to note (II) 5 of Section VI.

(7) Inventories

Item	30 June 2012 Ending Balance	30 June 2012 Provision for declines in value of inventories	31 December 2011 Ending Balance	31 December 2011 Provision for declines in value of inventories	31 December 2010 Ending Balance	31 December 2010 Provision for declines in value of inventories	31 December 2009 Ending Balance	31 December 2009 Provision for declines in value of inventories
Raw materials	379,545,013.85	2,218,120.23	329,345,727.55	1,403,942.15	313,838,299.26	1,416,525.28	188,908,128.49	941,667.24
Work in progress	90,027,073.74	0.00	79,455,660.60	1,904,500.00	109,567,705.69	0.00	73,289,672.28	0.00
Finished goods	159,577,255.67	3,411,816.74	255,992,037.35	5,469,990.44	284,882,463.54	8,574,459.50	170,247,794.50	4,347,238.42
Low-value consumables	753,980.17	131,357.96	1,323,805.52	131,357.96	1,018,997.01	65,678.98	824,957.88	0.00
Packaging materials	7,053,568.73	22,220.70	19,584,330.23	22,220.70	24,441,413.16	11,110.35	21,935,630.44	99,090.14
Goods in processing contract	5,566,423.68	0.00	3,650,024.89	0.00	3,749,774.24	0.00	10,610,506.00	0.00
Commodity stocks	7,062,232.88	0.00	20,647,087.03	0.00	9,526,215.59	0.00	2,484,178.94	0.00
Total	649,585,584.72	5,783,515.63	709,998,673.17	8,932,011.25	747,024,868.49	10,067,774.11	468,300,868.53	5,387,995.80

Provisions for declines in the value of inventories:

Type of inventories	Raw materials	Work in progress	Finished goods	Low-value consumables	Packaging materials	Total
Balance at the beginning of 2009	1,952,604.74	0.00	7,674,693.71	0.00	583,906.66	10,211,205.11
Current year additions	-1,010,937.50	0.00	-3,327,455.29	0.00	-484,816.52	-4,823,209.31
Current year reductions	0.00	0.00	0.00	0.00	0.00	0.00
Reversal	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	0.00	0.00	0.00	0.00	0.00	0.00
Balance at the beginning of 2010	941,667.24	0.00	4,347,238.42	0.00	99,090.14	5,387,995.80
Current year additions	474,858.04	0.00	4,227,221.08	65,678.98	-87,979.79	4,679,778.31
Current year reductions	0.00	0.00	0.00	0.00	0.00	0.00
Reversal	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	0.00	0.00	0.00	0.00	0.00	0.00
Balance at the beginning of 2011	1,416,525.28	0.00	8,574,459.50	65,678.98	11,110.35	10,067,774.11
Current year additions	-12,583.13	1,904,500.00	-3,104,469.06	65,678.98	11,110.35	-1,135,762.86
Current year reductions	0.00	0.00	0.00	0.00	0.00	0.00
Reversal	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	0.00	0.00	0.00	0.00	0.00	0.00
Balance at the end of 2011	1,403,942.15	1,904,500.00	5,469,990.44	131,357.96	22,220.70	8,932,011.25
Current period additions	814,178.08	0.00	-2,058,173.70	0.00	0.00	-1,243,995.62
Current period reductions	0.00	1,904,500.00	0.00	0.00	0.00	1,904,500.00
Reversal	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	0.00	1,904,500.00	0.00	0.00	0.00	1,904,500.00
Balance at 30 June 2012	2,218,120.23	0.00	3,411,816.74	131,357.96	22,220.70	5,783,515.63

Basis for impairment provisions accrual: the impairment provisions accrual is based on the lower of the inventory cost and net realizable value.

The provisions for decline in the prices of inventories were written off as at January 2012 to June 2012 as the result of the unqualified raw materials provided by the raw material supplier of BYS in 2011. The impairment provisions accrual amounted to RMB1,904,500.00 due to the failure of compensation negotiation with the supplier as at the end of 2011. In 2012, the supplier compensated to the BYS for the loss due to their long term relationship, therefore, the corresponding impairment provisions accrual of RMB1,904,500.00 were written off.

(8) Other current assets – prepaid expenses

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Prepaid insurance premium and others	479,622.79	752,255.64	710,642.86	895,373.49

(9) Available-for-sale financial assets

	Fair value at the end of 30 June 2012		Fair value at the end of 2011		Fair value at the end of 2010		Fair value at the end of 2009	
	Cost of investment	Fair value	Cost of investment	Fair value	Cost of investment	Fair value	Cost of investment	Fair value
Available-for-sale equity instruments								
Bank of Communications Company Limited	86,429.30	281,066.86	86,429.30	277,988.54	86,429.30	308,419.88	53,394.80	457,589.00

The available-for sale financial assets are the A shares of Bank of Communications held by BYS and its subsidiaries, which are shares with no restrictions in circulation. The fair value of such is determined based on the closing price of the last trading day of the Reporting Period as quoted on the Shanghai Stock Exchange.

(10) Long-term equity investments

1. Long-term equity investments are classified as follows:

	30 June 2012		31 December 2011		31 December 2010		31 December 2009	
	Ending Balance	Provision for impairment	Ending Balance	Provision for impairment	Ending Balance	Provision for impairment	Ending Balance	Provision for impairment
Long-term equity investments under equity method								
Jointly controlled entities	271,616,007.42	0.00	256,840,103.12	0.00	242,982,962.18	0.00	205,977,431.16	0.00
Associates	0.00	0.00	0.00	0.00	0.00	0.00	3,743,809.95	0.00
Sub-total	271,616,007.42	0.00	256,840,103.12	0.00	242,982,962.18	0.00	209,721,241.11	0.00
Long-term equity investments under cost method	16,864,953.51	3,475,000.00	16,564,953.51	3,475,000.00	16,564,953.51	3,475,000.00	16,564,953.51	3,375,000.00
Total	288,480,960.93	3,475,000.00	273,405,056.63	3,475,000.00	259,547,915.69	3,475,000.00	226,286,194.62	3,375,000.00

2. Major information of jointly controlled entities

(Currency Unit: RMB'0000)

Investee	Entity Type	Place of registration	Nature of business	Registered Capital	% equity Interest held by BYS	% voting rights held by BYS
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Limited Liability Company	Guangzhou	Manufacturing of Medicine	20,000.00	50%	50%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Limited Liability Company	Guangzhou	Manufacturing of Medicine	17,750.00	50%	50%

During the Reporting Periods, the financial condition of the jointly controlled entities are as follows:

(Currency Unit: RMB'0000)

		As at 30 June 2012		January to June 2012		
Investee	% equity interest held by BYS	Total assets	Total liabilities	Total operating income	Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	102,290.44	48,725.51	72,813.95	6,831.81	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品 有限公司)	50.00%	20,546.27	17,473.55	11,291.45	123.37	Jointly controlled entities

		As at 31 December 2011		January to December 2011		
Investee	% equity interest held by BYS	Total assets	Total liabilities	Total operating income	Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	88,642.47	38,086.40	110,637.12	10,311.74	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	18,589.48	15,640.13	21,053.75	475.75	Jointly controlled entities

		As at 31 December 2010		January to December 2010		
Investee	% equity interest held by BYS	Total assets	Total liabilities	Total operating income	Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	77,205.51	30,317.16	102,428.33	8,939.89	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	17,400.37	14,926.77	19,643.49	-1,875.02	Jointly controlled entities

Investee	% equity interest held by BYS	As at 31 December 2009 Total assets	Total liabilities	January 2009 to December 2009 Total operating income	Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	75,404.85	37,625.89	92,979.39	9,656.03	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	16,901.69	12,543.19	16,797.97	-3,933.04	Jointly controlled entities
Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	42.54%	2,068.27	995.62	7,422.50	316.98	Associates

Equity interests of the Guangzhou Pharmaceutical Football Club Co., Ltd held by BYS was transferred to Guangzhou Football Development Center（廣州足球發展中心）, an entity registered in PRC and independent of BYS and its related parties.

3. Long-term equity investments under equity method

Investee	Initial investment cost	31 December 2008	Changes in equity for the period Total	Including: Cash bonus received	31 December 2009
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	140,021,739.19	44,163,158.45	5,000,000.00	184,184,897.64
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	41,457,710.48	-19,665,176.96	0.00	21,792,533.52
Sub-total	137,000,000.00	181,479,449.67	24,497,981.49	5,000,000.00	205,977,431.16
Associate					
Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	7,500,000.00	2,395,510.33	1,348,299.62	0.00	3,743,809.95
Total	144,500,000.00	183,874,960.00	25,846,281.11	5,000,000.00	209,721,241.11

Investee	Initial investment cost	31 December 2009	Changes in equity for the period: Total	Changes in equity for the period: Including: Cash bonus received	31 December 2010
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	184,184,897.64	46,430,079.40	0.00	230,614,977.04
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	21,792,533.52	-9,424,548.38	0.00	12,367,985.14
Sub-total	137,000,000.00	205,977,431.16	37,005,531.02	0.00	242,982,962.18
Associate					
Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	7,500,000.00	3,743,809.95	-3,743,809.95	0.00	0.00
Total	144,500,000.00	209,721,241.11	33,261,721.07	0.00	242,982,962.18

Investee	Initial investment cost	31 December 2010	Changes in equity for the period: Total	Changes in equity for the period: Including: Cash bonus received	31 December 2011
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	230,614,977.04	11,478,379.18	40,000,000.00	242,093,356.22
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	12,367,985.14	2,378,761.76	0.00	14,746,746.90
Total	137,000,000.00	242,982,962.18	13,857,140.94	40,000,000.00	256,840,103.12

Investee	Initial investment cost	31 December 2011	Changes in equity for the period: Total	Including: Cash bonus received	30 June 2012
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	242,093,356.22	14,159,072.19	20,000,000.00	256,252,428.41
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	14,746,746.90	616,832.11	0.00	15,363,579.01
Total	137,000,000.00	256,840,103.12	14,775,904.30	20,000,000.00	271,616,007.42

4. Long-term equity investments under cost method

Investee	Initial investment cost	% equity interest	31 December 2008	Changes in equity for the period: Total	Including: Cash bonus received	31 December 2009
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	10,235,200.00	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	1.00%	100,000.00	0.00	0.00	100,000.00
Guangzhou Commercial Bank* (廣州市商業銀行)	100,000.00	0.00%	100,000.00	0.00	0.00	100,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	3,500,000.00	1,500,000.00	0.00	5,000,000.00
Total			15,064,953.51	1,500,000.00	0.00	16,564,953.51

Investee	Initial investment cost	% equity interest	31 December 2009	Changes in equity for the period: Total	Changes in equity for the period: Including: Cash bonus received	31 December 2010
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	1.00%	100,000.00	0.00	0.00	100,000.00
Guangzhou Commercial Bank* (廣州市商業銀行)	100,000.00	0.00%	100,000.00	0.00	0.00	100,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Total			16,564,953.51	0.00	0.00	16,564,953.51

Investee	Initial investment cost	% equity interest	31 December 2010	Changes in equity for the period: Total	Changes in equity for the period: Including: Cash bonus received	31 December 2011
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	1.00%	100,000.00	0.00	0.00	100,000.00
Guangzhou Commercial Bank* (廣州市商業銀行)	100,000.00	0.00%	100,000.00	0.00	0.00	100,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Total			16,564,953.51	0.00	0.00	16,564,953.51

Investee	Initial investment cost	% equity interest	31 December 2011	Changes in equity for the period: Total	Including: Cash bonus received	30 June 2012
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	1.00%	100,000.00	0.00	0.00	100,000.00
Guangzhou Commercial Bank* (廣州市商業銀行)	100,000.00	0.00%	100,000.00	0.00	0.00	100,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Shandong Guangyao Chinese Medicinal Materials Development Co., Ltd （山東廣藥中藥材開發有限公司）	300,000.00	15.00%	0.00	300,000.00	0.00	300,000.00
Total			16,564,953.51	300,000.00	0.00	16,864,953.51

Notes: Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.*（廣州白雲山明興製藥有限公司), a subsidiary of BYS, invested to set up Shandong Guangyao Chinese Medicine Development Co., Ltd.（山東廣藥中藥材開發有限公司）with Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.*（廣州采芝林藥業有限公司）and Shandong Pingyi Fangyuan Pharmaceutical Co., ltd.（山東平邑方圓藥業有限公司)in February 2012, the proportion of capital contribution are 15%, 45% and 40%, respectively, and appointed 1 director according to the articles of associations. Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.*（廣州白雲山明興製藥有限公司）appointed the Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.*（廣州采芝林藥業有限公司）to exercise its voting right in Shandong Guangyao Chinese Medicine Development Co., Ltd.（山東廣藥中藥材開發有限公司). Therefore, Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.*（廣州白雲山明興製藥有限公司）does not have significant over the Shandong Guangyao Chinese Medicine Development Co., Ltd.（山東廣藥中藥材開發有限公司）and adopted the cost method for that long-term equity investment accordingly.

5. Provision for impairment of long-term equity investments

Investee	31 December 2008	Increase for the period	Decrease for the period	31 December 2009	Reasons for provision
Business Activity Center Securities* (企業活動中心證券)	50,000.00	0.00	0.00	50,000.00	The investee no longer existed.
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	0.00	0.00	275,000.00	The investee no longer existed.
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	0.00	2,000,000.00	0.00	2,000,000.00	The investee has neither provided financial statements, nor made profit distribution.
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	0.00	300,000.00	0.00	300,000.00	The financial condition of the investee continued to deteriorate.
Northeast General Pharmaceutical Factory* (東北製藥總廠)	0.00	750,000.00	0.00	750,000.00	The investee has conducted the stock reform, this proportion of equity interest cannot be recognized.
Total	325,000.00	3,050,000.00	0.00	3,375,000.00	

Investee	31 December 2009	Increase for the period	Decrease for the period	31 December 2010	Reasons for provision
Business Activity Center Securities* (企業活動中心證券)	50,000.00	0.00	0.00	50,000.00	The investee no longer existed.
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	0.00	0.00	275,000.00	The investee no longer existed.
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	0.00	0.00	2,000,000.00	The investee has neither provided financial statements, nor made profit distribution.
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	0.00	0.00	300,000.00	The financial condition of the investee continued to deteriorate.

Investee	31 December 2009	Increase for the period	Decrease for the period	31 December 2010	Reasons for provision
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	0.00	0.00	750,000.00	The investee has conducted the stock reform, this proportion of equity interest cannot be recognized.
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	0.00	100,000.00	0.00	100,000.00	The investee has long been in a loss-making position, and become insolvent.
Total	3,375,000.00	100,000.00	0.00	3,475,000.00	

Investee	31 December 2010	Increase for the period	Decrease for the period	31 December 2011	Reasons for provision
Business Activity Center Securities* (企業活動中心證券)	50,000.00	0.00	0.00	50,000.00	The investee no longer existed.
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	0.00	0.00	275,000.00	The investee no longer existed.
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	0.00	0.00	2,000,000.00	The investee has neither provided financial statements, nor made profit distribution.
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	0.00	0.00	300,000.00	The financial condition of the investee continued to deteriorate.
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	0.00	0.00	750,000.00	The investee has conducted the stock reform, this proportion of equity interest cannot be recognized.
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	0.00	0.00	100,000.00	The investee has long been in a loss-making position, and become insolvent.
Total	3,475,000.00	0.00	0.00	3,475,000.00	

Investee	31 December 2011	Increase for the period	Decrease for the period	30 June 2012	Reasons for provision
Business Activity Center Securities* (企業活動中心證券)	50,000.00	0.00	0.00	50,000.00	The investee no longer existed.
Guangzhou Dongning Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	0.00	0.00	275,000.00	The investee no longer existed.
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	0.00	0.00	2,000,000.00	The investee has neither provided financial statements, nor made profit distribution.
Guangzhou Sino-British Cambridge Technology Park Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	0.00	0.00	300,000.00	The financial condition of the investee continued to deteriorate.
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	0.00	0.00	750,000.00	The investee has conducted the stock reform, this proportion of equity interest cannot be recognized.
Guangzhou Yufa Medical Equipment Co. Ltd.* (廣州裕發醫用器械有限公司)	100,000.00	0.00	0.00	100,000.00	The investee has long been in a loss-making position, and become insolvent.
Total	3,475,000.00	0.00	0.00	3,475,000.00	

6. There was no inconsistency between the ratios of equity interest held and ratios of voting rights held during the Reporting Periods.

7. There was no significant restrictions in the liquidation of and repatriation of the investment income for the above investment projects.

8. There was no limitation on fund transfer to the investing entities during the Reporting Periods.

9. There was no disposal of long-term equity investments at a price significantly higher than the carrying amount during the Reporting Periods.

(11) Investment properties

		Increase for the period			Decrease for the period			
Item	31 December 2008	Addition	Transfer from properties for self-use or inventories	Change in the fair value of the period	Disposal	Transfer to properties for self-use	Other	31 December 2009
1. Cost	79,459,682.10	0.00	366,163.52	0.00	0.00	0.00	149,930.52	79,675,915.10
(1) Buildings	57,567,749.45	0.00	218,252.28	0.00	0.00	0.00	0.00	57,786,001.73
(2) Land use rights	21,891,932.65	0.00	147,911.24	0.00	0.00	0.00	149,930.52	21,889,913.37
2. Change in fair value	251,761,692.91	0.00	2,291,186.48	1,875,845.51	0.00	0.00	0.00	255,928,724.90
(1) Buildings	230,541,589.04	0.00	1,444,417.72	1,494,931.51	0.00	0.00	0.00	233,480,938.27
(2) Land use rights	21,220,103.87	0.00	846,768.76	380,914.00	0.00	0.00	0.00	22,447,786.63
3. Provision for impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(1) Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) Land use rights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Carrying amount	331,221,375.01	0.00	2,657,350.00	1,875,845.51	0.00	0.00	149,930.52	335,604,640.00
(1) Buildings	288,109,338.49	0.00	1,662,670.00	1,494,931.51	0.00	0.00	0.00	291,266,940.00
(2) Land use rights	43,112,036.52	0.00	994,680.00	380,914.00	0.00	0.00	149,930.52	44,337,700.00

In 2009, Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠), a branch of BYS rented out its buildings for self-use, and transferred such buildings previously accounted for as fixed assets to investment properties on 1 December 2009, with the carrying amount of RMB218,252.29 and fair value of RMB1,662,670.00 as at that date.

In 2009, BYS leased the land use rights to Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州足球俱樂部有限公司), and transferred such land use rights previously accounted for as intangible assets to investment properties on 1 August 2009, with the carrying amount of RMB147,911.24 and fair value of RMB994,680.00 as at that date.

In 2009, BYS pledged an investment property at 2 Yunxiang Road, Baiyun District with a cost of RMB4,702,346.57 and fair value of RMB32,360,730.00 as collateral for a maximum loan from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China. For details of borrowings, please refer to notes (12) 16 of Section V.

The value of investment property above as at 31 December 2009 was appraised and confirmed by Guangzhou Yangcheng Real Estate Valuation Limited Company* (廣東羊城土地房地產估價有限公司, "Yangcheng Valuer)" which was registered in PRC and legally possessed the qualification in property appraisal. The basis for valuation adopted by Yangcheng Valuer was the arithmetic mean confirmed by the market comparison approach and income approach. The market comparison approach means comparing the valuation target to similar properties that have had transactions about the valuation date and estimating the market value of such properties by making transaction situation, transaction date, geographical factor and individual factors adjustments to the known transaction prices of the similar properties. While income approach means converting the net income of the property within the remaining useful life to the valuation date by using the appropriate capitalization rate according to the condition of the onsite exploration by experts, so that the sum of the present value can be obtained and the value of the valuation target can be derived.

The land use right of the investment property are located in mainland China, the remaining useful life are between 10 to 50 years.

Item	31 December 2009	Increase for the period: Addition	Increase for the period: Transfer from properties for self-use or inventories	Increase for the period: Change in the fair value of the period	Decrease for the period: Disposal	Decrease for the period: Transfer to properties for self-use	Other	31 December 2010
1. Cost	79,675,915.10	0.00	898,718.72	0.00	51,336.00	0.00	0.00	80,523,297.82
(1) Buildings	57,786,001.73	0.00	898,718.72	0.00	51,336.00	0.00	0.00	58,633,384.45
(2) Land use rights	21,889,913.37	0.00	0.00	0.00	0.00	0.00	0.00	21,889,913.37
2. Change in fair value	255,928,724.90	0.00	4,994,161.28	7,357,480.00	4,348,994.00	0.00	0.00	263,931,372.18
(1) Buildings	233,480,938.27	0.00	4,994,161.28	5,803,670.00	4,348,994.00	0.00	0.00	239,929,775.55
(2) Land use rights	22,447,786.63	0.00	0.00	1,553,810.00	0.00	0.00	0.00	24,001,596.63
3. Provision for impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(1) Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) Land use rights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0
4. Carrying amount	335,604,640.00	0.00	5,892,880.00	7,357,480.00	4,400,330.00	0.00	0.00	344,454,670.00
(1) Buildings	291,266,940.00	0.00	5,892,880.00	5,803,670.00	4,400,330.00	0.00	0.00	298,563,160.00
(2) Land use rights	44,337,700.00	0.00	0.00	1,553,810.00	0.00	0.00	0.00	45,891,510.00

In 2010, Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠), a branch of BYS rented out its buildings for self-use, and transferred such buildings previously accounted for as fixed assets to investment properties on 1 September 2010, with the carrying amount of RMB876,844.56 and fair value of RMB2,368,780.00 as at that date.

In 2010, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司), a subsidiary of BYS, rented out its buildings for self-use, and transferred such buildings previously accounted for as intangible assets to investment properties on 1 October 2010, with the carrying amount of RMB21,874.16 and fair value of RMB3,524,100.00 as at that date.

In 2010, the disposal of the investment properties of BYS was as follows: Construction and Public Works Bureau of Yuexiu District, Guangzhou* (廣州市越秀區建設和市政局) requisitioned the property at 139 North Yuexiu Road, Yuexiu District, Guangzhou under the name of Baiyunshan He Ji Gong Pharmaceutical Factory* (白雲山何濟公製藥廠) (hereinafter referred to as the "He Ji Gong Pharmaceutical Factory"), a subsidiary of BYS with a site area of 307.44 sq. m. and a gross floor area of 1,097.13 sq. m. In February 2010, He Ji Gong Pharmaceutical Factory and Construction and Public Works Bureau of Yuexiu District, Guangzhou* (廣州市越秀區建設和市政局) signed a demolition and removal compensation agreement, and the compensation was made based on the appraised value of such property plus subsidy and removal allowance with a total compensation of RMB22,672,812.53 and the carrying amount of the transferred-out investment properties of RMB4,400,330.00 and land use right (reflected in the Intangible assets) of RMB385,456.68, the profit or loss relating to the disposal of the abovementioned investment properties and realization of land use right were RMB14,970,812.52.

In 2010, BYS has pledged the investment property located in No. 2, Yun Xiang Road, Baiyun District with the original price of RMB4,702,346.57 and the fair value of RMB32,850,420.00 to the Dezhengzhong Branch（德政中支行）in Guangzhou of Industrial and Commercial Bank of China Limited for the maximum loan. The borrowing details referred to note (12) 13 of Section V.

The value of investment property above as at 31 December 2010 was appraised and confirmed by Guangzhou Yangcheng Real Estate Valuation Limited Company* (廣東羊城土地房地產估價有限公司, "Yangcheng Valuer") which was registered in PRC and legally possessed the qualification in property appraisal. The basis for valuation adopted by Yangcheng Valuer was the arithmetic mean confirmed by the market comparison approach and income approach. The market comparison approach means comparing the valuation target to similar properties that have had transactions about the valuation date and estimating the market value of such properties by making transaction situation, transaction date, geographical factor and individual factors adjustments to the known transaction prices of the similar properties. While income approach means converting the net income of the property within the remaining useful life to the valuation date by using the appropriate capitalization rate according to the condition of the onsite exploration by experts, so that the sum of the present value can be obtained and the value of the valuation target can be derived.

The land use right of the investment property are located in mainland China, the remaining useful life are between 10 to 50 years.

		Increase for the period			Decrease for the period			
Item	**31 December 2010**	**Addition**	**Transfer from properties for self-use or inventories**	**Change in the fair value of the period**	**Disposal**	**Transfer to properties for self-use**	**Other**	**31 December 2011**
1. Cost	80,523,297.82	0.00	0.00	0.00	0.00	0.00	0.00	80,523,297.82
(1) Buildings	58,633,384.45	0.00	0.00	0.00	0.00	0.00	0.00	58,633,384.45
(2) Land use rights	21,889,913.37	0.00	0.00	0.00	0.00	0.00	0.00	21,889,913.37
2. Change in fair value	263,931,372.18	0.00	0.00	660,740.00	0.00	0.00	0.00	264,592,112.18
(1) Buildings	239,929,775.55	0.00	0.00	-19,600.00	0.00	0.00	0.00	239,910,175.55
(2) Land use rights	24,001,596.63	0.00	0.00	680,340.00	0.00	0.00	0.00	23,321,256.63
3. Provision for impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(1) Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) Land use rights	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Carrying amount	344,454,670.00	0.00	0.00	660,740.00	0.00	0.00	0.00	264,592,112.18
(1) Buildings	298,563,160.00	0.00	0.00	-19,600.00	0.00	0.00	0.00	239,910,175.55
(2) Land use rights	45,891,510.00	0.00	0.00	680,340.00	0.00	0.00	0.00	23,321,256.63

In 2011, BYS pledged an investment property at 2 Yunxiang Road, Baiyun District with a cost of RMB4,702,346.57 and fair value of RMB32,903,780.00 as collateral for a maximum loan from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China. For details of borrowings, please refer to notes (12) 10 of Section V.

The value of investment property above as at 31 December 2011 was appraised and confirmed by Guangzhou Yangcheng Real Estate Valuation Limited Company* (廣東羊城土地房地產估價有限公司, "Yangcheng Valuer") which was registered in PRC and legally possessed the qualification in property appraisal. The basis for valuation adopted by Yangcheng Valuer was the arithmetic mean confirmed by the market comparison approach and income approach. The market comparison approach means comparing the valuation target to similar properties that have had transactions about the valuation date and estimating the market value of such properties by making transaction situation, transaction date, geographical factor and individual factors adjustments to the known transaction prices of the similar properties. While income approach means converting the net income of the property within the remaining useful life to the valuation date by using the appropriate capitalization rate according to the condition of the onsite exploration by experts, so that the sum of the present value can be obtained and the value of the valuation target can be derived.

The land use right of the investment property are located in mainland China, the remaining useful life are between 10 to 50 years.

		Increase for the period			Decrease for the period			
Item	31 December 2011	Addition	Transfer from properties for self-use or inventories	Change in the fair value of the period	Disposal	Transfer to properties for self-use	Other	30 June 2012
1. Cost	80,523,297.82	0.00	0.00	0.00	0.00	33,714,284.87	0.00	46,809,012.95
(1) Buildings	58,633,384.45	0.00	0.00	0.00	0.00	11,824,371.50	0.00	46,809,012.95
(2) Land use rights	21,889,913.37	0.00	0.00	0.00	0.00	21,889,913.37	0.00	0.00
2. Change in fair value	263,231,432.18	0.00	0.00	5,266,230.00	0.00	35,502,605.13	0.00	232,995,057.05
(1) Buildings	239,910,175.55	0.00	0.00	5,266,230.00	0.00	12,181,348.50	0.00	232,995,057.05
(2) Land use rights	23,321,256.63	0.00	0.00	0.00	0.00	23,321,256.63	0.00	0.00
3. Provision for impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(1) Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) Land use rights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Carrying amount	343,754,730.00	0.00	0.00	5,266,230.00	0.00	69,216,890.00	0.00	279,804,070.00
(1) Buildings	298,543,560.00	0.00	0.00	5,266,230.00	0.00	24,005,720.00	0.00	279,804,070.00
(2) Land use rights	45,211,170.00	0.00	0.00	0.00	0.00	45,211,170.00	0.00	0.00

BYS pledged its investment property located at 2 Yun Xiang Road, Baiyun District with original price of RMB3,139,379.48 and fair value of RMB22,189,080.00 to Dezhengzhong Branch, Guangzhou, ICBC to secure a maximum amount of loan. Details of the borrowing refer to Note (12) 8 of Section V.

As at January 2012, BYS changed the usage of the properties located at 46 West Wenquan Road, Wenquan Town, Conghua, Guangdong Province, PRC (Yue Fang Di Zheng Zi Di No.C0604135, C0604136, C0604137, C0604098, C0604099) which were originally used for rental into providing tourism and training service by the Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd.* (廣州廣藥白雲山大健康酒店有限公司), a wholly subsidiary of BYS. Therefore, the investment properties with fair value of RMB13,291,020.00 as at the end of December 2011 reflected the carrying amount of the fixed assets.

As at January 2012, BYS decided not to lease the land of football field and basketball court located at the 倚綠山莊, East of Yuandunling, Tonghe Town Baiyun District, Guangzhou (Sui Guo Yong (2004) No. 297), the land located at 97 Yunxiang Road, Baiyun District (Sui Guo Yong (2007) No. 1300053) and the 鴛鴦樓, guesthouse and old canteen located at 2 Yunxiang Road, Baiyun District (part of the properties of Sui Fang Di Zheng Zi Di No. 0453679). The total fair value of these investment as at the end of December 2011 amounted RMB55,925,870.00 (in which the land accounted for RMB45,211,170.00 and the buildings accounted for RMB10,714,700.00) reflected the carrying amount of the corresponding intangible and fixed assets.

The value of investment property above as at 30 June 2012 was appraised and confirmed by Guangdong Yang Cheng Property Valuation Company Limited* (廣東羊城土地房地產估價有限公司)(「Yang Cheng Valuation* (羊城評估)」) which was registered in PRC and legally possessed the qualification in property appraisal. The basis for valuation adopted by 羊城評估 was the arithmetic mean confirmed by the market comparison approach and income approach. The market comparison approach means comparing the valuation target to similar properties that have had transactions about the valuation date and estimating the market value of such properties by making transaction situation, transaction date, geographical factor and individual factors adjustments to the known transaction prices of the similar properties. While income approach means converting the net income of the property within the remaining useful life to the valuation date by using the appropriate capitalization rate according to the condition of the onsite exploration by experts, so that the sum of the present value can be obtained and the value of the valuation target can be derived.

The land use right of the investment property are located in mainland China, the remaining useful life are between 10 to 50 years.

(12) Fixed assets – Cost and accumulated depreciation

1. Cost of fixed assets

Types	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration and fixtures	Total
31 December 2008	671,994,636.70	560,293,660.00	34,417,886.78	87,993,087.77	19,279,735.69	11,190,019.09	1,385,169,026.03
Additions for the year	37,560,015.16	8,053,535.56	490,861.68	1,682,333.66	1,138,404.26	11,578.55	48,936,728.87
Disposals for the year	7,153,815.43	74,545,996.38	911,221.00	8,338,427.23	2,899,678.47	0.00	93,849,138.51
31 December 2009	702,400,836.43	493,801,199.18	33,997,527.46	81,336,994.20	17,518,461.48	11,201,597.64	1,340,256,616.39
Additions for the year	1,338,890.05	23,811,241.35	4,889,834.18	5,944,341.10	4,741,787.73	951,328.14	41,677,422.55
Disposals for the year	6,449,502.21	9,968,617.15	4,349,763.28	174,552.10	439,503.19	0.00	21,381,937.93
31 December 2010	697,290,224.27	507,643,823.38	34,537,598.36	87,106,783.20	21,820,746.02	12,152,925.78	1,360,552,101.01
Additions for the year	10,189,207.64	46,151,512.67	1,740,293.85	3,824,546.41	11,347,403.27	0.00	73,252,963.84
Disposals for the year	12,287,009.21	16,247,849.02	3,220,115.16	4,954,368.33	704,495.68	0.00	37,413,837.40
31 December 2011	695,192,422.70	537,547,487.03	33,057,777.05	85,976,961.28	32,463,653.61	12,152,925.78	1,396,391,227.45
Additions for the year	25,541,018.99	16,229,300.07	957,114.73	123,691.11	1,882,222.52	0.00	44,733,275.42
Disposals for the year	0.00	4,932,607.08	1,335,362.00	95,550.00	6,266,632.69	0.00	12,630,151.77
30 June 2012	720,733,441.69	548,844,180.02	32,679,529.78	86,005,030.39	28,079,243.44	12,152,925.78	1,428,494,351.10

2. Accumulated depreciation

Types	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration and fixtures	Total
31 December 2008	224,412,750.62	330,418,767.45	25,658,438.97	55,925,940.94	11,830,654.34	6,139,458,12	654,386,010.44
Additions for the year	0.00	43,476.80	0.00	22,082.04	0.00	0.00	65,558.84
Provision for the year	24,596,700.10	36,561,094.94	2,040,804.22	8,535,272.81	2,285,993.04	472,615.59	74,492,480.70
Disposals for the year	1,865,239.63	66,957,681.85	845,924.07	7,360,500.53	2,705,632.92	0.00	79,734,979.00
31 December 2009	247,144,211.09	300,065,657.34	26,853,319.12	57,122,795.26	11,411,014.46	6,612,073.71	649,209,070.98
Additions for the year	0.00	587,125.21	0.00	0.00	0.00	561,735.91	1,148,861.12
Provision for the year	20,869,393.43	34,953,940.78	1,819,874.67	5,766,411.29	2,265,240.24	1,231,919.60	66,906,780.01
Disposals for the year	3,955,077.21	9,166,114.94	4,141,911.76	164,492.34	414,301.94	0.00	17,841,898.19
31 December 2010	264,058,527.31	326,440,608.39	24,531,282.03	62,724,714.21	13,261,952.76	8,405,729.22	699,422,813.92
Additions for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provision for the year	20,164,712.78	34,613,433.47	1,976,210.46	5,657,335.34	3,201,171.61	2,901,985.72	68,514,849.38
Disposals for the year	8,182,482.98	15,374,859.96	3,089,004.01	4,753,078.29	672,701.41	0.00	32,072,126.65
31 December 2011	276,040,757.11	345,679,181.90	23,418,488.48	63,628,971.26	15,790,422.96	11,307,714.94	735,865,536.65
Additions for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provision for the year	11,003,868.18	18,635,335.88	964,823.08	2,284,801.38	1,734,343.37	373,353.69	34,996,343.58
Disposals for the year	0.00	4,233,299.96	1,322,601.14	93,043.50	1,176,164.94	0.00	6,825,109.54
30 June 2012	287,044,443.29	360,081,217.82	23,060,710.42	65,820,729.14	16,348,601.39	11,681,068.63	764,036,770.69

3. Provision for impairment

Type	31 December 2008	Additions for the year	Disposals for the year	31 December 2009	Additions for the year	Disposals for the year	31 December 2010	Additions for the year	Disposals for the year	31 December 2011	Additions for the year	Disposals for the year	30 June 2012	Reason for provision
Buildings	0.00	4,754,768.13	0.00	4,754,768.13	0.00	135,780.67	4,618,987.46	0.00	0.00	4,618,987.46	0.00	0.00	4,618,987.46	Idle
Machinery and equipment	2,000,649.11	5,430,760.51	381.00	7,431,028.62	420,762.23	8,355.50	7,843,435.35	0.00	6,614.78	7,836,820.57	0.00	0.00	7,836,820.57	Idle
Electronic equipment	415,390.47	1,220,032.27	0.00	1,635,422.74	0.00	0.00	1,635,422.74	0.00	0.00	1,635,422.74	0.00	0.00	1,635,422.74	Idle
Office equipment	2,846.38	0.00	0.00	2,846.38	0.00	0.00	2,846.38	0.00	0.00	2,846.38	0.00	0.00	2,846.38	Idle
Total	2,418,885.96	11,405,560.91	381.00	13,824,065.87	420,762.23	144,136.17	14,100,691.93	0.00	6,614.78	14,094,077.15	0.00	0.00	14,094,077.15	

4. Carrying amount

Type	31 December 2009	31 December 2010	31 December 2011	30 June 2012
Buildings	450,501,857.21	428,612,709.50	414,532,678.13	429,070,010.94
Machinery and equipment	186,304,513.22	173,359,779.64	184,031,484.56	180,926,141.63
Motor vehicles	7,144,208.34	10,006,316.33	9,639,288.57	9,618,819.36
Electronic equipment	22,578,776.20	22,746,646.25	20,712,567.28	18,548,878.51
Office equipment	6,104,600.64	8,555,946.88	16,670,384.27	11,727,795.67
Decoration and fixtures	4,589,523.93	3,747,196.56	845,210.84	471,857.15
Total	677,223,479.54	647,028,595.16	646,431,613.65	650,363,503.26

5. Fixed assets used as guarantee

Year	Type	Cost	Accumulated depreciation	Net carrying amount
At the end of 2009	Buildings	167,570,463.32	60,192,228.60	107,378,234.72
At the end of 2010	Buildings	166,299,539.32	64,388,011.02	101,911,528.30
At the end of 2011	Buildings	91,518,577.59	37,979,333.46	53,539,244.13
At the end of June 2012	Buildings	102,233,277.59	39,525,580.66	62,707,697.53

6. As at January 2012 to June 2012, the years of 2011, 2010 and 2009, the costs of construction in progress transferred to fixed assets were RMB6,152,011.71, RMB29,854,183.56, RMB19,181,527.96 and RMB60,866,433.32 respectively.

7. As at January 2012 to June 2012, the amount of investment property transferred to cost was RMB24,005,720.00.

8. As at the end of June 2012, BYS pledged solid dosage preparations workshop*（固體製劑車間）with a gross floor area of 9,955.9876 sq. m. at 78 Yunxiang Road, Baiyun District, Guangzhou, oral liquid & soft capsule workshop*（口服液軟膠囊車間）with a gross floor area of 2,938.61 sq. m. at 82 Yunxiang Road, Baiyun District, Guangzhou and an investment property with a gross floor area of 74,484.91 sq. m. at 2 Yunxiang Road, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB118.00 million from Guangzhou Dezhengzhong sub-branch*（廣州市德政中支行）of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB35.00 million at the end of this year.

9. As at the end of June 2012, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.*（廣州市白雲山天心製藥股份有限公司）, a subsidiary of BYS, pledged the self-numbered No. 6 office building at 808 Binjiang East Road as security with respect to the issuance of RMB30.00 million acceptance bill or loan by Guangzhou Miaoqianzhijie sub-branch*（廣州市廟前直街支行）of Industrial & Commercial Bank of China. As of 30 June 2012, the balance of the borrowing was RMB0.00 million.

10. As at the end of 2011, BYS pledged solid dosage preparations workshop* (固體製劑車間) with a gross floor area of 9,955.9876 sq. m. at 78 Yunxiang Road, Baiyun District, Guangzhou, oral liquid & soft capsule workshop* (口服液軟膠囊車間) with a gross floor area of 2,938.61 sq. m. at 82 Yunxiang Road, Baiyun District, Guangzhou and an investment property with a gross floor area of 74,484.91 sq. m. at 2 Yunxiang Road, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB118.00 million from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB115.00 million at the end of this year.

11. As at the end of 2011, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州市白雲山天心製藥股份有限公司), a subsidiary of BYS, pledged the self-numbered No. 6 office building at 808 Binjiang East Road as security with respect to the issuance of RMB20.00 million acceptance bill or loan by Guangzhou Miaoqianzhijie sub-branch* (廣州市廟前直街支行) of Industrial & Commercial Bank of China. As of 31 December 2011, the actual amount of acceptance bill issued was RMB7.6956 million, and the balance of the borrowing was RMB6.80 million.

12. As at the end of 2010, BYS pledged a property with a gross floor area of 29,843.03 sq. m. in the factory area at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB174.00 million from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB nil at the end of this year.

13. As at the end of 2010, BYS pledged solid dosage preparations workshop* (固體製劑車間) with a gross floor area of 9,955.9876 sq. m. at 78 Yunxiang Road, Baiyun District, Guangzhou, oral liquid & soft capsule workshop* (口服液軟膠囊車間) with a gross floor area of 2,938.61 sq. m. at 82 Yunxiang Road, Baiyun District, Guangzhou and an investment property with a gross floor area of 74,484.91 sq. m. at 2 Yunxiang Road, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB118.00 million from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB95.00 million at the end of this year.

14. As at the end of 2010, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州市白雲山天心製藥股份有限公司), a subsidiary of BYS, pledged the self-numbered No. 6 office building at 808 Binjiang East Road as security with respect to the issuance of RMB20.00 million acceptance bill or loan by Guangzhou Miaoqianzhijie sub-branch* (廣州市廟前直街支行) of Industrial & Commercial Bank of China. As of 31 December 2010, the actual amount of acceptance bill issued was RMB4.00 million.

15. As at the end of 2009, BYS pledged a property with a gross floor area of 29,843.03 sq. m. in the factory area at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB174.00 million from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB115.00 million at the end of this year.

16. As at the end of 2009, BYS pledged solid dosage preparations workshop* (固體製劑車間) with a gross floor area of 9,955.9876 sq. m. at 78 Yunxiang Road, Baiyun District, Guangzhou, oral liquid & soft capsule workshop* (口服液軟膠囊車間) with a gross floor area of 2,938.61 sq. m. at 82 Yunxiang Road, Baiyun District, Guangzhou and an investment property with a gross floor area of 74,484.91 sq. m. at 2 Yunxiang Road, Baiyun District, Guangzhou as collateral to obtain a loan of maximum amount of RMB118.00 million from Guangzhou Dezhengzhong sub-branch* (廣州市德政中支行) of Industrial & Commercial Bank of China, and the actual amount of borrowing was RMB19.00 million at the end of this year.

17. As at the end of 2009, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.(廣州市白雲山天心製藥股份有限公司), a subsidiary of BYS, pledged the self-numbered No. 6 office building at 808 Binjiang East Road as security with respect to the borrowings of RMB10.00 million from Guangzhou Miaoqianzhijie sub-branch* (廣州市廟前直街支行) of Industrial & Commercial Bank of China. As of 31 December 2009, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. repaid the borrowings in full.

18. As at the end of 2009, BYS decided to close down Fangcun Workshop, Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠芳村生產車間), therefore, provision for impairment was made for the idle machinery and equipment and GMP modification project attached to the buildings.

(13) Construction in progress

Item	30 June 2012 Ending balance	30 June 2012 Provision of impairment	30 June 2012 Carrying amount	31 December 2011 Ending balance	31 December 2011 Provision of impairment	31 December 2011 Carrying amount
Construction cost of electrical of the Headquarters Shanxia Pianqu* (股份本部山下片區新建電房工程款)	228,689.86	0.00	228,689.86	228,689.86	0.00	228,689.86
GMP modification project of General Factory Veterinary Drug Workshop* (總廠獸藥車間GMP改造工程)	869,318.50	869,318.50	0.00	869,318.50	869,318.50	0.00
Installation project of General Factory Warehousing Department's new refrigeration house* (總廠倉儲部新冷庫安裝工程)	580,499.46	0.00	580,499.46	580,499.46	0.00	580,499.46
Conversion project of changing General Factory Warehousing Department's Packing Material Building* to Quality Control Department Building* (總廠倉儲部包材大樓改造為質管部大樓項目)	6,555,728.08	0.00	6,555,728.08	5,255,728.08	0.00	5,255,728.08
General Factory's western drain sewage station* upgrading project (總廠西渠污水站升級改造工程)	82,252.82	0.00	82,252.82	0.00	0.00	0.00
Sterile drug active pharmaceutical ingredients 204 workshop modification project of Chemical Pharmaceutical Factory* (化學藥廠無菌原料藥204車間技術改造工程)	806,092.36	0.00	806,092.36	806,092.36	0.00	806,092.36
Boiler modification project of the Chemical Pharmaceutical Factory* (化學藥廠鍋爐改造工程)	566,060.28	0.00	566,060.28	0.00	0.00	0.00
Modification project of the raw material production line of cephalosporin asepsis in the Chemical Pharmaceutical Factory-Sui Yao Ji Han* (化學藥廠頭孢無菌原料藥生產線改造項目穗藥集函)	535,494.00	0.00	535,494.00	0.00	0.00	0.00

Item	30 June 2012 Ending balance	30 June 2012 Provision of impairment	30 June 2012 Carrying amount	31 December 2011 Ending balance	31 December 2011 Provision of impairment	31 December 2011 Carrying amount
Tian Xin powder-needle workshop project* (天心粉針車間工程)	1,404,480.52	0.00	1,404,480.52	1,285,837.78	0.00	1,285,837.78
Construction of Tian Xin Chemistry Research Institute* (天心化學室研究所建造工程)	16,725,192.28	0.00	16,725,192.28	12,210,635.90	0.00	12,210,635.90
Tian Xin GSH workshop* (天心還原型谷胱甘肽車間)	400,000.00	0.00	400,000.00	400,000.00	0.00	400,000.00
Tian Xin vitamin D2 and Calcium Colloid Injection* (天心維D2果酸鈣注射液)	200,000.00	0.00	200,000.00	200,000.00	0.00	200,000.00
Tian Xin sterile injection fluid Workshop* (天心無菌水針車間)	2,833,895.72	0.00	2,833,895.72	1,923,995.72	0.00	1,923,995.72
Wastewater recycling project of Tian Xin recycle station* (天心回收站廢水回收工程)	178,629.00	0.00	178,629.00	178,629.00	0.00	178,629.00
Tian Xin powder-needle screwfilling production line* (天心粉針螺杆分裝生產線)	1,845,461.37	0.00	1,845,461.37	1,757,128.42	0.00	1,757,128.42
Modification project of Tian Xin cephalosporin solid dosage workshop* (天心頭孢固體製劑車間改造工程)	4,108,506.74	0.00	4,108,506.74	0.00	0.00	0.00
Guang Hua equipment modification* (光華設備改造)	299,650.00	0.00	299,650.00	638,600.00	0.00	638,600.00
Ming Xing equipment modification* (明興設備改造)	1,248,546.97	0.00	1,248,546.97	1,093,530.38	0.00	1,093,530.38
Ming Xing Packing line* (明興裝盒機)	2,012,500.00	0.00	2,012,500.00	0.00	0.00	0.00
Ming Xing water filter* (明興純化水機)	2,268,900.00	0.00	2,268,900.00	0.00	0.00	0.00
Ming Xing Conghua Xinzhou Workshop* (明興從化星洲車間)	3,803,814.61	0.00	3,803,814.61	979,183.34	0.00	979,183.34
Ming Xing equipment and instrument* (明興設備儀器)	152,478.64	0.00	152,478.64	135,982.90	0.00	135,982.90
Ming Xing efficient liquid equipment* (明興高效液相儀)	645,000.00	0.00	645,000.00	0.00	0.00	0.00
Tian Xin cefozopran powder-needle technology* (天心頭孢唑蘭粉針技術)	600,000.00	0.00	600,000.00	600,000.00	0.00	600,000.00

Item	30 June 2012 Ending balance	30 June 2012 Provision of impairment	30 June 2012 Carrying amount	31 December 2011 Ending balance	31 December 2011 Provision of impairment	31 December 2011 Carrying amount
Guang Hua Sewage Station expansion technological modification project* (光華污水站擴容技改工程)	189,234.38	189,234.38	0.00	189,234.38	189,234.38	0.00
Guang Hua sewage treatment station expansion* (光華污水處理站擴建工程)	62,500.00	62,500.00	0.00	62,500.00	62,500.00	0.00
General Factory powder-needlesplit charging filling equipment project* (總廠粉針分裝設備項目)	5,467,783.47	0.00	5,467,783.47	3,967,912.35	0.00	3,967,912.35
Tian Xin injection fluid workshop construction (天心水針車間工程)	6,831,179.64	0.00	6,831,179.64	6,807,419.64	0.00	6,807,419.64
New factory construction of Wei Ling Jie Xi production base* (威靈揭西生產基地新廠房工程)	638,750.00	0.00	638,750.00	83,000.00	0.00	83,000.00
Other	1,167,924.21	0.00	1,167,924.21	1,819,407.47	0.00	1,819,407.47
Total	63,308,562.91	1,121,052.88	62,187,510.03	42,073,325.54	1,121,052.88	40,952,272.66

Item	31 December 2010 Ending balance	Provision of impairment	Carrying amount	31 December 2009 Ending balance	Provision of impairment	Carrying amount
Construction cost of electrical of the Headquarters Shanxia Pianqu* (股份本部山下片區新建電房工程款)	228,689.86	0.00	228,689.86	0.00	0.00	0.00
GMP modification project of General Factory Veterinary Drug Workshop* (總廠獸藥車間GMP改造工程)	869,318.50	869,318.50	0.00	626,319.62	0.00	626,319.62
Installation project of General Factory Warehousing Department's new refrigeration house* (總廠倉儲部新冷庫安裝工程)	580,499.46	0.00	580,499.46	0.00	0.00	0.00
Conversion project of changing General Factory Warehousing Department's Packing Material Building* to Quality Control Department Building* (總廠倉儲部包材大樓改造為質管部大樓項目)	4,010,458.80	0.00	4,010,458.80	0.00	0.00	0.00
General Factory's western drain sewage station* upgrading project (總廠西渠污水站升級改造工程)	360,000.00	0.00	360,000.00	0.00	0.00	0.00
Sterile drug active pharmaceutical ingredients 204 workshop modification project of Chemical Pharmaceutical Factory* (化學藥廠無菌原料藥204車間技術改造工程)	806,092.36	0.00	806,092.36	806,092.36	0.00	806,092.36
Distribution of rain and sewage project in Chemical Pharmaceutical Factory* (化學藥廠雨污分流工程項目)	542,514.00	0.00	542,514.00	0.00	0.00	0.00

Item	31 December 2010 Ending balance	31 December 2010 Provision of impairment	31 December 2010 Carrying amount	31 December 2009 Ending balance	31 December 2009 Provision of impairment	31 December 2009 Carrying amount
Tian Xin powder-needle workshop project* (天心粉針車間工程)	1,803,076.16	0.00	1,803,076.16	705,571.52	0.00	705,571.52
Construction of Tian Xin Chemistry Research Institute* (天心化學室研究所建造工程)	6,327,154.68	0.00	6,327,154.68	1,045,649.87	0.00	1,045,649.87
Tian Xin GSH workshop* (天心還原型谷胱甘肽車間)	400,000.00	0.00	400,000.00	400,000.00	0.00	400,000.00
Tian Xin vitamin D2 and Calcium Colloid Injection* (天心維D2果酸鈣注射液)	200,000.00	0.00	200,000.00	200,000.00	0.00	200,000.00
Tian Xin sterile injection fluid Workshop* (天心無菌水針車間)	1,923,995.72	0.00	1,923,995.72	1,723,995.72	0.00	1,723,995.72
Wastewater recycling project of Tian Xin recycle station* (天心回收站廢水回收工程)	1,141,795.00	0.00	1,141,795.00	915,007.50	0.00	915,007.50
Tian Xin powder-needle screwfilling production line* (天心粉針螺杆分裝生產線)	18,047,650.25	0.00	18,047,650.25	1,327,036.13	0.00	1,327,036.13
Guang Hua equipment modification* (光華設備改造)	1,820,860.00	0.00	1,820,860.00	0.00	0.00	0.00
Ming Xing equipment modification* (明興設備改造)	39,357.27	0.00	39,357.27	68,871.99	0.00	68,871.99
Ming Xing Lab relocation* (明興實驗室搬遷工程)	1,151,844.44	0.00	1,151,844.44	0.00	0.00	0.00
Ming Xing Qing Kai Ling production expansion* (明興清開靈擴產工程)	2,461,334.88	0.00	2,461,334.88	0.00	0.00	0.00
Ming Xing Conghua Xinzhou Workshop* (明興從化星洲車間)	250,000.00	0.00	250,000.00	0.00	0.00	0.00
Office building decoration* (辦公樓裝修)	154,103.50	0.00	154,103.50	154,103.50	0.00	154,103.50
Tian Xin cefozopran powder-needle technology* (天心頭孢唑蘭粉針技術)	600,000.00	0.00	600,000.00	600,000.00	0.00	600,000.00

Item	31 December 2010 Ending balance	Provision of impairment	Carrying amount	31 December 2009 Ending balance	Provision of impairment	Carrying amount
Guang Hua Sewage Station expansion technological modification project* (光華污水站擴容技改工程)	189,234.38	0.00	189,234.38	189,234.38	0.00	189,234.38
Guang Hua sewage treatment station expansion* (光華污水處理站擴建工程)	62,500.00	0.00	62,500.00	137,860.00	0.00	137,860.00
General Factory powder-needlesplit charging filling equipment project* (總廠粉針分裝設備項目)	0.00	0.00	0.00	0.00	0.00	0.00
Tian Xin injection fluid (天心水針)	181,977.36	0.00	181,977.36	944,318.50	869,318.50	75,000.00
Other	1,626,203.92	0.00	1,626,203.92	2,367,881.62	0.00	2,367,881.62
Total	45,778,660.54	869,318.50	44,909,342.04	12,211,942.71	869,318.50	11,342,624.21

2. Impairment of construction in progress

Item	31 December 2008	Amount of provision for the period	Decrease for the period		31 December 2009	Amount of provision for the period	Decrease for the period		31 December 2010	Amount of provision for the period	Decrease for the period		31 December 2011	Amount of provision for the period	Decrease for the period		30 June 2012
			Reversal	Write-off			Reversal	Write-off			Reversal	Write-off			Reversal	Write-off	
GMP modification project of General Factory Veterinary Drug Workshop* (總廠獸藥車間MP改造工程)	0.00	869,318.50	0.00	0.00	869,318.50	0.00	0.00	0.00	869,318.50	0.00	0.00	0.00	869,318.50	0.00	0.00	0.00	869,318.50
Guang Hua Sewage Station expansion technological modification project* (光華污水站擴容技改工程)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	189,234.38	0.00	0.00	189,234.38	0.00	0.00	0.00	189,234.38
Guang Hua sewage treatment station Expansion* (光華污水處理站擴建工程)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	62,500.00	0.00	0.00	62,500.00	0.00	0.00	0.00	62,500.00
Total	0.00	869,318.50	0.00	0.00	869,318.50	0.00	0.00	0.00	869,318.50	251,734.38	0.00	0.00	1,121,052.88	0.00	0.00	0.00	1,121,052.88

As at 2011, the sewage station project of Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華藥業股份有限公司), a subsidiary of BYS was terminated, therefore, impairment was fully provided for the prepayment for the drawings of this project.

(14) Intangible assets

1. Original Cost	Land use right	Patent Technologies	Software	Trademarks	Total
31 December 2008	167,068,833.28	5,964,672.00	3,468,817.29	108,977,207.54	285,479,530.11
Increase for the period	0.00	130,000.00	815,931.15	0.00	945,931.15
Decrease for the period	2,486,130.23	0.00	0.00	519,800.00	3,005,930.23
31 December 2009	164,582,703.05	6,094,672.00	4,284,748.44	108,457,407.54	283,419,531.03
Increase for the period	0.00	0.00	509,017.09	0.00	509,017.09
Decrease for the period	1,180,683.87	0.00	46,464.00	0.00	1,227,147.87
31 December 2010	163,402,019.18	6,094,672.00	4,747,301.53	108,457,407.54	282,701,400.25
Increase for the period	0.00	1,700,000.00	334,828.89	0.00	2,034,828.89
Decrease for the period	3,128,104.16	0.00	0.00	0.00	3,128,104.16
31 December 2011	160,273,915.02	7,794,672.00	5,082,130.42	108,457,407.54	281,608,124.98
Increase for the period	45,511,170.00	0.00	349,657.26	0.00	45,860,827.26
Decrease for the period	0.00	0.00	0.00	0.00	0.00
30 June 2012	205,785,085.02	7,794,672.00	5,431,787.68	108,457,407.54	327,468,952.24

2. Accumulated amortization	Land use right	Patent Technologies	Software	Trademarks	Total
31 December 2008	31,480,109.11	4,306,131.86	1,147,998.27	32,590,284.85	69,524,524.09
Increase for the period	3,667,103.04	785,800.58	898,188.99	225,019.96	5,576,112.57
Decrease for the period	640,238.37	0.00	0.00	0.00	640,238.37
31 December 2009	34,506,973.78	5,091,932.44	2,046,187.26	32,815,304.81	74,460,398.29
Increase for the period	3,443,485.18	652,466.90	592,410.71	168,353.63	4,856,716.42
Decrease for the period	150,449.57	0.00	46,464.00	0.00	196,913.57
31 December 2010	37,800,009.39	5,744,399.34	2,592,133.97	32,983,658.44	79,120,201.14
Increase for the period	3,425,417.92	562,467.36	517,156.75	55,020.00	4,560,062.03
Decrease for the period	307,162.52	0.00	0.00	0.00	307,162.52
31 December 2011	40,918,264.79	6,306,866.70	3,109,290.72	33,038,678.44	83,373,100.65
Increase for the period	2,245,818.02	188,733.60	225,822.67	27,510.00	2,687,884.29
Decrease for the period	0.00	0.00	0.00	0.00	0.00
30 June 2012	43,164,08.281	6,495,600.30	3,335,113.39	33,066,188.44	86,060,984.94

3. Provision for the impairment	Land use right	Patent Technologies	Software	Trademarks	Total
31 December 2008	0.00	0.00	0.00	160,000.00	160,000.00
Increase for the period	2,918,653.65	0.00	0.00	0.00	2,918,653.65
Decrease for the period	0.00	0.00	0.00	0.00	0.00
31 December 2009	2,918,653.65	0.00	0.00	160,000.00	3,078,653.65
Increase for the period	-97,712.01	0.00	0.00	90,000.00	-7,712.01
Decrease for the period	0.00	0.00	0.00	0.00	0.00
31 December 2010	2,820,941.64	0.00	0.00	250,000.00	3,070,941.64
Increase for the period	0.00	0.00	0.00	184,180.00	184,180.00
Decrease for the period	2,820,941.64	0.00	0.00	0.00	2,820,941.64
31 December 2011	0.00	0.00	0.00	434,180.00	434,180.00
Increase for the period	0.00	0.00	0.00	0.00	0.00
Decrease for the period	0.00	0.00	0.00	0.00	0.00
30 June 2012	0.00	0.00	0.00	434,180,000	434,180,000

4. Carrying amount	Land use right	Patent Technologies	Software	Trademarks	Total
2008-12-31	135,588,724.17	1,658,540.14	2,320,819.02	76,226,922.69	215,795,006.02
2009-12-31	127,157,075.62	1,002,739.56	2,238,561.18	75,482,102.73	205,880,479.09
2010-12-31	122,781,068.15	350,272.66	2,155,167.56	75,223,749.10	200,510,257.47
2011-12-31	119,355,650.23	1,487,805.30	1,972,839.70	74,984,549.10	197,800,844.33
2012-06-30	162,621,002.21	1,299,071.70	2,096,674.29	74,957,039.10	240,973,787.30

1. As at the end of June 2012 and at the year end of 2011, 2010 and 2009, BYS conducted an impairment test for the "Da Shen"* (大神) and other brands. Provision for impairment of RMB0.00, RMB184,180.00, RMB90,000.00 and RMB0.00 were made for the intangible assets after the impairment test.

2. As at the end of June 2012 and at the year end of 2011, 2010 and 2009, the remaining land use rights of BYS and its subsidiaries were located in Mainland China and the remaining useful life were between 10 to 50 years.

3. As at January 2012 to June 2012, the increase of the land use right mainly due to BYS decided not to lease the land of football field and basketball court located at the Yilu Mountain Villa (倚綠山莊), East of Yuandunling, Tonghe Town Baiyun District, Guangzhou as at January 2012 and transferred it from investment property to intangible assets. Details please refer to Note 11 of Section V.

4. As at 2010, BYS disposed the land use right of 139 North Yuexiu Road, Guangzhou, refer to note (11) of Section V for specific information.

(15) Development costs

Item	Balofloxacin* (巴洛沙星項目)	New drug ofprulifloxacin* (普盧利沙星新藥項目)	Technology transfer fee for balofloxacin* (巴洛沙星技術轉讓費項目)	Cetirizine and Pseudoephedrine Sustained-Release Tablet* (西替偽麻緩釋片項目)	Fu Fang A Mo Xiu Capsules/ Granules* (複方阿莫溴膠囊/顆粒項目)	Levodropropizine* (左羥丙哌嗪項目)	Technology transfer fee for adefovirdipivoxil dispersible tablets* (阿德福韋酯分散片技術轉讓費)	Compound roxithromycin tablets* (複方羅紅黴素片項目)	Rupatadine fumarate tablet* (富馬酸盧帕他定片項目)	Sildenatil citrate* (枸櫞酸西地那非項目)	Total
31 December 2008	650,000.00	1,700,000.00	250,000.00	0.00	500,000.00	800,000.00	0.00	560,000.00	0.00	0.00	4,460,000.00
Increase for the year	0.00	0.00	0.00	319,800.00	0.00	0.00	0.00	0.00	200,000.00	0.00	519,800.00
Decrease for the year	0.00	0.00	0.00	0.00	500,000.00	0.00	0.00	0.00	0.00	0.00	500,000.00
31 December 2009	650,000.00	1,700,000.00	250,000.00	319,800.00	0.00	800,000.00	0.00	560,000.00	200,000.00	0.00	4,479,800.00
Increase for the year	0.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	0.00	0.00	0.00	1,000,000.00
Decrease for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	560,000.00	200,000.00	0.00	760,000.00
31 December 2010	650,000.00	1,700,000.00	250,000.00	319,800.00	0.00	800,000.00	1,000,000.00	0.00	0.00	0.00	4,719,800.00
Increase for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Decrease for the year	0.00	1,700,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,700,000.00
31 December 2011	650,000.00	0.00	250,000.00	319,800.00	0.00	800,000.00	1,000,000.00	0.00	0.00	0.00	3,019,800.00
Increase for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00	300,000.00
Decrease for the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00	300,000.00
30 June 2012	650,000.00	0.00	250,000.00	319,800.00	0.00	800,000.00	1,000,000.00	0.00	0.00	300,000.00	3,319,800.00

1. As at January 2012 to June 2012, the years of 2011, 2010 and 2009, development costs accounted for 0.42%, 0.00%, 1.59% and 1.06% of the total expenditures for research and development projects for the years respectively.

2. As at January 2012 to June 2012, the years of 2011, 2010 and 2009, the intangible assets formed through the internal research and development accounted for 0.00% of the carrying amount of the intangible assets at the end of the year.

3. Since the new drug of prulifloxacin* (普盧利沙星) has successfully obtained patent certificate in 2011, it was transferred to intangible asset for the year.

4. Since the compound roxithromycin tablets project* (複方羅紅黴素片項目) was terminated in 2010, it was recognized as an expenses of research and development costs for the year.

5. Since the rupatadine fumarate tablet project* (富馬酸盧帕他定片項目) was terminated in 2010, Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華藥業股份有限公司), a subsidiary of BYS, collected the payment from its partner.

(16) Long-term prepaid expenses

Item	Decoration fee	Factory area modification project	Total
31 December 2008	148,814.14	2,923,737.00	3,072,551.14
Increase for the year	0.00	795,247.34	795,247.34
Amortization for the year	33,693.72	1,612,616.56	1,646,310.28
31 December 2009	115,120.42	2,106,367.78	2,221,488.20
Increase for the year	0.00	0.00	0.00
Amortization for the year	33,693.72	758,541.47	792,235.19
31 December 2010	81,426.70	1,347,826.31	1,429,253.01
Increase for the year	2,807.81	1,365,932.86	1,368,740.67
Amortization for the year	36,501.53	900,852.72	937,354.25
31 December 2011	47,732.98	1,812,906.45	1,860,639.43
Increase for the year	0.00	0.00	0.00
Amortization for the year	16,846.86	412,815.82	429,662.68
30 June 2012	30,886.12	1,400,090.63	1,430,976.75

(17) Deferred tax assets and deferred tax liabilities

1. Deferred tax assets recognized

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
(1) Provision for impairment of assets	6,261,951.45	5,418,609.97	5,956,673.06	5,929,239.29
(2) Provisions	10,982,833.56	6,646,036.60	5,624,760.91	5,243,886.24
(3) Government grants	5,272,660.36	5,559,673.87	3,682,604.10	2,892,314.58
(4) Accruals	13,560,203.49	2,292,189.06	2,870,687.15	3,168,309.57
(5) Employee benefits payable	10,069,111.57	6,536,149.77	6,374,954.75	3,943,326.78
(6) Deductible tax losses	330,375.07	0.00	486,293.61	0.00
(7) Effect of the amortization of long-term assets	617,946.30	1,673,710.38	1,128,855.31	302,629.22
(8) Unrealized profit arising from the elimination of internal sales due to consolidation	747,914.74	1,908,181.45	413,517.89	377,809.11
(9) Other payables of which the invoices have not been received	438,903.14	430,014.06	259,726.85	407,392.78
Total	48,281,899.68	30,464,565.16	26,798,073.63	22,264,907.57

As at the end of June 2012 and the end of the year 2011, 2010 and 2009, there were no deductible temporary differences and deductible losses that are not recognized as deferred tax assets due to the uncertainties whether there is sufficient taxable income in the future.

2. Deferred tax liabilities recognized

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
(1) Changes in fair value	41,539,462.93	40,803,510.52	40,685,067.36	39,154,242.03
(2) Effect of appreciation in the valuation of intangible assets and fixed assets	23,147,178.88	23,236,718.15	23,205,095.10	23,479,952.63
Total	64,686,641.81	64,040,228.67	63,890,162.46	62,634,194.66

(18) Provision for asset impairment

	Provision for bad debts	Provision for declines in value of inventories	Impairment provision of long-term equity investments	Impairment provision of fixed assets	Impairment provision of construction in progress	Impairment provision of intangible assets	Total
31 December 2008	76,275,060.21	10,211,205.11	325,000.00	2,418,885.96	0.00	160,000.00	89,390,151.28
Provision for the year	4,177,205.09	-4,823,209.31	3,050,000.00	11,405,560.91	869,318.50	2,918,653.65	17,597,528.84
Reversal	-6,000.00	0.00	0.00	0.00	0.00	0.00	-6,000.00
Write-off	1,589,004.42	0.00	0.00	381.00	0.00	0.00	1,589,385.42
31 December 2009	78,869,260.88	5,387,995.80	3,375,000.00	13,824,065.87	869,318.50	3,078,653.65	105,404,294.70
Provision for the year	-1,791,917.77	4,679,778.31	100,000.00	420,762.23	0.00	-7,712.01	3,400,910.76
Reversal	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	635,743.69	0.00	0.00	144,136.17	0.00	0.00	779,879.86
31 December 2010	76,441,599.42	10,067,774.11	3,475,000.00	14,100,691.93	869,318.50	3,070,941.64	108,025,325.60
Provision for the year	-48,773.54	-1,135,762.86	0.00	0.00	251,734.38	184,180.00	-748,622.02
Reversal	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	-728,337.01	0.00	0.00	6,614.78	0.00	2,820,941.64	2,099,219.41
31 December 2011	77,121,162.89	8,932,011.25	3,475,000.00	14,094,077.15	1,121,052.88	434,180.00	105,177,484.17
Provision for the year	175,487.46	-1,243,995.62	0.00	0.00	0.00	0.00	-1,068,508.16
Reversal	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Write-off	0.00	1,904,500.00	0.00	0.00	0.00	0.00	1,904,500.00
30 June 2012	77,296,650.35	5,783,515.63	3,475,000.00	14,094,077.15	1,121,052.88	434,180.00	102,204,476.01

(19) Short-term borrowings

1. Classification of short-term borrowings

Types of borrowings	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Credit loans	657,100,000.00	644,000,000.00	775,000,000.00	758,000,000.00
Pledged borrowings	35,000,000.00	121,800,000.00	95,000,000.00	134,000,000.00
Guaranteed borrowings	90,000,000.00	40,000,000.00	153,000,000.00	325,000,000.00
Total	782,100,000.00	805,800,000.00	1,023,000,000.00	1,217,000,000.00

2. As at the end of June 2012 and the end of the year 2011, 2010 and 2009, there was no borrowing which was due but had not been repaid.

3. As at the end of June 2012 and the end of the year 2011, 2010 and 2009, the collateralized borrowing were RMB35,000,000.00, RMB121,800,000.00, RMB95,000,000.00 and RMB134,000,000.00 and its collaterals were the buildings owned by BYS and its subsidiaries respectively. For details, please refer to note (12) 8, 10, 13 and 16 of Section V.

(20) Notes payable

Type	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Bank acceptance notes	407,450.43	55,221,270.89	61,060,008.21	28,522,100.54

1. At the end of June 2012 and the end of the year 2011, 2010 and 2009, notes payable to the related parties by BYS and its subsidiaries were RMBnil.

(21) Accounts payable

1. The aging of accounts payable is analysed as below:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Within 1 year	402,115,859.90	290,048,022.49	248,429,531.39	258,773,399.67
1 to 2 years	1,055,798.23	4,545,951.60	3,024,075.17	2,964,408.45
2 to 3 years	2,046,560.10	2,826,536.21	1,654,145.56	2,762,569.95
Over 3 years	4,081,110.58	3,368,604.55	3,295,037.93	3,647,599.17
Total	409,299,328.81	300,789,114.85	256,402,790.05	268,147,977.24

2. As at the end of June 2012, 2011, 2010 and 2009, there was no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

3. As at the end of June 2012, 2011, 2010 and 2009, accounts payable to related parties by BYS and its subsidiaries amounted to RMB15,114,616.71, RMB36,822,348.36, RMB43,554,313.83 and RMB45,089,459.12 respectively, representing 3.69%, 12.24%, 16.98% and 16.81% of the total accounts payable respectively. For details, please refer to note (II) 5 of Section VI.

(22) Advances from customers

1. The aging of advances from customers

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Within 1 year	188,900,978.10	211,461,911.01	224,887,213.28	164,509,920.25
Over 1 year	3,649,208.29	2,628,851.47	1,481,195.60	2,290,563.56
Total	192,550,186.39	214,090,762.48	226,368,408.88	166,800,483.81

2. As at the end of June 2012, 2011, 2010 and 2009, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

3. As at the end of June 2012, 2011, 2010 and 2009, advances from related parties of BYS and its subsidiaries amounted to RMB9,979,738.35, RMB809,658.04, RMB6,235,390.64 and RMB2,093,073.46 respectively, representing 5.18%, 0.38%, 2.76% and 1.25% of the total advances from customers respectively. For details, please refer to note (II) 5 of Section VI.

(23) Employee benefits payable

Item		31 December 2008	Increase for the year	Payment for the year	31 December 2009
I.	Wages and salaries, bonuses, allowances and subsidies	9,023,332.48	321,993,121.38	300,775,477.46	30,240,976.40
II.	Staff welfare	279,754.54	24,379,755.06	24,659,509.60	0.00
III.	Social insurances	140,121.36	89,832,011.31	89,971,804.71	327.96
	Including: 1. Medical insurance	790.14	19,775,526.91	19,776,226.33	90.72
	2. Basic pension insurance	139,282.70	37,412,273.13	37,401,597.45	235.52
	3. Unemployment insurance	-12.16	446,134.15	446,120.27	1.72
	4. Work injury insurance	59.63	992,635.28	992,694.91	0.00
	5. Maternity insurance	1.05	1,450,011.34	1,450,012.39	0.00
IV.	Housing provident funds	11,544.00	29,356,584.00	29,310,968.00	57,160.00
V.	Labor union funds and employee education funds	624,798.01	8,590,221.50	8,198,372.56	1,016,646.95
VI.	Non-monetary welfare	0.00	0.00	0.00	0.00
VII.	Compensation for lay-off	0.00	2,874,658.53	2,874,658.53	0.00
VIII.	Others	0.00	12,256,237.64	12,256,237.64	0.00
Total		10,079,550.39	489,282,589.42	468,047,028.50	31,315,111.31

Item		31 December 2009	Increase for the year	Payment for the year	31 December 2010
I.	Wages and salaries, bonuses, allowances and subsidies	30,240,976.40	356,684,256.16	349,999,923.44	36,925,309.12
II.	Staff welfare	0.00	25,045,423.52	25,045,423.52	0.00
III.	Social insurances	327.96	84,347,275.79	84,186,932.51	160,671.24
	Including: 1. Medical insurance	90.72	31,639,502.81	31,639,593.53	0.00
	2. Basic pension insurance	235.52	49,134,022.31	48,973,586.59	160,671.24
	3. Unemployment insurance	1.72	585,085.85	585,087.57	0.00
	4. Work injury insurance	0.00	1,045,017.00	1,045,017.00	0.00
	5. Maternity insurance	0.00	1,943,647.82	1,943,647.82	0.00
IV.	Housing provident funds	57,160.00	33,401,332.14	33,458,492.14	0.00
V.	Annuity	0.00	19,098,676.18	12,284,628.19	6,814,047.99
VI.	Labor union funds and employee education funds	1,016,646.95	9,862,748.23	9,805,374.38	1,074,020.80
VII.	Non-monetary welfare	0.00	0.00	0.00	0.00
VIII.	Compensation for lay-off	0.00	634,226.88	634,226.88	0.00
IX.	Others	0.00	4,875.00	4,875.00	0.00
Total		31,315,111.31	529,078,813.90	515,419,876.06	44,974,049.15

Item		31 December 2010	Increase for the period	Payment for the period	31 December 2011
I.	Wages and salaries, bonuses, allowances and subsidies	36,925,309.12	468,152,137.24	462,090,833.50	42,986,612.86
II.	Staff welfare	0.00	41,457,983.01	41,457,983.01	0.00
III.	Social insurances	160,671.24	106,853,726.94	106,911,035.99	103,362.19
	Including: 1. Medical insurance	0.00	39,110,998.95	39,064,183.92	46,815.03
	2. Basic pension insurance	160,671.24	56,915,987.04	57,029,011.30	47,646.98
	3. Unemployment insurance	0.00	6,081,234.12	6,075,199.92	6,034.20
	4. Work injury insurance	0.00	2,643,423.85	2,642,362.63	1,061.22
	5. Maternity insurance	0.00	2,102,082.98	2,100,278.22	1,804.76
IV.	Housing provident funds	0.00	38,043,496.38	38,035,813.38	7,683.00
V.	Annuity	6,814,047.99	22,182,356.21	28,797,004.20	199,400.00
VI.	Labor union funds and employee education funds	1,074,020.80	11,083,579.30	10,882,597.80	1,275,002.30
VII.	Non-monetary welfare	0.00	0.00	0.00	0.00
VIII.	Compensation for lay-off	0.00	468,156.00	468,156.00	0.00
IX.	Others	0.00	4,775.00	4,775.00	0.00
Total		44,974,049.15	688,246,210.08	688,648,198.88	44,572,060.35

Item		31 December 2011	Increase for the period	Payment for the period	30 June 2012
I.	Wages and salaries, bonuses, allowances and subsidies	42,986,612.86	295,143,080.38	272,669,648.93	65,460,044.31
II.	Staff welfare	0.00	20,633,367.62	20,633,367.62	0.00
III.	Social insurances	103,362.19	51,163,070.66	50,574,847.56	691,585.29
	Including: 1. Medical insurance	46,815.03	14,477,429.60	14,407,792.25	116,452.38
	2. Basic pension insurance	47,646.98	30,606,554.28	30,153,763.90	500,437.36
	3. Unemployment insurance	6,034.20	3,316,308.46	3,308,094.54	14,248.12
	4. Work injury insurance	1,061.22	1,458,921.60	1,448,909.88	11,072.94
	5. Maternity insurance	1,804.76	1,303,856.72	1,256,286.99	49,374.49
IV.	Housing provident funds	7,683.00	20,056,984.00	19,446,114.00	618,553.00
V.	Annuity	199,400.00	11,417,343.63	10,697,759.77	918,983.86
VI.	Labor union funds and employee education funds	1,275,002.30	5,211,421.60	4,906,613.81	1,579,810.09
VII.	Non-monetary welfare	0.00	0.00	0.00	0.00
VIII.	Compensation for lay-off	0.00	37,149.00	37,149.00	0.00
IX.	Others	0.00	75,487.36	75,487.36	0.00
Total		44,572,060.35	403,737,904.25	379,040,988.05	69,268,976.55

(24) Taxes payable

Tax items	30 June 2012	31 December 2011	31 December 2010	31 December 2009
VAT	27,569,950.34	6,759,636.50	-5,070,656.69	8,446,672.78
Business tax	262,781.31	289,926.29	145,607.66	181,592.69
City maintenance and construction tax	2,046,868.65	847,110.51	656,371.30	781,449.65
Education surcharge	937,999.30	446,054.23	285,496.42	331,475.74
Enterprise income tax	40,664,880.61	18,970,795.42	15,796,851.47	16,431,965.49
Individual income tax	2,647,626.92	2,069,815.84	1,972,851.18	1,891,619.50
Urban area embankment maintenance fee	2,701,667.38	2,013,583.08	1,701,400.89	2,130,348.13
Land use tax	2,580,436.54	0.00	0.00	0.00
Real estate tax	2,618,729.51	0.00	0.00	0.00
Others	788,737.90	332,457.96	353,471.26	56,323.58
Total	82,819,678.46	31,729,379.83	15,841,393.49	30,251,447.56

(25) Interests payable

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Interests of bank borrowings payable	1,306,448.14	1,452,413.14	1,080,724.55	1,224,132.22

(26) Dividends payable

Investors	30 June 2012	31 December 2011	31 December 2010	31 December 2009	Reason of non-payment
GPHL	9,179,500.00	0.00	0.00	0.00	Unpaid
Guangzhou Baiyunshan Enterprise Group Co., Ltd (廣州白雲山企業集團有限公司)	45.01	45.01	45.01	45.01	Dividends payable from rounding-off
Public shareholders	189.95	116.94	86.69	0.00	Dividends payable from rounding-off
Minority shareholders	12,648,581.11	17,161,781.10	12,125,673.22	9,835,852.26	Unpaid
Total	21,828,316.07	17,161,943.05	12,125,804.92	9,835,897.27	

(27) Other payables

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Deposits	35,010,435.59	28,939,065.96	22,139,153.13	18,407,736.38
Payables to third parties	29,089,225.17	35,852,286.06	34,129,343.31	27,629,346.88
Temporary receipts from employees	3,219,011.12	6,120,372.03	5,369,590.82	3,612,741.34
Amounts due to related parties	2,943,442.38	2,643,442.38	4,957,542.38	221,442.38
Accruals for purchase of fixed assets	706,804.06	1,420,626.44	2,972,526.53	3,968,257.55
Temporary receipts from employees for purchase of houses	1,734,414.77	1,073,850.67	1,073,850.67	1,073,850.67
Compensation for employees of Chinese Medicine Factory	1,157,815.08	1,418,688.80	2,487,957.98	3,431,918.15
Others	6,773,702.56	6,520,523.70	4,449,004.55	3,365,501.29
Total	80,634,850.73	83,988,856.04	77,578,969.37	61,710,794.64

1. Payables to shareholders who hold more than 5% (including 5%) of the voting rights of BYS as at the end of June 2012 and at the end of the year 2011, 2010 and 2009:

Name of the unit	30 June 2012	31 December 2011	31 December 2010	31 December 2009
GPHL	213,442.38	213,442.38	213,442.38	213,442.38

2. As at the end of June 2012, 2011, 2010 and 2009, amounts due to related parties of BYS and its subsidiaries amounted to RMB2,943,442.38, RMB2,643,442.38, RMB4,957,542.38 and RMB221,442.38 respectively, representing 3.65%, 3.15%, 6.40% and 0.36% of the total other payables. For details, please refer to note (II) 5 of Section VI.

(28) Other current liabilities

Accruals

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Accrued utility charges	1,414,196.27	1,539,138.28	1,262,141.68	1,098,060.20
Accrued transportation charges	6,873,687.60	4,580,000.00	3,861,277.00	3,506,434.36
Accrued advertising charges	53,950,601.00	1,920,000.00	7,910,562.40	7,000,000.00
Accrued OTC labour charges	5,488,935.99	4,800,000.00	4,400,000.00	4,500,000.00
License fee of "Shifusu"* (世福素) trademark	4,300,000.00	2,400,000.00	2,400,000.00	0.00
Accrued travelling expenses	2,453,200.00	0.00	0.00	0.00
Accrued research and development expenses	15,171,567.00	0.00	0.00	0.00
Other accrued charges	2,414,516.55	1,563,672.95	140,000.00	3,691,360.00
Total	92,066,704.41	16,802,811.23	19,973,981.08	19,795,854.56

(29) Long-term payables

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
State fund	18,864,019.06	18,864,019.06	18,864,019.06	18,864,019.06
State Pharmaceutical Administration* (國家醫藥管理局)	305,000.00	305,000.00	305,000.00	305,000.00
Others	200,000.00	200,000.00	200,000.00	200,000.00
Total	19,369,019.06	19,369,019.06	19,369,019.06	19,369,019.06

(30) Provisions

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Sales rebates	71,586,227.02	41,414,787.27	36,561,694.84	34,093,426.02
Accruals for loss on return of goods	500,191.19	500,191.19	500,191.19	500,191.19
Rework loss	0.00	2,070,598.84	0.00	0.00
Total	72,086,418.21	43,985,577.30	37,061,886.03	34,593,617.21

(31) Other non-current liabilities

Deferred income	31 December 2008	Increase for the year	Decrease for the year	31 December 2009
Government grants related to assets:	12,576,387.00	1,800,000.00	1,283,319.09	13,093,067.91
Government grants related to income:	13,349,853.73	7,333,800.00	8,088,375.90	12,595,277.83
Total	25,926,240.73	9,133,800.00	9,371,694.99	25,688,345.74

Deferred income	31 December 2009	Increase for the year	Decrease for the year	31 December 2010
Government grants related to assets:	13,093,067.91	13,410,946.16	1,785,566.55	24,718,447.52
Government grants related to income:	12,595,277.83	1,075,257.84	6,729,821.63	6,940,714.04
Total	25,688,345.74	14,486,204.00	8,515,388.18	31,659,161.56

Deferred income	31 December 2010	Increase for the year	Decrease for the year	31 December 2011
Government grants related to assets:	24,718,447.52	9,255,000.00	3,878,020.08	30,095,427.44
Government grants related to income:	6,940,714.04	11,459,300.00	7,722,437.60	10,677,576.44
Total	31,659,161.56	20,714,300.00	11,600,457.68	40,773,003.88

Deferred income	31 December 2011	Increase for the year	Decrease for the year	30 June 2012
Government grants related to assets:	30,095,427.44	0.00	1,099,446.00	28,995,981.44
Government grants related to income:	10,677,576.44	1,960,268.50	1,583,380.03	11,054,464.91
Total	40,773,003.88	1,960,268.50	2,682,826.03	40,050,446.35

(32) Share capital

	31 December 2008		Current year addition (+) reduction (-)					31 December 2009	
Item	Amount	% of the total balance	Issued shares	Bonus shares	Transfer from reserves	Other	Sub-total	Amount	% of the total balance
1. Shares with restriction of trading									
(1) State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) State-owned legal person shares	118,994,632.00	25.37	0.00	0.00	0.00	-118,994,632.00	-118,994,632.00	0.00	0.00
(3) Other domestic shares	39,821.00	0.01	0.00	0.00	0.00	-16,050.00	-16,050.00	23,771.00	0.01
Shares with restriction of trading-subtotal	119,034,453.00	25.38	0.00	0.00	0.00	-119,010,682.00	-119,010,682.00	23,771.00	0.00
2. Shares without restriction of trading									
RMB ordinary shares	350,019,236.00	74.62	0.00	0.00	0.00	119,010,682.00	119,010,682.00	469,029,918.00	99.99
3. Share capital total	469,053,689.00	100.00						469,053,689.00	100.00

	31 December 2009		Current year addition (+) reduction (-)					31 December 2010	
Item	Amount	% of the total balance	Issued shares	Bonus shares	Transfer from reserves	Other	Sub-total	Amount	% of the total balance
1. Shares with restriction of trading									
(1) State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(3) Other domestic shares	23,771.00	0.01	0.00	0.00	0.00	-4,514.00	-4,514.00	19,257.00	0.00
Shares with restriction of trading-subtotal	23,771.00	0.01	0.00	0.00	0.00	-4,514.00	-4,514.00	19,257.00	0.00
2. Shares without restriction of trading									
RMB ordinary shares	469,029,918.00	99.99	0.00	0.00	0.00	4,514.00	4,514.00	469,034,432.00	100.00
3. Share capital total	469,053,689.00	100.00	0.00	0.00	0.00	0.00	0.00	469,053,689.00	100.00

	31 December 2010		Current year addition (+)reduction(-)					31 December 2011	
Item	Amount	% of the total balance	Issued shares	Bonus shares	Transfer from reserves	Other	Sub-total	Amount	% of the total balance
1. Shares with restriction of trading									
(1) State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(3) Other domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Senior management shares	19,257.00	0.00	0.00	0.00	0.00	-3,386.00	-3,386.00	15,871.00	0.00
Shares with restriction of trading-subtotal	19,257.00	0.00	0.00	0.00	0.00	-3,386.00	-3,386.00	15,871.00	0.00
2. Shares without restriction of trading									
RMB ordinary shares	469,034,432.00	100.00	0.00	0.00	0.00	3,386.00	3,386.00	469,037,818.00	100.00
3. Share capital total	469,053,689.00	100.00	0.00	0.00	0.00	0.00	0.00	469,053,689.00	100.00

Item	31 December 2011 Amount	31 December 2011 % of the total balance	Current year addition (+)reduction(-) Issued shares	Bonus shares	Transfer from reserves	Other	Sub-total	30 June 2012 Amount	30 June 2012 % of the total balance
1. Shares with restriction of trading	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(1) State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(3) Other domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Senior management shares	15,871.00	0.00	0.00	0.00	0.00	0.00	0.00	15,871.00	0.00
Shares with restriction of trading-subtotal	15,871.00	0.00	0.00	0.00	0.00	0.00	0.00	15,871.00	0.00
2. Shares without restriction of trading									
RMB ordinary shares	469,037,818.00	100.00	0.00	0.00	0.00	0.00	0.00	469,037,818.00	100.00
3. Share capital total	469,053,689.00	100.00	0.00	0.00	0.00	0.00	0.00	469,053,689.00	100.00

(33) Capital surplus

Item	31 December 2008	Increase for the year	Decrease for the year	31 December 2009
Other capital surplus	106,480,347.21	4,891,225.32	5,096,727.00	106,274,845.53

The increase in capital surplus in 2009 was due to: ① Guangzhou Baiyunshan Pharmaceutical General Factory* (廣州白雲山製藥總廠), a branch of BYS rented out its buildings for self-use, and transferred such buildings previously accounted for as fixed assets to investment properties on 1 December 2009, with the carrying amount of RMB218,252.29 and fair value of RMB1,662,670.00 as at that date, which, after deducting deferred tax liabilities, resulted in the increase in capital surplus of RMB1,227,755.05. ② BYS leased premises to Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州足球俱樂部有限公司), and transferred such buildings previously accounted for as intangible assets to investment properties on 1 August 2009, with the carrying amount of RMB147,911.24 and fair value of RMB994,680.00 as at that date, which, after deducting deferred tax liabilities, resulted in the increase in capital surplus of RMB719,753.45. ③ the income tax rate of BYS was reduced from 25% to 15%, which resulted in the increase in capital surplus of RMB2,718,103.42 arising from the changes in fair value of investment properties in prior years. ④ the changes in fair value of the available-for-sale financial assets of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), a subsidiary of BYS for the year resulted in an increase of capital surplus of RMB225,613.40.

The decrease in capital surplus in 2009 was due to: BYS made an investment in the newly-established Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the appraised value of some buildings and land use rights of Baiyunshan Chinese Medicine Factory* (白雲山中藥廠) in 2005. The carrying amount of the assets invested was lower than its equity interest in Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司), such difference was included in capital surplus after deducting the relevant taxes and expenses. BYS was required to pay the land premium of RMB5,096,727.00 when it was undergoing the formalities of transfer the above land use rights to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司), which reduced the capital surplus accordingly.

Item	31 December 2009	Increase for the year	Decrease for the year	31 December 2010
Other capital surplus	106,274,845.53	4,547,289.89	1,214,591.62	109,607,543.80

The increase in capital surplus in 2010 was due to: ① Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠), a branch of BYS rented out its buildings for self-use, and transferred such buildings previously accounted for as fixed assets to investment properties on 1 June 2010, with the carrying amount of RMB876,844.56 and fair value of RMB2,368,780.00 as at that date, which, after deducting deferred tax liabilities of RMB223,790.32, resulted in the increase in capital surplus of RMB1,268,145.12. ② Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司), a subsidiary of BYS rented out its buildings for self-use, and transferred such buildings previously accounted for as fixed assets to investment properties on 1 August 2010, with the carrying amount of RMB21,874.16 and fair value of RMB3,524,100.00 as at that date, which, after deducting deferred tax liabilities of RMB525,333.88 and equity attributable to minority shareholders of RMB521,253.80, resulted in the increase in capital surplus of RMB2,455,638.16. ③ the increase in the share of capital surplus in investees under the equity method resulted in the increase in capital surplus of RMB823,506.61.

The decrease in capital surplus in 2010 was due to: ① BYS made an investment in the newly-established Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the appraised value of some buildings and land use rights of Baiyunshan Chinese Medicine Factory* (白雲山中藥廠) in 2005. The carrying amount of the assets invested was lower than its equity interest in Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司), such difference was included in capital surplus after deducting the relevant taxes and expenses. During the period, the Company was required to pay the land premium of RMB1,032,388.00 when it was undergoing the formalities of transfer the above land use rights to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司), which reduced the capital surplus accordingly. ② the changes in fair value of the available-for-sale financial assets of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), a subsidiary of BYS resulted in a reduction of capital surplus of RMB182,203.62.

Item	31 December 2010	Increase for the year	Decrease for the year	31 December 2011
Other capital surplus	109,607,543.80	0.00	110,763.12	109,496,780.68

The reduction in capital surplus in 2011 was due to: (1) the changes in fair value of the available-for-sale financial assets of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), a subsidiary of BYS for the year resulted in a reduction of capital surplus of RMB30,431.34. (2) the capital surplus of Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司), a jointly controlled entity invested by BYS was reduced by RMB160,663.56 for the period, and the proportionate capital surplus of BYS was reduced by RMB80,331.78 accordingly.

Item	31 December 2011	Increase for the year	Decrease for the year	30 June 2012
Other capital surplus	109,496,780.68	3,078.32	542,400.00	108,457,459.00

The increase in capital surplus in the period was due to the changes in fair value of the available-for-sale financial assets of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.*（廣州白雲山明興製藥有限公司）, a subsidiary for the period resulted in an increase of capital surplus of RMB3,078.32.

The decrease in capital surplus in the period was due to BYS made an investment in the newly-established Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.*（廣州白雲山和記黃埔中藥有限公司）with the appraised value of some buildings and land use rights of Baiyunshan Chinese Medicine Factory*（白雲山中藥廠）in 2005. The carrying amount of the assets invested was lower than its equity interest in Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.*（廣州白雲山和記黃埔中藥有限公司）, such difference was included in capital surplus after deducting the relevant taxes and expenses. BYS was required to pay the land premium of RMB542,400.00 when it was undergoing the formalities of transfer the above land use rights to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.*（廣州白雲山和記黃埔中藥有限公司）, which reduced the capital surplus accordingly.

(34) Surplus reserve

Item	31 December 2008	Increase for the year	Decrease for the year	31 December 2009
Statutory surplus reserve	88,524,010.99	10,276,491.25	0.00	98,800,502.24

Item	31 December 2009	Increase for the year	Decrease for the year	31 December 2010
Statutory surplus reserve	98,800,502.24	19,343,447.32	0.00	118,143,949.56

Item	31 December 2010	Increase for the year	Decrease for the year	31 December 2011
Statutory surplus reserve	118,143,949.56	24,475,863.38	0.00	142,619,812.94

Item	31 December 2011	Increase for the period	Decrease for the period	30 June 2012
Statutory surplus reserve	142,619,812.94	0.00	0.00	142,619,812.94

The increases in surplus reserve for the Relevant Periods represent the statutory surplus reserve provided at 10% of the net profit of BYS for each of the years.

(35) Undistributed profits

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Balance at the end of last year	622,884,500.75	409,727,435.68	409,727,435.68	238,405,903.53	140,916,719.35
Add: changes in accounting policies	0.00	0.00	0.00	0.00	0.00
Corrections to the prior years' errors	0.00	0.00	0.00	0.00	0.00
Balance at the beginning of the year	622,884,500.75	409,727,435.68	409,727,435.68	238,405,903.53	140,916,719.35
Add: Net profit attributable to the parent company for the year	217,990,076.90	159,524,811.37	261,085,612.90	204,736,590.14	107,765,675.43
Less: Appropriation for statutory surplus reserve	0.00	0.00	24,475,863.38	19,343,447.32	10,276,491.25
Ordinary shares dividend payable	25,797,952.90	23,452,684.45	23,452,684.45	14,071,610.67	0.00
Balance at the end of the year	815,076,624.75	545,799,562.60	622,884,500.75	409,727,435.68	238,405,903.53

In January 2012 to June 2012, in accordance with the resolution at the general meeting dated on 20 April 2012, BYS declared a cash dividend of RMB0.55 per ten shares (tax included) to all shareholders, which amounted to an aggregate of RMB25,797,952.90 based on the 469,053,689 shares in issue. As at 30 June 2012, the total declared cash dividend amounted to RMB16,618,452.90 and with a dividend payable to GPHL of RMB9,179,500.00 remain outstanding.

In 2011 and January to June 2011(unaudited), in accordance with the resolution at the general meeting dated on 30 June 2011, BYS declared a cash dividend of RMB0.5 per ten shares (tax included) to all shareholders, which amounted to an aggregate of RMB23,452,684.45 based on the 469,053,689 shares in issue and was fully paid before the end of December 2011.

In 2010, in accordance with the resolution at the general meeting dated on 23 June 2010, BYS declared a cash dividend of RMB0.3 per ten shares (tax included) to all shareholders, which amounted to an aggregate of RMB14,071,610.67 based on the 469,053,689 shares in issue and was fully paid before the end of December 2010.

(36) Minority interest

	31 December 2008	Increase in equity for the year: Profit or loss for minority shareholders	Increase in equity for the year: Other comprehensive income	Dividend distribution for the year	31 December 2009
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	28,173,756.96	4,702,463.00	0.00	4,232,216.70	28,644,003.26
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	14,470,505.66	1,241,900.53	0.00	1,117,710.48	14,594,695.71
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	8,392,777.08	7,458,283.29	0.00	3,459,400.00	12,391,660.37
	51,037,039.70	13,402,646.82	0.00	8,809,327.18	55,630,359.34

	31 December 2009	Increase in equity for the year: Profit or loss for minority shareholders	Increase in equity for the year: Other comprehensive income	Dividend distribution for the year	31 December 2010
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	28,644,003.26	4,422,943.52	521,253.80	3,980,649.18	29,607,551.40
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	14,594,695.71	1,724,130.54	0.00	1,551,717.48	14,767,108.77
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	12,391,660.37	8,177,114.26	0.00	6,551,900.00	14,016,874.63
	55,630,359.34	14,324,188.32	521,253.80	12,084,266.66	58,391,534.80

	31 December 2010	Increase in equity for the year: Profit or loss for minority shareholders	Increase in equity for the year: Other comprehensive income	Dividend distribution for the year	31 December 2011
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	29,607,551.40	5,648,296.97	0.00	5,083,467.27	30,172,381.10
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	14,767,108.77	4,446,481.79	0.00	4,001,833.61	15,211,756.95
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	14,016,874.63	9,035,269.56	0.00	4,906,900.00	18,145,244.19
	58,391,534.80	19,130,048.32	0.00	13,992,200.88	63,529,382.24

	31 December 2011	Increase in equity for the year: Profit or loss for minority shareholders	Increase in equity for the year: Other comprehensive income	Dividend distribution for the year	30 June 2012
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	30,172,381.10	5,878,089.18	0.00	0.00	36,050,470.28
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	15,211,756.95	3,303,027.54	0.00	0.00	18,514,784.49
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	18,145,244.19	6,364,512.20	0.00	9,341,400.00	15,168,356.39
	63,529,382.24	15,545,628.92	0.00	9,341,400.00	69,733,611.16

(37) Revenue and cost of sales

Revenue	For six months ended 30 June 2012	For six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
Main operations	2,360,799,785.11	2,013,460,410.72	3,758,580,150.81	3,252,027,998.93	2,750,876,951.79
Other operations	26,397,732.05	20,914,416.13	40,552,936.73	64,833,030.25	44,228,594.79
Total	2,387,197,517.16	2,034,374,826.85	3,799,133,087.54	3,316,861,029.18	2,795,105,546.58

Cost	For six months ended 30 June 2012	For six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
Main operations	1,488,784,749.25	1,330,854,615.85	2,496,578,480.94	2,135,795,136.09	1,809,146,926.14
Other operations	9,995,632.86	8,155,858.63	17,974,158.36	20,019,290.22	19,086,389.90
Total	1,498,780,382.11	1,339,010,474.48	2,514,552,639.30	2,155,814,426.31	1,828,233,316.04

1. Revenue and cost of sales of main operations by category are summarized as follows:

Revenue	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
(1) Active pharmaceutical ingredients manufacturing	274,402,744.40	250,160,467.62	441,974,313.29	436,783,466.01	344,636,079.84
(2) Chemical dosage manufacturing	1,413,923,242.87	1,233,574,936.03	2,202,881,884.01	1,931,842,245.16	1,574,798,256.57
(3) Chinese medicine and Chinese patent medicine processing	598,838,037.13	455,528,802.42	932,156,759.05	820,403,526.21	770,445,352.43
(4) Other pharmaceutical manufacturing and others	4,665,901.29	4,350,964.41	6,712,287.27	6,149,283.86	7,001,693.17
(5) Pharmaceutical products trading	68,969,859.42	69,845,240.24	174,854,907.19	56,849,477.69	53,995,569.78
	2,360,799,785.11	2,013,460,410.72	3,758,580,150.81	3,252,027,998.93	2,750,876,951.79

Cost	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
(1) Active pharmaceutical ingredients manufacturing	225,498,630.43	228,983,466.90	385,795,106.18	394,052,649.05	301,657,794.27
(2) Chemical dosage manufacturing	831,460,264.19	736,828,549.70	1,373,735,276.74	1,162,084,335.90	1,009,724,735.01
(3) Chinese medicine and Chinese patent medicine processing	384,189,560.81	317,218,841.46	592,950,240.38	548,922,406.64	466,282,970.46
(4) Other pharmaceutical manufacturing	4,685,992.50	4,506,149.47	6,877,642.45	6,245,751.10	9,107,466.53
(5) Pharmaceutical products trading	42,950,301.32	43,317,608.32	137,220,215.19	24,489,993.40	22,373,959.87
	1,488,784,749.25	1,330,854,615.85	2,496,578,480.94	2,135,795,136.09	1,809,146,926.14

2. Revenue and cost of sales of main operations by regions are summarized as follows:

Revenue of main operations	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Southern China	959,490,641.85	881,947,939.17	1,658,333,326.11	1,531,715,723.38	1,320,984,637.39
Eastern China	392,297,004.37	269,156,044.78	574,631,064.31	403,788,149.42	310,137,613.88
Nothern China	243,010,966.24	241,875,306.28	372,604,196.74	390,837,406.57	280,470,520.14
Northeastern China	80,288,353.74	64,321,897.33	144,090,757.55	113,900,569.91	102,471,947.40
Southwestern China	253,821,850.31	211,843,278.38	409,532,290.39	285,858,088.23	212,713,904.42
Northwestern China	91,957,557.58	35,564,317.21	109,586,874.43	49,866,201.33	40,417,141.06
Central China	339,933,411.02	308,751,627.57	489,801,641.28	476,061,860.09	483,681,187.50
Total	2,360,799,785.11	2,013,460,410.72	3,758,580,150.81	3,252,027,998.93	2,750,876,951.79

Cost of main operations	For the six months ended 30 June 2012	2011 (unaudited)	For the year end 31 December 2011	2010	2009
Southern China	594,815,517.68	574,448,901.42	1,111,851,228.48	960,310,514.34	850,451,470.25
Eastern China	626,372,671.14	183,102,599.26	378,203,125.92	289,957,528.24	215,135,303.02
Northern China	245,888,347.24	166,645,631.65	250,608,981.77	274,393,572.45	185,420,971.37
Northeastern China	155,850,239.45	45,846,235.15	95,488,538.30	74,017,466.64	67,205,792.54
Southwestern China	47,881,564.72	131,577,001.89	270,911,446.88	184,721,702.31	135,496,662.94
Northwestern China	155,746,513.31	20,106,246.18	66,524,699.73	30,734,569.04	23,798,124.34
Central China	53,557,259.40	209,128,000.30	322,990,459.86	321,659,783.07	331,638,601.68
Total	1,488,784,749.25	1,330,854,615.85	2,496,578,480.94	2,135,795,136.09	1,809,146,926.14

3. The amounts of related party transactions in January 2012 to June 2012, 2011, 2010 and 2009 were RMB189,390,977.20 (the unaudited amount of RMB385,185,898.02 in January 2011 to June 2011), RMB288,667,628.38, RMB192,911,119.49 and RMB146,837,774.08 respectively representing 8.02% (the unaudited proportion of 19.13% in January 2011 to June 2011), 7.68%, 5.93% and 5.34% of revenue from main operation respectively. For details, please refer to note (II) 4 of Section VI.

4. The depreciation and amortization charges of operating costs in January 2012 to June 2012, 2011, 2010 and 2009 were RMB25,415,531,82 (the unaudited amount of RMB21,758,927.12 in January 2011 to June 2011), RMB49,923,919.13, RMB48,475,578.31 and RMB57,467,575.43 respectively.

(38) Revenue and cost of sales of other operations

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year end 31 December 2011	2010	2009
Revenue from other operations:					
(1) Leases of assets	14,878,999.00	12,373,581.20	25,429,540.22	24,037,975.91	21,766,247.38
(2) Consultation service	0.00	0.00	0.00	2,041,500.00	5,250,000.00
(3) Collection of water and electricity charges	3,978,197.25	1,080,957.78	6,185,545.32	6,416,613.52	6,040,881.85
(4) Sales of materials	5,882,909.55	966,946.91	1,723,510.78	3,474,635.16	4,123,145.88
(5) Management fee	930,000.00	811,762.00	1,636,741.00	1,600,776.45	1,583,808.00
(6) Relocation compensation	0.00	0.00	0.00	22,672,812.53	0.00
(7) Others	727,626.25	5,681,167.24	5,577,599.41	4,588,716.68	5,464,511.68
Sub-total	26,397,732.05	20,914,416.13	40,552,936.73	64,833,030.25	44,228,594.79
Cost of sales of other operations:					
(1) Leases of assets	2,938,273.90	2,858,881.77	6,097,936.45	5,568,948.25	5,948,816.69
(2) Collection of water and electricity charges	3,984,754.85	1,163,114.04	6,121,441.34	6,230,215.19	4,057,358.70
(3) Sales of materials	2,643,934.83	0.00	2,502,537.55	1,629,700.06	6,218,108.95
(4) Relocation cost	0.00	0.00	0.00	3,436,792.68	0.00
(5) Others	428,669.28	4,133,862.82	3,252,243.02	3,153,634.04	2,862,105.56
Sub-total	9,995,632.86	8,155,858.63	17,974,158.36	20,019,290.22	19,086,389.90
Total	16,402,099.19	12,758,557.50	22,578,778.37	44,813,740.03	25,142,204.89

In January 2012 to June 2012, 2011, 2010 and 2009, the related party transactions was RMB4,537,462.23 (the unaudited amount of RMB5,129,377.99 in January 2011 to June 2011), RMB5,941,325.20, RMB9,314,487.41 and RMB10,975,243.80 respectively, representing 17.19% (the unaudited proportion of 24.52% in January 2011 to June 2011), 14.65%, 14.37% and 24.82% of revenue from other operation respectively. For details, please refer to note (II) 4 and 6⑤ of Section VI.

(39) Taxes and surcharges

	For the six months ended 30 June		For the year end 31 December		
Item	**2012**	**2011 (unaudited)**	**2011**	**2010**	**2009**
Business tax	1,020,913.59	824,543.02	1,580,982.87	1,458,330.04	1,500,569.09
City maintenance and construction tax	13,190,171.51	9,311,184.57	17,441,490.07	13,943,080.73	14,844,430.39
Education surcharge	5,666,245.49	5,130,654.92	8,962,447.90	6,031,982.88	6,405,905.38
Housing real-estate tax	1,345,537.31	1,417,420.09	2,852,503.70	2,643,922.73	2,445,505.16
Local education surcharge	3,778,258.95	1,225,631.32	3,557,112.06	0.00	0.00
Others	2,050.64	336,464.42	0.00	0.00	0.00
Total	25,003,177.49	18,245,898.34	34,394,536.60	24,077,316.38	25,196,410.02

(40) Selling and distribution expenses

Selling and distribution expenses incurred during January 2012 to June 2012, 2011, 2010 and 2009 are RMB364,884,243.73 (the unaudited amount of RMB279,648,719.39 in January 2011 and to June 2011), RMB507,181,315.31, RMB512,823,745.48 and RMB470,809,530.10 respectively, including:

	For the six months ended 30 June		For the year end 31 December		
Item	**2012**	**2011 (unaudited)**	**2011**	**2010**	**2009**
Payroll expenses	166,522,803.14	118,340,878.67	141,582,214.38	118,092,227.90	101,821,285.96
Transportation expenses	23,373,797.66	20,152,746.81	40,627,798.39	33,326,775.96	31,212,734.74
Advertising fees	92,070,618.13	62,897,549.15	94,143,482.37	148,116,215.39	108,301,300.01
Travelling expenses	18,388,639.82	16,686.279.96	38,225,318.17	32,500,439.49	32,466,296.78
Conference expenses	6,607,940.84	12,961,628.26	23,209,814.14	24,706,743.17	33,138,586.07
Promotion fees	19,602,929.07	14,056,472.45	34,214,066.86	32,551,628.44	31,291,976.92
Depreciation and amortization	593,028.69	635,937.11	1,484,600.78	1,236,086.74	1,426,068.55

(41) General and administrative expenses

General and administrative expenses incurred during January 2012 to June 2012, 2011, 2010 and 2009 are RMB243,798,846.09 (the unaudited amount of RMB204,043,755.18 in January 2011 to June 2011), RMB431,705,064.24, RMB373,006,691.20 and RMB337,436,931.83 respectively, including:

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year end 31 December 2011	2010	2009
Payroll expenses	94,882,065.43	77,359,451.77	167,763,405.09	152,512,809.90	147,841,322.68
Technical research expenses	71,212,817.43	40,908,063.68	117,863,229.95	61,993,023.61	48,725,270.85
Depreciation and amortization	12,105,330.05	11,128,695.44	22,603,745.75	22,844,066.57	23,031,607.22
Repairing expenses	5,204,742.29	5,189,091.71	11,507,178.85	10,708,455.19	9,528,301.66
Entertainment expenses	7,296,727.55	6,382,175.98	13,106,375.92	12,617,990.26	9,394,706.75
Land use fees	2,590,436.54	3,013,474.88	5,346,003.48	4,266,243.46	6,419,177.39
Office expenses	4,200,276.20	3,515,017.68	7,503,664.40	6,692,703.67	5,974,544.02
Housing real-estate tax	2,867,865.06	3,161,575.50	5,462,079.84	5,541,750.92	5,565,678.97
Inventory shortage or scrapping	200,965.73	2,646.15	1,355,204.70	2,318,472.24	9,749,991.39
Auditors' remuneration	550,000.00	0.00	770,000.00	920,000.00	880,000.00

(42) Finance costs

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year end 31 December 2011	2010	2009
Interest expenses	27,205,841.30	26,631,753.87	53,347,937.16	54,468,260.66	65,013,318.41
Interest income	-1,876,165.38	-1,175,440.80	-2,772,402.02	-2,820,424.88	-1,781,231.91
Bank charges	300,255.12	260,909.62	680,914.14	558,934.70	573,541.49
Bank financial advisory fees	0.00	1,800.50	0.00	0.00	52,800.00
Total	25,629,931.04	25,719,023.19	51,256,449.28	52,206,770.48	63,858,427.99

In January 2012 to June 2012 and January to June 2011 (unaudited), 2011, 2010 and 2009, interest expenses were the bank loan interest of the last installment in five years.

(43) Gain arising from changes in fair value

Source of gain arising from changes in fair value	For the six months ended 30 June 2012	2011	For the year end 31 December 2011 (unaudited)	2010	2009
Investment properties measured at fair value	5,266,230.00	0.00	-699,940.00	3,008,486.00	1,875,845.51
Including: changes in fair value for the current year	5,266,230.00	0.00	-699,940.00	7,357,480.00	1,875,845.51
Write down of the changes in previous fair value of the investment properties sold	0.00	0.00	0.00	-4,348,994.00	0.00
Total	5,266,230.00	0.00	-699,940.00	3,008,486.00	1,875,845.51

(44) Asset impairment losses

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
1. Provision for bad debts	175,847.46	54,429.52	-48,773.54	-1,791,917.77	4,177,205.09
2. Declines in values of inventories	-1,243,995.62	-1,042,579.06	-1,135,762.86	4,679,778.31	-4,823,209.31
3. Fixed asset impairment losses	0.00	0.00	0.00	420,762.23	11,405,560.91
4. Intangible asset impairment losses	0.00	0.00	184,180.00	-7,712.01	2,918,653.65
5. Long-term equity investment impairment losses	0.00	0.00	0.00	100,000.00	3,050,000.00
6. Construction-in-progress impairment losses	0.00	251,734.38	251,734.38	0.00	869,318.50
Total	-1,068,508.16	-736,415.16	-748,622.02	3,400,910.76	17,597,528.84

(45) Investment income

Name of the project or investee	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
1. Investment income from financial assets:					
Investment income arising from the available-for-sale financial assets	6,190.90	0.00	16,329.82	10,522.10	17,129.00
2. Investment income from long-term equity investments:					
Income from long-term equity investments under equity method	34,775,904.30	28,901,932.29	53,937,472.72	36,182,024.42	30,846,281.11
Income from long-term equity investments under cost method	0.00	0.00	12,344.32	6,172.16	5,572.15
3. Income from the equity transfer:					
Income from the transfer of Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	0.00	0.00	0.00	3,768,490.05	0.00
Total	34,782,095.20	28,901,932.29	53,966,146.86	39,967,208.73	30,868,982.26

Of which, income from long-term equity investments under equity method includes:

Investee	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	34,159,072.19	30,171,153.96	51,558,710.96	45,582,553.81	49,163,158.45
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	616,832.11	-1,269,221.67	2,378,761.76	-9,400,529.39	-19,665,176.96
Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	0.00	0.00	0.00	0.00	1,348,299.62
Total	34,775,904.30	28,901,932.29	53,937,472.72	36,182,024.42	30,846,281.11

There was no significant restriction in the repatriation of the investment income during the Reporting Periods.

(46) Non-operating income

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
1. Gain on disposal of non-current assets	73,775.01	21,646.15	6,183,052.02	6,399,492.94	24,386,745.51
2. Gain arising from debt restructuring	0.00	0.00	0.00	0.00	37,041.33
3. Government grants	6,082,826.03	621,237.50	12,321,357.68	13,827,690.66	11,814,822.99
4. Waived liabilities	0.00	0.00	3,470,073.17	1,033,092.72	974,182.55
5. Penalty income	12,760.46	10,553.35	237,043.23	380,795.17	138,158.46
6. Sales of scraps	195,448.26	44,262.21	415,973.05	140,878.30	381,962.32
7. Others	1,023,915.38	2,974,405.71	1,892,176.59	2,090,581.85	2,254,787.31
Total	7,388,725.14	3,672,104.92	24,519,675.74	23,872,531.64	39,987,700.47

1. Gain arising from debt restructuring in 2009 did not involve any related party transactions.

2. Government grants

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Government grants related to assets	1,099,446.00	200,245.59	3,778,020.08	1,785,566.55	1,283,319.09
Government grants related to income	1,583,380.03	308,491.91	6,872,437.60	6,729,821.63	8,088,375.90
Enterprise support and position stabilization subsidy* (援企穩崗補貼)	0.00	0.00	0.00	4,851,044.80	0.00
Specific funds for energy saving in 2011 of Guangzhou	0.00	0.00	320,000.00	0.00	1,000,000.00
Technological innovation funds in 2011 of Guangzhou	0.00	0.00	500,000.00	0.00	1,034,628.00
Football special zone bonus	0.00	0.00	0.00	0.00	1,000,000.00
He Ji Gong distressed enterprises allowance* (何濟公困難企業補助)	0.00	0.00	0.00	0.00	1,034,628.00
Office supporting fund from People's Government of Baiyun District, Guangzhou*（廣州市白雲區人民政府辦公室扶持款）	3,000,000.00	0.00	0.00	0.00	0.00
Others	400,000.00	112,500,000	850,900.00	461,257.68	408,500.00
Total	6,082,826.03	621,237.50	12,321,357.68	13,827,690.66	11,814,822.99

(47) Non-operating expenses

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
1. Loss on disposal of fixed assets	79,720.61	380,225.20	3,915,101.48	1,968,694.40	4,242,738.97
2. Penalty	38,316.85	123,688.04	163,209.77	1,182,504.89	1,109,357.96
3. Donations	3,865,482.59	328,205.81	3,775,145.79	1,844,930.93	93,427.73
4. Others	406,516.19	2,068.10	361,426.48	294,146.39	1,643,061.89
5. Rework loss	0.00	0.00	2,070,598.84	0.00	0.00
6. Real estate transfer registration fee	1,500,000.00	0.00	0.00	0.00	0.00
Total	5,890,036.24	834,187.15	10,285,482.36	5,290,276.61	7,088,586.55

(48) Income tax expenses

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Current income tax	55,351,674.52	28,476,496.94	51,592,869.17	42,054,662.33	32,302,791.85
Deferred income tax	-17,170,921.38	-34,627.18	-3,516,425.32	-4,026,322.46	-35,853,770.65
Total	38,180,753.14	28,441,869.76	48,076,443.85	38,028,339.87	-3,550,978.80

The income tax expenses calculated at applicable tax rates can be reconciled to the total profit per income statements as follows:

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Total profit	271,716,458.96	200,183,221.49	328,292,105.07	257,089,118.33	117,617,343.45
Income tax expenses calculated at statutory tax rates	40,757,468.84	30,027,483.22	49,243,815.76	38,563,367.75	17,642,601.52
Tax effect of different rates applicable to subsidiaries	1,624,196.85	1,912,834.06	2,846,475.51	3,058,245.16	2,146,527.44
Tax effect of income not subject to tax or exempted from tax	-5,217,314.28	-4,335,289.84	-8,090,620.91	-5,993,236.31	-4,630,347.34
Costs, expenses and losses not deductible for tax purposes	2,332,878.40	685,388.87	4,461,281.02	3,691,252.40	11,219,573.59
Tax effect of additional deduction of research and development costs	0.00	0.00	0.00	0.00	-280,583.41
Tax effect of losses made in prior years	0.00	0.00	0.00	0.00	0.00
Tax effect of enterprise income tax clearance in prior year	-1,316,476.67	151,453.45	-384,457.53	-1,291,289.13	1,656,173.28
Effect on opening deferred income tax due to change in tax rates	0.00	0.00	0.00	0.00	-31,304,923.88
Income tax expenses	38,180,753.14	28,441,869.76	48,076,443.85	38,028,339.87	-3,550,978.80

(49) Other comprehensive income

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
1. Gains /(Losses) arising from available-for-sale financial assets	3,078.32	3,376.86	-30,431.34	-182,203.62	225,613.40
2. Gains/(losses) arising from the transfer of non-investment properties to the investment properties	0.00	0.00	0.00	4,994,161.28	2,291,186.47
Less: Income tax effect arising from the transfer of non-investment properties to the investment properties	0.00	0.00	0.00	749,124.20	343,677.97
Add: Income tax effect arising from the transfer of non-investment properties to the investment properties in prior periods due to the changes in tax rate	0.00	0.00	0.00	0.00	2,718,103.42
Sub-total	3,078.32	3,376.86	0.00	4,245,037.08	4,665,611.92
3. Recognition of share of other comprehensive income of the investee based on equity method	0.00	0.00	-80,331.78	823,506.61	0.00
4. Other	-542,400.00	0.00	0.00	-1,032,388.00	-5,096,727.00
Total	-539,321.68	3,376.86	-110,763.12	3,853,952.07	-205,501.68

(50) Notes to cash flow statement

1. Supplementary information to the cash flow statement

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
I. Reconciliation from net profit to cash flows from operating activities					
Net profit	233,535,705.82	171,741,351.73	280,215,661.22	219,060,778.46	121,168,322.25
Add: Provisions for asset impairment	-1,068,508.16	-736,415.16	-748,622.02	3,400,910.76	17,597,528.84
Depreciation of fixed assets	34,996,343.58	30,808,831.92	68,514,849.38	66,906,780.01	74,492,480.70
Amortization of intangible assets	2,687,884.29	2,403,017.63	4,560,062.03	4,856,716.42	5,576,112.57
Amortization of long-term prepaid expenses	429,662.68	311,710.12	937,354.25	792,235.19	1,856,657.93
Gains on disposal of fixed assets, intangible assets and other long-term assets	-73,775.01	358,570.05	-6,183,052.02	-23,106,818.39	-20,144,006.54
Losses on scrapping of fixed assets (gain is marked with "-")	79,720.61	0.00	3,915,101.48	0.00	0.00
Loss on change in fair value (gain is marked with "-")	-5,266,230.00	0.00	699,940.00	-3,008,486.00	-1,875,845.51
Finance costs (gain is marked with "-")	27,205,841.30	26,631,753.87	53,347,937.16	54,468,260.66	65,013,318.41
Investment loss (gain is marked with "-")	-34,782,095.20	-28,901,932.29	-53,966,146.86	-39,967,208.73	-30,868,982.26
Decrease in deferred tax assets (increase is marked with "-")	-17,817,334.52	-34,627.18	-3,666,491.53	-4,533,166.06	467,519.55
Increase in deferred tax liabilities (decrease is marked with "-")	646,413.14	0.00	150,066.21	506,843.60	-36,321,290.22
Decrease in inventories (increase is marked with "-")	60,413,124.45	64,935,669.92	37,026,195.32	-278,723,999.96	18,014,074.79
Decrease in operating receivables (increase is marked with "-")	-262,153,482.51	-277,039,076.75	-164,958,090.54	289,304,563.93	5,555,255.56
Increase in operating payables (decrease is marked with "-")	220,169,363.81	155,058,471.54	51,127,890.00	43,296,769.74	76,425,839.97
Other	11,531,519.11	6,248,570.98	2,941,800.93	-6,039,755.16	3,184,148.12
Net cash flows from operating activities	270,534,153.39	151,785,905.38	273,914,455.01	327,214,424.47	300,141,134.16

2. Cash and cash equivalents

Item	2012-6-30	2011-6-30 (unaudited)	2011-12-31	2010-12-31	2009-12-31
I. Cash	421,813,766.49	245,985,054.60	256,478,434.53	326,257,816.23	316,890,209.67
Including: Cash on hand	347,500.88	257,728.96	199,629.39	165,323.47	156,201.80
Bank deposits that are readily available for payment	421,466,265.61	245,727,325.64	256,278,805.14	326,092,492.76	316,734,007.87
II. Cash and cash equivalents	0.00	0.00	0.00	0.00	0.00
III. Balance of cash and cash equivalents	421,813,766.49	245,985,054.60	256,478,434.53	326,257,816.23	316,890,209.67

3. *Cash received relating to other operating activities*

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Cash received from repayment of Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	0.00	0.00	0.00	32,500,000.00	40,000,000.00
Cash received from rental and technical support service income	10,454,555.60	12,769,587.20	25,429,540.22	27,608,098.19	32,773,204.30
Government grants received	5,076,400.00	3,803,250.00	22,385,200.00	22,713,704.80	12,110,730.42
Deposits received	6,457,400.00	3,025,922.45	0.00	4,452,320.00	4,505,620.00
Interest income received	1,876,165.38	1,175,440.80	2,772,402.02	2,820,424.88	1,781,231.91

4. *Cash paid relating to other operating activities*

Item	For the six months ended 30 June 2012	2011	For the year ended 31 December 2011	2010	2009
Operating expenses paid in cash	91,533,492.27	83,948,577.37	246,751,030.64	382,369,844.49	388,183,923.71
General and administrative expenses paid in cash	48,425,630.18	39,871,365.40	101,709,918.24	127,693,327.66	63,454,225.39

(51) Net current assets

Item	2012-6-30	2011-12-31	2010-12-31	2009-12-31
Current assets	1,962,267,087.46	1,612,868,095.98	1,529,079,184.77	1,462,668,073.23
Current liabilities	1,732,281,939.99	1,571,608,611.86	1,738,406,129.70	1,834,603,799.15
Net current assets/(liabilities)	229,985,147.47	41,259,484.12	-209,326,944.93	-371,935,725.92

(52) Total assets less current liabilities

Item	2012-6-30	2011-12-31	2010-12-31	2009-12-31
Total assets	3,533,915,662.27	3,147,360,606.38	3,055,310,511.65	2,945,054,275.46
Current liabilities	1,732,281,939.99	1,571,608,611.86	1,738,406,129.70	1,834,603,799.15
Total assets less current liabilities	1,801,633,722.28	1,575,751,994.52	1,316,904,381.95	1,110,450,476.31

SECTION VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Information of related parties

1. General information of the parent company of BYS

(Currency Unit: RMB'0000)

Name of the parent company	Relationship	Entity Type	Registered address	Legal Representative	Nature of business	Registered capital	% Equity interest	% Voting rights	Ultimate holding company	Organization code
Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司)	Controlling Shareholder	Limited liability company (wholly state-owned)	No. 45 North Sha Mian Street, Liwan District, Guangzhou	Yang Rongming	Operation and investment of state-owned assets	RMB1,252.81 million	35.58%	35.58%	State-owned Assets Supervision & Adminstration Commission of Guangzhou City	23124735-0

2. Information of subsidiaries of BYS

Name of the subsidiary	Type of subsidiary	Entity Type	Registered address	Legal Representative	Nature of business	Registered Capital	% Equity interest	% Voting rights	Organization code
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd* (廣州白雲山明興製藥有限公司)	Subsidiary	Limited liability company	Guangzhou	Xie Bin	Manufacture and processing of active pharmaceutical ingredients, chemical preparation, Chinese patent medicines and health care products	RMB26.4946 million	100%	100%	19046020X
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	Subsidiary	Limited liability company	Jiexi County	Chen Mao	Tablets, capsules and granules	RMB11.79 million	100%	100%	618223177
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	Subsidiary	Joint stock company	Guangzhou	Chen Kunnan	Manufacture, processing and sales of chemical preparation, Chinese patent medicines, bulk medicine and healthcare products	RMB45.693 million	82.49%	82.49%	190485108
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	Subsidiary	Joint stock company	Guangzhou	Wang Wenchu	Manufacture of active pharmaceutical ingredients, chemical preparation, Chinese patent medicines, veterinary pharmaceutical and cosmetics	RMB55.285 million	84.48%	84.48%	190485116
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	Subsidiary	Limited liability company	Guangzhou	Chen Mao	Wholesale of Chinese patent medicines, active pharmaceutical ingredients and chemical preparation antibiotics	RMB2.00 million	51%	51%	721974948
Bozhou Baiyunshan Pharmaceutical Co., Ltd.* (亳州白雲山制藥有限公司)	Subsidiary	Limited liability company	Bozhou	Wang Zhengping	Manufacture and sales of tablets and granules	RMB0.5 million	80%	80%	15194066-5

Name of the subsidiary	Type of subsidiary	Entity Type	Registered address	Legal Representative	Nature of business	Registered Capital	% Equity interest	% Voting rights	Organization code
Guangzhou Baiyunshan Pharmacy* (廣州白雲山大藥房)	Subsidiary	Jointly controlled entity	Guangzhou	Wen Xianwen	Retail of Chinese raw medicine, commonly-used Chinese and Western patent medicines, cigarette and wine, sales of subsidiary foodstuffs and other food as well as general merchandise	RMB1.00 million	100%	100%	19056006-7
Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd.* (廣州廣藥白雲山大健康酒店有限公司)	Subsidiary	Limited liability company	Guangzhou	Cai Jingui	Retail trading, hospitality, manufacture and sales of Chinese food	RMB0.5 million	100%	100%	58760950-0

Among the above subsidiaries, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.*（廣州白雲山天心製藥股份有限公司）and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.*（廣州白雲山光華製藥股份有限公司）are companies registered in the PRC and limited by shares, all of the shares held are ordinary shares at par value of RMB1.00.

The above subsidiaries had paid-up their registered capital.

The financial statements of the above subsidiaries for the three years ended 31 December 2009, 2010 and 2011 have been prepared in accordance with the relevant accounting rules and financial regulations applicable to the enterprises in the PRC, of which for the two years of 2009 and 2010 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd.（立信羊城會計師事務所有限公司）, the certified public accountants registered in the PRC, in accordance with the PRC auditing standards, and the financial statements for the year of 2011 was audited by BDO China Shu Lun Pan CPAs LLP（立信會計師事務所(特殊普通合夥)）, the certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

3. *Information of jointly controlled entities and associates of BYS*

Name of the investee	Entity Type	Registered address	Legal Representative	Nature of business	Registered Capital	% Equity interest	% Voting rights	Relationship	Organization code
I. Jointly controlled entities									
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Sino-foreign joint venture	Guangzhou	Du Zhiqiang	Manufacture, processing, research and development and sales of medicines, health care product, food and Chinese raw medicine;	RMB200.00 million	50%	50%	Jointly controlled entities	773303038
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Sino-foreign joint venture	Guangzhou	Chen Mao	Manufacture of high-volume injections, engaged in the import and wholesale of medicines	RMB177.50 million	50%	50%	Jointly controlled entities	661806271

The financial statements of the above jointly controlled companies for the three years ended 31 December 2009, 2010 and 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises in the PRC, the financial statements for the year ended 31 December 2009, 2010 and 2011 were audited by PricewaterhouseCoopers Zhong Tian CPA Limited Company (普華永道中天會計師事務所有限公司), the certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

4. *Information of other related parties of BYS*

Name of entity	Relationship with BYS
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	Controlled by the same ultimate holding company
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Controlled by the same ultimate holding company
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd.* (廣州白雲山陳李濟藥廠有限公司)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Jingxiutang Pharmaceutical Company Limited (廣州白雲山敬修堂(藥業)股份有限公司)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Xingqun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)	Controlled by the same ultimate holding company
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory* (廣州市藥材公司中藥飲片廠)	Controlled by the same ultimate holding company
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.* (廣州漢方現代中藥研究開發有限公司)	Controlled by the same ultimate holding company
Guangzhou Cai Zhi Lin Pharmaceutical Multiple Shop* (廣州采芝林藥業連鎖店)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	Controlled by the same ultimate holding company
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited (廣州藥業股份有限公司盈邦分公司)	Controlled by the same ultimate holding company and was later incorporated into Guangzhou Pharmaceutical Import and Export Co., Ltd.
Hong Kong Xin Min Pharmaceutical Co., Ltd.* (香港新民製藥公司)	Controlled by the same ultimate holding company
Baiyun Ministry of Trade* (白雲貿易部)	Controlled by the same ultimate holding company
Guangzhou Yufa Medical Equipment Co., Ltd.* (廣州裕發醫用器械有限公司)	Controlled by the same ultimate holding company
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	Controlled by the same ultimate holding company

Name of entity	Relationship with BYS
Guangzhou Pharmaceutical Industrial Research Institute* (廣州醫藥研究總院)	Controlled by the same ultimate holding company
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Nuocheng Bio-technology Co., Ltd.* (廣州諾誠生物製品股份有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Xin Te Pharmaceutical Co., Ltd* (廣州欣特醫藥有限公司)	Jointly controlled entity of the same ultimate company
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Jianmin Pharmaceutical Corporation Limited* (廣州健民醫藥有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain* (廣州健民醫藥連鎖有限公司)	Jointly controlled entity of the same ultimate company
Guangzhou Guo Ying Co., Ltd.* (廣州國盈醫藥有限公司)	Jointly controlled entity of the same ultimate company
Fujian GPC Jieda Co., Ltd.* (福建廣藥潔達醫藥有限公司)	Jointly controlled entity of the same ultimate company
Shanxi GPC Kangjian Pharmaceutical Co., Ltd. (陝西廣藥康健醫藥有限公司)	Jointly controlled entity of the same ultimate company
Nanyang Baiyunshan Hutchison Whampoa Guangbao Pharmaceutical Co., Ltd.* (南陽白雲山和黃冠寶藥業有限公司)	Subsidiary of the jointly controlled entity
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	Previously controlled by the same ultimate holding company, and transferred in 2010

(II) Related party transactions

1. For the subsidiaries which are controlled by BYS and consolidated into the consolidated financial statements of BYS, the transactions amongst them and those between BYS and them have been eliminated.

2. Pricing policies of related party transactions: the pricing of related party transactions shall follow the rule of market and be based on the market price when the transaction occurs. The relevant amount shall be paid on time according to the payment terms on actual transaction.

3. Related party transactions in relation to the purchase of goods and receiving services.

		For the 6 months ended 30 June				For the year ended 31 December					
		2012		2011 (unaudited)		2011		2010		2009	
Name of entity	Type of transaction	Amount (RMB'0000)	Percentage of similar transactions (%)	Amount (RMB'0000)	Percentage of similar transactions (%)	Amount (RMB'0000)	Percentage of similar transactions (%)	Amount (RMB'0000)	Percentage of similar transactions (%)	Amount (RMB'0000)	Percentage of similar transactions (%)
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Purchase of goods	2,309.62	1.55%	3,689.59	2.77%	6,395.75	2.56%	6,032.12	2.82%	4,677.69	2.56%
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Purchase of goods	5,894.72	3.96%	7,740.56	5.82%	11,130.03	4.46%	11,564.83	5.41%	3,671.73	2.01%
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.* (廣州漢方現代中藥研究開發有限公司)	Purchase of goods	400.48	0.27%	239.54	0.18%	524.91	0.21%	334.22	0.15%	129.08	0.07%
Guangzhou Huanye Pharmaceutical Co., Ltd.* (廣州環葉製藥有限公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	136.85	0.07%
Guangzhou Pharmaceutical Company Limited Ying Bang Branch Company* (廣州藥業股份有限公司盈邦分公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	4,032.03	2.21%
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory* (廣州市藥材公司中藥飲片廠)	Purchase of goods	108.79	0.07%	74.87	0.06%	143.70	0.06%	91.80	0.04%	90.43	0.05%
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	3.46	0.00%	0.00	0.00%
Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited* (廣州白雲山中一藥業有限公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	2.80	0.00%	0.00	0.00%
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	2,752.70	1.10%	0.00	0.00%	0.00	0.00%
Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd.* (廣州白雲山陳李濟藥廠有限公司)	Purchase of goods	232.04	0.16%	124.82	0.09%	349.38	0.14%	0.00	0.00%	0.00	0.00%
Guangzhou Guo Ying Co., Ltd.* (廣州國盈醫藥有限公司)	Purchase of goods	0.00	0.00%	0.00	0.00%	128.20	0.05%	0.00	0.00%	0.00	0.00%
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	Purchase of goods	460.98	0.31%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Total		9,406.63	6.32%	11,869.38	8.92%	21,424.67	8.58%	18,029.23	8.42%	12,737.81	6.97%
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Purchase of machinery and equipment	404.62	6.78%	34.54	12.84%	596.46	8.14%	90.65	2.18%	0.00	0.00%
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.* (南陽白雲山和黃冠寶藥業有限公司)	Advertising Sponsorship	0.00	0.00%	0.00	0.00%	2.00	0.02%	0.00	0.00%	0.00	0.00%
Guangzhou Pharmaceutical Industrial Research Institute* (廣州醫藥研究總院)	Research cost	0.00	0.00%	0.00	0.00%	0.00	0.00%	60.90	0.98%	0.00	0.00%
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	Advertising fee	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	3,170.00	29.27%

4. Related party transactions in relation to the sales of goods and rendering services

Name of entity	Type of transaction	For the 6 months ended 30 June 2012 Amount (RMB'0000)	2012 Percentage of similar transactions (%)	2011 (unaudited) Amount (RMB'0000)	2011 (unaudited) Percentage of similar transactions (%)	For the year ended 31 December 2011 Amount (RMB'0000)	2011 Percentage of similar transactions (%)	2010 Amount (RMB'0000)	2010 Percentage of similar transactions (%)	2009 Amount (RMB'0000)	2009 Percentage of similar transactions (%)
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	Sales of goods	12,227.48	5.18%	10,205.56	5.07%	18,421.79	4.91%	10,803.02	3.32%	6,371.99	2.32%
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Sales of goods	1,788.64	0.76%	2,424.61	1.20%	3,360.64	0.89%	1,853.75	0.57%	2,164.71	0.79%
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Sales of goods	304.55	0.13%	579.19	0.29%	865.09	0.23%	976.80	0.30%	604.25	0.22%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Sales of goods	0.00	0.00%	0.00	0.00%	2.65	0.00%	0.00	0.00%	0.00	0.00%
Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	Sales of goods	3,257.90	1.38%	3,022.24	1.50%	5,021.02	1.34%	5,655.97	1.74%	5,449.77	1.98%
Guangzhou Nuocheng Bio-technology Co., Ltd.* (廣州諾誠生物制品股份有限公司)	Sales of goods	0.60	0.00%	0.00	0.00%	12.06	0.00%	0.00	0.00%	0.00	0.00%
Guangzhou Xin Te Pharmaceutical Co., Ltd* (廣州欣特醫藥有限公司)	Sales of goods	0.07	0.00%	1.76	0.00%	0.31	0.00%	0.49	0.00%	0.61	0.00%
Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	Sales of goods	2.52	0.00%	0.00	0.00%	6.76	0.00%	0.00	0.00%	0.00	0.00%
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.* (南陽白雲山和黃冠寶藥業有限公司)	Sales of goods	1,303.43	0.55%	0.00	0.00%	1,176.45	0.31%	0.00	0.00%	0.00	0.00%
Guangzhou Cai Zhi Lin Pharmaceutical Multiple Shop* (廣州采芝林藥業連鎖店)	Sales of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	1.08	0.00%	0.00	0.00%
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.* (廣州白雲山星群(藥業)股份有限公司)	Sales of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	73.25	0.03%
Guangzhou Pharmaceutical Company Limited Ying Bang Branch* (廣州藥業股份有限公司盈邦分公司)	Sales of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	10.10	0.00%
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.* (廣州漢方現代中藥研究開發有限公司)	Sales of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	8.55	0.00%
陝西廣藥康健醫藥有限公司	Sales of goods	43.23	0.02%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Other	Sales of goods	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.54	0.00%
Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	Rendering of services	0.68	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd. (廣州白雲山陳李濟藥廠有限公司)	Rendering of services	5.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	Rendering of services	5.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Total		18,939.10	8.02%	16,233.36	8.06%	28,866.77	7.68%	19,291.11	5.93%	14,683.77	5.34%

Name of entity	Type of transaction	For the 6 months ended 30 June 2012 Amount (RMB'0000)	2012 Percentage of similar transactions (%)	2011 (unaudited) Amount (RMB'0000)	2011 (unaudited) Percentage of similar transactions (%)	For the year ended 31 December 2011 Amount (RMB'0000)	2011 Percentage of similar transactions (%)	2010 Amount (RMB'0000)	2010 Percentage of similar transactions (%)	2009 Amount (RMB'0000)	2009 Percentage of similar transactions (%)
Other businesses:											
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Leases of assets	0.00	0.00%	0.00	0.00%	0.00	0.00%	123.63	1.91%	109.08	2.47%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Leases of assets	240.00	9.09%	215.60	10.31%	580.00	14.30%	580.00	8.94%	580.00	13.11%
Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain* (廣州健民醫藥連鎖有限公司)	Leases of assets	2.16	0.08%	1.89	0.09%	3.78	0.09%	3.78	0.06%	0.00	0.00%
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	Leases of assets	0.00	0.00%	0.00	0.00%	0.00	0.00%	9.72	0.15%	0.00	0.00%
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	Leases of assets	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	40.64	0.92%
		242.16	9.17%	217.49	10.40%	583.78	14.39%	717.13	11.06%	729.72	16.50%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Collection of utilities	4.21	0.16%	289.98	13.87%	10.35	0.26%	214.32	100.00%	367.80	100.00%
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Collection of utilities	2.31	0.09%	5.47	0.26%	0.00	0.00%	0.00	0.00%	0.00	0.00%
		6.52	0.25%	295.45	14.13%	10.35	0.26%	214.32	100.00%	367.80	100.00

5. Balance with related parties

Item	Related party	30 June 2012 (RMB'000) Ending Balance	30 June 2012 (RMB'000) Proportion of all the balance of the item to which it belong (%)	30 June 2012 (RMB'000) Provision of bad debts	31 December 2011 (RMB'0000) Ending Balance	31 December 2011 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2011 (RMB'0000) Provision of bad debts	31 December 2010 (RMB'0000) Ending Balance	31 December 2010 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2010 (RMB'0000) Provision of bad debts	31 December 2009 (RMB'0000) Ending Balance	31 December 2009 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2009 (RMB'0000) Provision of bad debts
Accounts receivable	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	46.37	0.15%	0.46	59.31	0.20%	1.88	148.75	0.56%	1.49	15.32	0.06%	0.15
Accounts receivable	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	0.00	0.00%	0.00	3.10	0.01%	0.03	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	16.25	0.05%	0.16	1,216.88	4.11%	12.61	186.05	0.71%	1.86	15.93	0.06%	0.16
Accounts receivable	Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	337.56	1.07%	3.38	351.76	1.19%	3.52	194.10	0.74%	1.94	118.50	0.46%	1.19
Accounts receivable	Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	155.60	0.49%	1.56	1,957.81	6.62%	19.58	2,952.54	11.20%	29.52	3,006.42	11.65%	30.06
Accounts receivable	Hong Kong Xin Min Pharmaceutical Co., Ltd.* (香港新民制藥公司)	796.54	2.53%	796.54	796.54	2.69%	796.54	796.54	3.02%	796.54	796.54	3.09%	796.54
Accounts receivable	Baiyun Ministry of Trade* (白雲貿易部)	814.66	2.58%	814.66	814.66	2.75%	814.66	814.66	3.09%	814.66	814.66	3.16%	814.66
Accounts receivable	Guangzhou Guo Ying Co., Ltd.* (廣州國盈醫藥有限公司)	0.09	0.00%	0.05	0.09	0.00%	0.03	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Guangzhou Jianmin Pharmaceutical Corporation Limited* (廣州健民醫藥有限公司)	0.00	0.00%	0.00	0.26	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Guangzhou Xin Te Pharmaceutical Co., Ltd* (廣州欣特醫藥有限公司)	0.00	0.00%	0.00	0.08	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Nanyang Baiyunshan Hutchison Whampoa Guangbao Pharmaceutical Co., Ltd.* (南陽白雲山和黃冠寶藥業有限公司)	111.30	0.35%	1.11	15.19	0.05%	0.15	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Foshan GPC Jianze Pharmaceutical Co., Ltd* (佛山市廣藥健擇醫藥有限公司)	0.13	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts receivable	Other	1.70	0.01%	1.70	0.00	0.00%	0.00	0.28	0.00%	0.00	1.38	0.01%	0.01
	Sub-total	2,280.20	7.23%	1,619.62	5,215.68	17.62%	1,649.00	5,092.92	19.32%	1,646.01	4,768.75	18.49%	1,642.77

Item	Related party	30 June 2012 (RMB'000) Ending Balance	30 June 2012 (RMB'000) Proportion of all the balance of the item to which it belong (%)	30 June 2012 (RMB'000) Provision of bad debts	31 December 2011 (RMB'0000) Ending Balance	31 December 2011 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2011 (RMB'0000) Provision of bad debts	31 December 2010 (RMB'0000) Ending Balance	31 December 2010 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2010 (RMB'0000) Provision of bad debts	31 December 2009 (RMB'0000) Ending Balance	31 December 2009 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2009 (RMB'0000) Provision of bad debts
Other receivables	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	82.64	1.51%	0.00	26.01	0.62%	0.00	43.83	0.97%	0.00	3,259.33	40.26%	0.00
Other receivables	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	237.38	4.31%	0.00	1.00	0.02%	0.00	0.56	0.01%	0.00	7.17	0.09%	0.00
Other receivables	Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	165.90	3.02%	165.90	165.90	3.99%	165.90	165.90	3.69%	165.90	165.90	2.05%	165.90
Other receivables	Guangzhou Baiyunshan Xingqun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)	26.49	0.48%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Other receivables	Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	82.14	1.49%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Other receivables	Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd. (廣州白雲山陳李濟藥廠有限公司)	26.22	0.48%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Other receivables	Guangzhou Baiyunshan Jingxiutang Pharmaceutical Company Limited (廣州白雲山敬修堂(藥業)股份有限公司)	22.91	0.42%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Other receivables	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	56.32	1.02%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Other receivables	Guangzhou Baiyunshan Qixing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)	20.98	0.38%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
	Sub-total	720.98	13.11%	165.90	192.91	4.63%	165.90	210.29	4.67%	165.90	3,432.40	42.40%	165.90
Notes receivable	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	844.70	1.59%	0.00	1,228.41	3.80%	0.00	1,960.06	9.83%	0.00	1,504.91	3.77%	0.00
Notes receivable	Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	0.00	0.00%	0.00	0.00	0.00%	0.00	160.00	0.80%	0.00	205.38	0.52%	0.00
Notes receivable	Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	269.04	0.51%	0.00	5,600.30	17.34%	0.00	286.20	1.44%	0.00	627.46	1.57%	0.00
	Sub-total	1,113.74	2.10%	0.00	6,828.71	21.14%	0.00	2,406.26	12.07%	0.00	2,337.75	5.86%	0.00

Item	Related party	30 June 2012 (RMB'000) Ending Balance	30 June 2012 (RMB'000) Proportion of all the balance of the item to which it belong (%)	30 June 2012 (RMB'000) Provision of bad debts	31 December 2011 (RMB'0000) Ending Balance	31 December 2011 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2011 (RMB'0000) Provision of bad debts	31 December 2010 (RMB'0000) Ending Balance	31 December 2010 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2010 (RMB'0000) Provision of bad debts	31 December 2009 (RMB'0000) Ending Balance	31 December 2009 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2009 (RMB'0000) Provision of bad debts
Advances to suppliers	Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory* (廣州市藥材公司中藥飲片廠)	0.00	0.00%	0.00	0.00	0.00%	0.00	5.78	0.30%	0.00	0.00	0.00%	0.00
Advances to suppliers	Guangzhou Yufa Medical Equipment Co., Ltd.* (廣州裕發醫用器械有限公司)	21.03	0.41%	0.00	21.03	0.53%	0.00	21.03	1.11%	0.00	21.03	1.44%	0.00
Advances to suppliers	Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	266.50	5.15%	0.00	37.10	0.95%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances to suppliers	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	101.56	1.96%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances to suppliers	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)	375.38	7.24%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances to suppliers	Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd. (廣州白雲山陳李濟藥廠有限公司)	5.14	0.10%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00
	Sub-total	769.61	14.86%	0.00	58.13	1.48%	0.00	26.81	1.41%	0.00	21.03	1.44%	0.00
Dividends receivable	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	2,000.00	100.00%	0.00	2,000.00	100.00%	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00

Item	Related party	30 June 2012 (RMB'000) Ending Balance	Proportion of all the balance of the item to which it belong (%)	31 December 2011 (RMB'0000) Ending Balance	Proportion of all the balance of the item to which it belong (%)	31 December 2010 (RMB'0000) Ending Balance	Proportion of all the balance of the item to which it belong (%)	31 December 2009 (RMB'0000) Ending Balance	Proportion of all the balance of the item to which it belong (%)
Accounts payable	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	147.30	0.36%	826.98	2.75%	926.01	3.61%	458.76	1.71%
Accounts payable	Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory* (廣州市藥材公司中藥飲片廠)	20.13	0.05%	25.48	0.08%	9.56	0.04%	10.74	0.04%
Accounts payable	Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	1,109.85	2.71%	928.10	3.09%	994.56	3.88%	695.06	2.59%
Accounts payable	Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	0.00	0.00%	1,789.44	5.95%	2,359.40	9.20%	2,885.68	10.76%
Accounts payable	Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.* (廣州漢方現代中藥研究開發有限公司)	138.12	0.34%	111.23	0.37%	65.91	0.26%	54.80	0.20%
Accounts payable	Guangzhou Huanye Pharmaceutical Co., Ltd.* (廣州環葉製藥有限公司)	0.00	0.00%	0.00	0.00%	0.00	0.00%	4.08	0.02%
Accounts payable	Guangzhou Pharmaceutical Company Limited Ying Bang Branch Company* (廣州藥業股份有限公司盈邦分公司)	0.00	0.00%	0.00	0.00%	0.00	0.00%	399.83	1.49%
Accounts payable	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)	95.08	0.23%	0.00	0.00%	0.00	0.00	0.00%	0.00
Accounts payable	Other	0.98	0.00%	1.00	0.00%	0.00	0.00%	0.00	0.00%
	Sub-total	1,511.46	3.69%	3,682.23	12.24%	4,355.44	16.98%	4,508.95	16.81%
Advances from customers	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	0.00	0.00%	0.00	0.00%	0.00	0.00%	209.00	1.25%
Advances from customers	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	658.85	3.41%	0.03	0.00%	616.91	2.73%	0.00	0.00%
Advances from customers	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.* (廣州白雲山奇星藥業有限公司)	0.10	0.00%	0.10	0.00%	0.10	0.00%	0.00	0.00%

Item	Related party	30 June 2012 (RMB'000) Ending Balance	30 June 2012 (RMB'000) Proportion of all the balance of the item to which it belong (%)	31 December 2011 (RMB'0000) Ending Balance	31 December 2011 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2010 (RMB'0000) Ending Balance	31 December 2010 (RMB'0000) Proportion of all the balance of the item to which it belong (%)	31 December 2009 (RMB'0000) Ending Balance	31 December 2009 (RMB'0000) Proportion of all the balance of the item to which it belong (%)
Advances from customers	Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	0.00	0.00%	0.00	0.00%	1.55	0.01%	0.00	0.00%
Advances from customers	Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)	296.79	1.54%	0.21	0.00%	4.98	0.02%	0.00	0.00%
Advances from customers	Guangzhou Cai Zhi Lin Pharmaceutical Multiple Shop* (廣州采芝林藥業連鎖店)	0.02	0.00%	0.02	0.00%	0.00	0.00%	0.00	0.00%
Advances from customers	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd* (南陽白雲山和黃冠寶藥業有限公司)	12.75	0.07%	66.69	0.32%	0.00	0.00%	0.00	0.00%
Advances from customers	Fujian Guangyao Jieda Co., Ltd.* (福建廣藥潔達醫藥有限公司)	0.00	0.00%	13.91	0.06%	0.00	0.00%	0.00	0.00%
Advances from customers	Shanxi Guangzhou Pharmaceutical Kang Jian Pharmaceutical Company Limited*(陝西廣藥康健醫藥有限公司)	0.13	0.00%	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances from customers	Guangzhou Baiyunshan Xingqun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)	5.00	0.03%	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances from customers	Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)	9.33	0.05%	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances from customers	Guangzhou Baiyunshan Jingxiutang Pharmaceutical Company Limited (廣州白雲山敬修堂(藥業)股份有限公司)	5.00	0.03%	0.00	0.00%	0.00	0.00	0.00%	0.00
Advances from customers	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)	10.00	0.05%	0.00	0.00%	0.00	0.00	0.00%	0.00
	Sub-total	997.97	5.18%	80.96	0.38%	623.54	2.76%	209.00	1.25%
Other Payables	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* (廣州采芝林藥業有限公司)	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.80	0.01%
Other Payables	Guangzhou Pharmaceutical Holdings Limited (廣藥集團)	21.34	0.26%	21.34	0.25%	21.34	0.28%	21.34	0.35%

Item	Related party	30 June 2012 (RMB'000)		31 December 2011 (RMB'0000)		31 December 2010 (RMB'0000)		31 December 2009 (RMB'0000)	
		Ending Balance	Proportion of all the balance of the item to which it belong (%)	Ending Balance	Proportion of all the balance of the item to which it belong (%)	Ending Balance	Proportion of all the balance of the item to which it belong (%)	Ending Balance	Proportion of all the balance of the item to which it belong (%)
Other Payables	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	273.00	3.39%	243.00	2.90%	424.33	5.47%	0.00	0.00%
Other Payables	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	0.00	0.00%	0.00	0.00%	50.08	0.65%	0.00	0.00%
	Sub-total	294.34	3.65%	264.34	3.15%	495.75	6.40%	22.14	0.36%
Dividends payable	Guangzhou Pharmaceutical Holdings Limited (廣藥集團)	917.95	42.05%	0.00	0.00%	0.05%	0.00%	0.00	0.00%

6. Other related party transactions

① Guarantees provided by BYS to the subsidiaries

BYS provided guarantee to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) with respect to its borrowings of RMB40.0 million from Guangzhou Tongfuzhonglu sub-branch* (廣州市同福中路支行) of Industrial and Commercial Bank of China Limited. As of 30 June 2012, the actual amount of borrowings was RMB40.0 million;

BYS provided guarantee to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) with respect to its acceptance notes in the maximum amount of RMB30.0 million issued to Guangzhoudadao sub-branch* (廣州大道支行) of Hua Xia Bank. As of 30 June 2012, the actual amount of acceptance notes issued was RMB0.00 million;

BYS provided guarantee to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) with respect to its borrowings of RMB40.0 million from Guangzhou Tongfuzhonglu sub-branch Guangzhou Tongfuzhonglu sub-branch* (廣州市同福中路支行) of Industrial and Commercial Bank of China Limited. As of 31 December 2011, the actual amount of borrowings was RMB40.0 million;

BYS provided guarantee to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) with respect to its acceptance notes in the amount of RMB30.0 million issued to Guangzhoudadao sub-branch* (廣州大道支行) of Hua Xia Bank. As of 31 December 2011, the actual amount of acceptance notes issued was RMB6.2666 million;

BYS provided guarantees to Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司) for a maximum credit amount of RMB20 million maximum credit facility from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2010, the actual amount of borrowings was RMB8 million;

BYS provided guarantees to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) for a borrowing of RMB40 million from Guangzhou Tongfuzhonglu sub-branch* (廣州市同福中路支行) of Industrial and Commercial Bank of China Ltd. As of 31 December 2010, the actual amount of borrowings was RMB40 million;

BYS provided guarantees to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) for a maximum borrowing amount of RMB10 million from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2010, the actual amount of borrowings was RMB10 million;

BYS provided guarantees to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) for a bank acceptance note of RMB30 million from Guangzhoudadao sub-branch* (廣州大道支行) of Hua Xia Bank. As of 31 December 2010, the actual amount of acceptance notes drawn was RMB23.6615 million;

BYS provided guarantees to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) for a borrowing of RMB20 million from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2009, the actual amount of borrowings was RMB0;

BYS provided guarantees to Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司) for a maximum credit facility of RMB20 million from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2009, the actual amount of borrowings was RMB16 million;

BYS provided guarantees to Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司) for a maximum borrowing amount of RMB40 million from Guangzhou Liwan Plaza sub-branch* (廣州市荔灣支行) of Guangdong Development Bank Co., Ltd.. As of 31 December 2009, the actual amount of borrowings was RMB25 million;

BYS provided guarantees to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) for a borrowing of RMB43 million from Guangzhou Tongfuzhonglu sub-branch* (廣州市同福中路支行) of Industrial and Commercial Bank of China Ltd. As of 31 December 2009, the actual amount of borrowings was RMB40 million;

BYS provided guarantees to Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) for a maximum borrowing amount of RMB15 million from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2009, the actual amount of borrowings was RMB10 million;

BYS provided guarantees to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) for a bank acceptance note of RMB20 million from Guangzhou Liwan sub-branch* (廣州市荔灣支行) of Guangdong Development Bank Co., Ltd.. As of 31 December 2009, the actual amount of acceptance notes drawn was RMB15.26 million;

BYS provided guarantees to Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製業股份有限公司) for a bank acceptance note of maximum RMB11 million from Guangzhou Haizhu sub-branch* (廣州市海珠支行) of China CITIC Bank Corporation Limited. As of 31 December 2009, the actual amount of acceptance notes drawn was RMB6.7110 million;

② Guarantees provided by the related parties to BYS

At the end of June 2012, GPHL provided guarantees to BYS for a borrowing amount of RMB150 million from Guangzhou Dezheng Road Central sub-branch (廣州德政中路支行) of Industrial and Commercial Bank of China Limited, the actual amount of borrowings was RMB50 million;

At the end of 2011, there are no guarantees provided to BYS by related party.

At the end of 2010, GPHL provided guarantees to BYS for a maximum borrowing amount of RMB150 million from Guangzhou Yuexiu sub-branch*（廣州市越秀支行）of Bank of Communications Company Limited, the actual amount of borrowings was RMB75 million;

At the end of 2010, GPHL provided guarantees to BYS for a maximum borrowing amount of RMB100 million from Guangzhou Liwan sub-branch*（廣州市荔灣支行）of China Construction Bank Corporation, the actual amount of borrowings was RMB20 million;

At the end of 2009, GPHL provided guarantees to BYS for a maximum borrowing amount of RMB150 million from Guangzhou Yuexiu sub-branch*（廣州市越秀支行）of Bank of Communications Company Limited, the actual amount of borrowings was RMB50 million;

At the end of 2009, GPHL provided guarantees to BYS for a maximum borrowing amount of RMB200 million from Guangzhou Liwan sub-branch*（廣州市荔灣支行）of China Construction Bank Corporation, the actual amount of borrowings was RMB184 million;

At the end of 2009, GPHL provided guarantees to Guangzhou Baiyunshan Co., Ltd. Guangzhou Chemical Pharmaceutical Factory* (廣州白雲山股份有限公司廣州白雲山化學製藥廠), a branch company of BYS, for a bank acceptance note of RMB20 million from Guangzhou Zhujiang sub-branch* (廣州市珠海支行) of Bank of China, the actual amount of acceptance note drawn was RMB0 million;

③ Provision of guarantees between the subsidiaries of BYS

At the end June 2012, of 2011, 2010 and 2009, there were no provision of guarantees for each other among the subsidiaries of BYS.

④ Daily related party transactions for each of year during the Reporting Periods:

A. In June 2012, BYS and its affiliated enterprises purchased raw materials from GPC and its affiliated enterprises of not more than RMB265.00 million, sold products of not more than RMB330.00 million; provided medicine processing to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the total transaction amount of not more than RMB13.00 million. BYS and its subsidiaries signed relevant agreements with related parties with respect to the actual occurrence of related party transactions, respectively. The actual transaction prices follow the rules of market, are based on the prevailing market price and the relevant amount are paid on time according to the payment terms on actual transaction; the above event was considered and approved at the 2011 annual general meeting of BYS.

B. In 2011, BYS and its subsidiaries purchased raw materials from GPC and its affiliated enterprises of not more than RMB265.00 million, sold products of not more than RMB300.00 million and leased some vacant warehouses to the affiliated enterprises of GPC with transaction amount of not more than RMB40,000; provided medicine processing to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the total transaction amount of not more than RMB13.00 million. BYS and its subsidiaries signed relevant agreements with related parties with respect to the actual occurrence of related party transactions, respectively. The actual transaction prices follow the rules of market, are based on the prevailing market price and the relevant amount are paid on time according to the payment terms on actual transaction; the above event was considered and approved at the 2010 annual general meeting of BYS.

C. In 2010, BYS and its subsidiaries purchased raw materials from GPC and its affiliated enterprises of not more than RMB153.70 million, sold products of not more than RMB165.00 million and leased some vacant warehouses to the affiliated enterprises of GPC with transaction amount of not more than RMB183,600; provided medicine processing to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the total transaction amount of not more than RMB10.00 million. BYS and its subsidiaries signed relevant agreements with related parties with respect to the actual occurrence of related party transactions, respectively. The actual transaction prices follow the rules of market, are based on the prevailing market price and the relevant amount are paid on time according to the payment terms on actual transaction; the above event was considered and approved at the 2009 annual general meeting of BYS.

D. In 2009, BYS and its subsidiaries purchased raw materials from GPC and its affiliated enterprises of not more than RMB161.80 million, sold products of not more than RMB223.50 million and leased some vacant warehouses to the affiliated enterprises of GPC with transaction amount of not more than RMB183,600; had advertising transactions with Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司) of not more than RMB30.00 million and provided the leasing of office premises and soccer field to Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司) of not more than RMB360,000; provided medicine processing to Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司) with the total transaction amount of not more than RMB8.00 million. BYS and its subsidiaries signed relevant agreements with related parties with respect to the actual occurrence of related party transactions, respectively. The actual transaction prices follow the rules of market, are based on the prevailing market price and the relevant amount are paid on time according to the payment terms on actual transaction; the above event was considered and approved at the 2008 annual general meeting of BYS.

⑤ The licensing of trade name and trademarks of "BYS" for the affiliated enterprises of BYS and GPC

Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd. (廣州白雲山陳李濟藥廠有限公司), Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司), Guangzhou Baiyunshan Xingqun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司), Guangzhou Baiyunshan Jingxiutang Pharmaceutical Company Limited (廣州白雲山敬修堂(藥業)股份有限公司), Guangzhou Baiyunshan Qixing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司) and Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司), the six affiliated enterprises of BYS and GPC entered into the BYS trade name license agreements. BYS agreed the 6 enterprises above to use the trade name of "Baiyunshan" and the trademark of "Baiyunshan" with the licensing period from 14 May 2012 and 13 May 2013, the trade name licensing fee was calculated on 0.5% of the net sales of each of the six enterprises above and was calculated since the month completing business registration alternation by the six enterprises above while the usage fee need not to be paid when the "BYS" trademarks were used on their products. As of 30 June 2012, the total trade name licensing fee of RMB 2,050,638.55 shall be paid by the six enterprises above.

7. Employee benefits of key management personnel

① Employee benefits of Baiyunshan's key management personnel amounted to RMB1.2951 million (the unaudited amount during January 2011 to June 2011 was 2.1222 million), RMB4.0644 million, RMB3.0371 million and 2.8441 million during January 2012 to June 2012 and for the years of 2011, 2010 and 2009. The Group's key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director. The number of key management personnel for the years of during January 2012 to June 2012 and 2011, 2010 and 2009 are 14 (during January 2011 to June 2011: 15), 15, 13 and 14 respectively, among which, the number of officers who received their salaries from Baiyunshan was 10 respectively.

② Directors and supervisors' emoluments

Directors and supervisors' emoluments during January 2012 to June 2012 are as follows

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefit	Others	Total
Name of Directors								
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chen Mao	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Wang Wenchu	0.00	8.00	1.35	15.60	0.00	0.00	0.00	24.95
Chen Kunnan	0.00	6.50	0.50	13.50	0.00	0.00	0.00	20.50
Li Hong	0.00	2,17	0.20	2.53	0.00	0.00	0.00	4.90
Wen Xu	3.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00
Zhu Guilong	3.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00
Yi Xusheng	3.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00
Name of Supervisors								
Li Bo	0.00	6.40	1.90	9.80	0.00	0.00	0.00	18.10
Cheng Ning	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zhou Zhikui	0.00	6.30	1.26	17.30	0.00	0.00	0.00	24.86

In addition to the directors' and supervisors' emoluments disclosed above, director Li Chuyuan, Yang Xiuwei, Chen Mao, Li Hong and Supervisor Cheng Ning received emoluments from the BYS's holding company, amounting to RMB364 thousand, RMB302.9 thousand, RMB293.4 thousand, RMB106.6 thousand and RMB227.6 thousand, part of which are in respect of their services to BYS. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to BYS and their services to the BYS's holding company and jointly controlled entities.

Directors and supervisors' emoluments (unaudited) during January 2011 to June 2011 are as follows

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefit	Others	Total
Name of Directors								
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xie Bin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chen Mao	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Wang Wenchu	0.00	7.50	0.68	27.76	0.00	0.00	0.00	35.94
Chen Kunnan	0.00	6.50	0.45	19.59	0.00	0.00	0.00	26.54
Li Hong	0.00	6.00	0.34	22.08	0.00	0.00	0.00	28.42
Wen Xu	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Zhu Guilong	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6,00
Yi Xusheng	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Name of Supervisors								
Li Bo	0.00	6.40	0.97	16.13	0.00	0.00	0.00	23.50
Cheng Ning	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zhou Zhikui	0.00	6.30	0.97	34.73	0.00	0.00	0.00	42.00

The resolution in relation to "the election of the Board of the Company" was passed on 30 June 2011, Xie Bin no longer served as the Director of BYS while Yang Xiuwei and Li Hong were elected as the Directors of BYS.

In addition to the directors' and supervisors' emoluments disclosed above, director Li Chuyuan, Xie Bin, Yang Xiuwei, Chen Mao and Supervisor Cheng Ning received emoluments from the BYS's holding company, amounting to RMB252.6 thousand, RMB228.8 thousand, RMB226.2 thousand, RMB241.5 thousand and RMB155.3 thousand, part of which are in respect of their services to BYS. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to BYS and their services to the BYS's holding company and jointly controlled entities.

Directors and supervisors' emoluments during 2011 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefit	Others	Total
Name of Directors								
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xie Bin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chen Mao	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Wang Wenchu	0.00	15.00	1.36	55.52	0.00	0.00	0.00	71.88
Chen Kunnan	0.00	13.00	0.90	39.17	0.00	0.00	0.00	53.07
Li Hong	0.00	12.00	0.68	44.17	0.00	0.00	0.00	56.85
Wen Xu	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Zhu Guilong	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6,00
Yi Xusheng	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Name of Supervisors								
Li Bo	0.00	12.80	1.93	32.27	0.00	0.00	0.00	47.00
Cheng Ning	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zhou Zhikui	0.00	12.60	1.93	69.47	0.00	0.00	0.00	84.00

The resolution in relation to "the election of the Board of the Company" was passed on 30 June 2011, Xie Bin no longer served as the Director of BYS while Yang Xiuwei and Li Hong were elected as the Directors of BYS.

In addition to the directors' and supervisors' emoluments disclosed above, director Li Chuyuan, Xie Bin, Yang Xiuwei, Chen Mao and Supervisor Cheng Ning received emoluments from the BYS's holding company, amounting to RMB656.1 thousand, RMB228.8 thousand, RMB627.5 thousand, RMB625 thousand and RMB455.6 thousand, part of which are in respect of their services to BYS. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to BYS and their services to the BYS's holding company and jointly controlled entities.

Directors and supervisors' emoluments during 2010 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefit	Others	Total
Name of Directors								
Xie Bin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lin Jihong	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chen Mao	0.00	8.00	0.00	14.53	0.00	0.00	0.00	22.53
Wang Wenchu	0.00	15.00	2.38	54.05	0.00	0.00	0.00	71.43
Chen Kunnan	0.00	13.00	0.00	39.17	0.00	0.00	0.00	52.17
Wen Xu	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Zhu Guilong	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6,00
Yi Xusheng	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Name of Supervisors								
Li Bo	0.00	12.80	3.40	11.13	0.00	0.00	0.00	27.33
Cheng Ning	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zhou Zhikui	0.00	12.60	2.95	51.65	0.00	0.00	0.00	67.20

On 11 August 2010, Lin Ji Hong resigned as a director of BYS due to retirement.

In addition to the directors' and supervisors' emoluments disclosed above, director Xie Bin, Li Chuyuan, Lin Jihong, Chen Mao and Supervisor Cheng Ning received emoluments from the BYS's holding company, amounting to RMB627.8thousand, RMB708.6 thousand, RMB257.5 thousand, RMB234.7 thousand and RMB375.9 thousand, part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to the Group and their services to the BYS's holding company and jointly controlled entities.

Directors and supervisors' emoluments during 2009 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefit	Others	Total
Name of Directors								
Xie Bin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lin Jihong	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chen Mao	0.00	14.00	0.00	28.93	0.00	0.00	0.00	42.93
Chen Kunnan	0.00	13.00	0.00	22.20	0.00	0.00	0.00	35.20
Chen Yu	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Wen Xu	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Zhu Guilong	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6,00
Yi Xusheng	6.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00
Name of Supervisors								
Li Bo	0.00	12.80	0.00	11.66	0.00	0.00	0.00	24.46
Cheng Ning	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Zhou Zhikui	0.00	12.60	0.00	46.80	0.00	0.00	0.00	59.40

On 15 April, Chen Yu resigned as the director of BYS due to job changes.

In addition to the directors' and supervisors' emoluments disclosed above, director Xie Bin, Li Chuyuan, Lin Jihong and Supervisor Cheng Ning received emoluments from the BYS's holding company, amounting to RMB450.6 thousand, RMB511.7 thousand and RMB235.1 thousand part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to the Group and their services to the BYS's holding company and jointly controlled entities.

③ Five highest paid individuals

The five individuals whose emoluments were the highest in the BYS during January 2012 to June 2012 and for the years of 2011, 2010 and 2009 include 2 (during January 2011 to June 2011: 3), 3, 2 and 2 directors as well as 2 (during January 2011 to June 2011: 2), 2, 2 and 1 supervisors. During January 2012 to June 2012 and 2011, 2010 and 2009, the emoluments payable to the remaining 1 (during January to June 2011: 0), 0, 1 and 2 individuals are as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Basic salaries, bonus, housing allowance, other allowances in kind	13.90	0.00	0.00	22.81	85.49

	Number of individuals				
	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Emolument bands:					
RMB0 – RMB1 million	1	0	0	1	2

VII. CONTINGENCIES

1. Pending Litigations

① On 10 October 1994, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司) (hereinafter referred to as "Tian Xin Pharmaceutical", a subsidiary of BYS), Guangdong Guangyuan Engineering Co., Ltd* (廣東廣源工程公司) (hereinafter referred to as "Guangyuan", a company incorporated in China and independent of the BYS and its connected person) and Guangdong branch of Bank of China (hereinafter referred to as "Bank of China") signed a Joint Development Contract with respect to the real estate development of a land of Tian Xin Pharmaceutical located to the east of Jianglingxia street, Guigang main road, Dongshan district (hereinafter referred to as the "Land"). Pursuant to the contract, Tian Xin Pharmaceutical should provide the land for development and carry out relevant procedures once receiving RMB30.0 million for relocation of the factory, and Bank of China should provide capital for development and Guangyuan should be responsible for the development and construction work. All three parties should receive their respective properties and parking lots after the completion of the construction. Tian Xin Pharmaceutical received RMB30.0 million as factory relocation fee in October 1994. However, due to disputes in the course of development, the development of the project could not proceed. In August 2004, Bank of China filed a lawsuit to Guangzhou Intermediate People's Court claiming the Joint Development Contract was invalid and demanding a refund of RMB30.0 million from Tian Xin Pharmaceutical. In November 2004, Tian Xin Pharmaceutical filed a counterclaim. On 22 September 2009, according to Guangzhou Intermediate People's Court (2004) Sui Zhong Fa Min Si Chu Zi No. 118* (廣東省廣州市中級人民法院(2004)穗中法民四初字第118號) civil judgment, the contract signed by Tian Xin Pharmaceutical, Guangyuan and Bank of China was invalid, and Guangyuan should refund RMB37.50 million to Bank of China, and Tian Xin Pharmaceutical should bear no obligation. Thereafter both Bank of China and Tian Xin Pharmaceutical lodged an appeal. On 26 May 2011, according to Guangdong Higher People's Court (2009) Yue Gao Fa Min Yi Zhong Zi No. 210* (廣東省高級人民法院(2009)粵高法民一終字第210號) civil judgment, the contract signed by the three parties was valid, and should be terminated from 5 April 2004, Guangyuan should refund RMB37.50 million to Bank of China and pay the penalty of RMB11.65 million to Tian Xin Pharmaceutical. The litigation fee, court costs and counterclaim fee should be borne by Guangyuan and Bank of China. As of 30 June 2012 Tian Xin Pharmaceutical did not receive penalty from Guangyuan.

② On 9 June 2011, Hunan Shuangzhou Pharmaceutical Co., Ltd* (湖南雙舟醫藥有限公司) (hereinafter referred to as "Shuangzhou Pharmaceutical") filed a lawsuit against Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司) (hereinafter referred to as "Guang Hua Pharmaceutical"), a subsidiary of BYS, and requested the court to rule Guang Hua Pharmaceutical to pay Shuangzhou Pharmaceutical sales rebate of RMB32,787.53 and refund the advance of RMB200,000 paid by Shuangzhou Pharmaceutical and the overdue fine calculated at 1% of RMB200,000 from the day of outstanding to the day of judgment. The total amount is RMB432,787.53. On 17 November 2011, Shuangzhou Pharmaceutical applied for the ruling of Hunan Changsha County People's Court to freeze Guang Hua Pharmaceutical's bank deposit of RMB432,787.53. As of the date of this report, this lawsuit is pending. The sum of money above was unfrozen on 14 May 2012. As at the date of the report, there is no judgment for the case.

③ On 8 July 2011, Guangzhou Baiyunshan Chemical Medicine Factory ("Chemical Pharmaceutical")(廣州白雲山化學製藥廠), the branch of BYS obtained a bank acceptance note with the number 4010005120001382, the amount of such note was RMB 1.5 million, the issuer was Ningbo Tianyuan Machinery Manufacture Co., Ltd. Ningbo Tianyuan Machine Manufacture Co. Ltd(寧波天元機械製造有限公司)while the payee was Xiangshan Botai Machine Co. Ltd(象山博泰機床有限公司)and the payer was Xiangshan Greenleaf City Credit Co., Ltd(象山縣綠葉城市信用股份有限公司). The People's Court of Xiangshan County in Zhejiang Province ("Xiangshan Court") issued the (2011) Yong Xiang Cui Zi No. 18(甬象催字第18號)"civil judgment", it was judged that Jiangruntai Brand Trade Co. Ltd(江潤泰行貿易有限公司)pleaded the loss of such note as the reason for applying for the making of exigency known to public, upon the expiry of the period of exigency, there was no declaration of right and Jiangruntai Brand Trade Co., Ltd.(江潤泰行貿易有限公司)shall have the right to request payment from the payer. Up till now, Chemical Pharmaceutical cannot accept such note. It brought a legal action in the People's Court in April 2012, to request: A. To repeal the civil judgment; B. To request Jiangruntai Brand Trade Co. Ltd (江潤泰行貿易有限公司) to pay for the note amount of RMB1.50 million and interest; C. Xiangshan Greenleaf City Credit Co., Ltd(象山縣綠葉城市信用社股份有限公司)assume the liabilities in connection to the case. As at the date of the report, there is no judgment for the case.

2. As of 30 June 2012, no liabilities are formed with respect to the guarantee provided by BYS to the debt of related parties. For the details of the guarantee, please refer to note VI(2) item 6① of Section VII.

SECTION VIII. COMMITMENTS

1. On 30 August 2007, BYS entered into the Assets Disposal Agreement with Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司), pursuant to which BYS undertook to pay all the accounts receivable incurred before 31 July 2007 which was taken up by Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司) in its spin-off if Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司) is unable to collect them in the then coming one year, i.e. 1 August 2007 to 31 July 2008. The returned goods arising from the sales prior to 31 July 2007 should be recognized with reference to the policy of returned goods of BYS, and all the resulting loss should be borne by BYS. As of 30 June 2012, BYS made provision of RMB500,191.19 with respect to the above loss confirmed by both parties.

2. Other than those set out in notes 6②, ③, ④ and ⑤ of Section X, there are no other significant capital commitments.

3. Fulfillment of commitments for previous year

   There was no commitments for previous year which were required to be disclosed.

SECTION IX. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of the report, BYS has no significant non-adjustment event after the balance sheet date.

SECTION X. OTHER SIGNIFICANT EVENTS

1. Non-Monetary Transactions

There was no significant non-monetary transactions incurred during the Reporting Periods.

2. Debt Restructurings

There was no significant debt restructurings incurred during the Reporting Periods.

3. Leases

① Operating leases leased-out

Term	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Within 1 year	19,845,286.88	10,972,623.16	14,923,082.95	12,923,390.55
1 to 2 years	17,196,117.91	9,700,017.95	10,972,623.16	12,993,533.42
2 to 3 years	16,549,697.49	9,808,041.62	9,700,017.95	9,966,178.33
Over 3 years	43,991,917.33	10,678,785.54	20,486,827.15	27,590,522.29
Total	97,583,019.61	41,159,468.27	56,082,551.21	63,473,624.59

② There was no significant operating leases rent-in commitments at the end of the year.

4. Assets and liabilities measured at fair value

Item	31 December 2008	Profit or Loss arising from changes in fair value during the year	Changes in fair value recognized in equity	Impairment loss recognized during the year	31 December 2009
Financial assets					
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	0.00	0.00	0.00	0.00	0.00
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Available-for-sale financial assets	231,975.60	0.00	225,613.40	0.00	457,589.00
Subtotal of financial assets	231,975.60	0.00	225,613.40	0.00	457,589.00
Investment properties	331,221,375.01	1,875,845.51	2,507,419.48	0.00	335,604,640.00
Productive biological assets	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total of the above	331,453,350.61	1,875,845.51	2,733,032.88	0.00	336,062,229.00
Financial liabilities	0.00	0.00	0.00	0.00	0.00

Item	31 December 2009	Profit or Loss arising from changes in fair value during the year	Changes in fair value recognized in equity	Impairment loss recognized during the year	31 December 2010
Financial assets					
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	0.00	0.00	0.00	0.00	0.00
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Available-for-sale financial assets	457,589.00	0.00	-149,169.12	0.00	308,419.88
Subtotal of financial assets	457,589.00	0.00	-149,169.12	0.00	308,419.88
Investment properties	335,604,640.00	3,008,486.00	5,841,544.00	0.00	344,454,670.00
Productive biological assets	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total of the above	336,062,229.00	3,008,486.00	5,692,374.88	0.00	344,763,089.88
Financial liabilities	0.00	0.00	0.00	0.00	0.00

Item	31 December 2010	Profit or Loss arising from changes in fair value during the year	Changes in fair value recognized in equity	Impairment loss recognized during the year	31 December 2011
Financial assets					
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	0.00	0.00	0.00	0.00	0.00
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Available-for-sale financial assets	308,419.88	0.00	-30,431.34	0.00	277,988.54
Subtotal of financial assets	308,419.88	0.00	-30,431.34	0.00	277,988.54
Investment properties	344,454,670.00	-699,940.00	0.00	0.00	343,754,730.00
Productive biological assets	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total of the above	344,763,089.88	-699,940.00	-30,431.34	0.00	344,032,718.54
Financial liabilities	0.00	0.00	0.00	0.00	0.00

Item	31 December 2011	Profit or Loss arising from changes in fair value during the year	Changes in fair value recognized in equity	Impairment loss recognized during the year	30 June 2012
Financial assets					
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	0.00	0.00	0.00	0.00	0.00
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Available-for-sale financial assets	277,988.54	0.00	3,078.32	0.00	281,066.86
Subtotal of financial assets	277,988.54	0.00	3,078.32	0.00	281,066.86
Investment properties	343,754,730.00	5,266,230.00	0.00	0.00	279,804,070.00
Productive biological assets	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total of the above	344,032,718.54	5,266,230.00	3,078.32	0.00	280,085,136.86
Financial liabilities	0.00	0.00	0.00	0.00	0.00

5. Segment Reporting

Based on the internal organizational structure, management requirements and internal reporting system of BYS and its subsidiaries, two reportable segments were determined: manufacturing segment and trading segment.

Manufacturing: manufacture and sale of the medicine produced by BYS's manufacturing subsidiaries;

Trading: wholesale and retail of medicine.

Inter-segment transfer pricing are based on the actual transactional prices, and expenses indirectly attributable to each segment are allocated among segments based on the proportion of each segment's revenue. Assets are allocated based on the operation of the segment and the physical location of the assets. Liabilities are allocated based on the operation of the segment.

① ***Reporting the information of profit or loss, assets and liabilities of the segment***

The information of each reportable segment of BYS and its subsidiaries disclosed below is what the management of BYS used when measuring the profit (loss), assets and liabilities of the reportable segment or what are not used but are provided to the management of BYS regularly:

Unit: RMB

Item		Manufacturing January to June 2012	Trading January to June 2012	Unallocated January to June 2012	Elimination January to June 2012	Total January to June 2012
I.	Revenue	2,314,549,987.71	68,969,859.42	3,677,670.03	0.00	2,387,197,517.16
II.	Inter-segment revenue	0.00	467,178,546.54	0.00	-467,178,546.54	0.00
III.	Share of profit or loss of associate and jointly controlled entities	0.00	0.00	34,775,904.30	0.00	34,775,904.30
IV.	Asset impairment losses	-2,238,082.08	1,143,433.65	26,140.27	-574,691.68	-1,068,508.16
V.	Depreciation and amortization	34,221,884.42	33,381.57	3,858,624.56	0.00	38,113,890.55
VI.	Total profit (total loss)	241,133,136.77	17,407,139.45	8,202,164.27	4,974,018.48	271,716,458.96
VII.	Income tax expenses	721,348.87	4,418,339.05	31,880,798.52	1,160,266.70	38,180,753.14
VIII.	Net profit (net loss)	240,411,787.90	12,988,800.40	-23,678,634.25	3,813,751.78	233,535,705.82
IX.	Total assets	2,982,892,887.55	198,338,927.66	2,261,218,304.21	-1,908,534,457.15	3,533,915,662.27
X.	Total liabilities	2,073,617,223.42	167,383,010.55	955,827,930.37	-1,268,353,698.93	1,928,474,465.41
XI.	Other significant non-cash items	0.00	0.00	0.00	0.00	0.00
	– Long-term equity investments in associates and jointly controlled entities	0.00	0.00	271,616,007.42	0.00	271,616,007.42
	– Additions of non-current assets other than long-term equity investments	53,318,221.48	894,014.91	5,465,038.04	0.00	59,677,274.43

Item		Manufacturing January to June 2012 (unaudited)	Trading January to June 2012 (unaudited)	Unallocated January to June 2012 (unaudited)	Elimination January to June 2012 (unaudited)	Total January to June 2012 (unaudited)
XII.	Revenue	1,981,247,760.02	49,369,626.23	3,757,440.60	0.00	2,034,374,826.85
XIII.	Inter-segment revenue	0.00	113,964,772.13	0.00	-113,964,772.13	0.00
XIV.	Share of profit or loss of associate and jointly controlled entities	0.00	0.00	28,901,932.29	0.00	28,901,932.29
XV.	Asset impairment losses	-1,301,049.32	573,025.09	0.00	-8,390.93	-736,415.16
XVI.	Depreciation and amortization	30,440,825.27	31,195.73	3,051,538.67	0.00	33,523,559.67
XVII.	Total profit (total loss)	199,200,610.91	15,527,139.46	-10,394,238.77	-4,150,290.11	200,183,221.49
XVIII.	Income tax expenses	11,797,760.61	4,324,239.40	12,354,496.93	-34,627.18	28,441,869.76
XIX.	Net profit (net loss)	187,402,850.30	11,202,900.06	-22,748,735.70	-4,115,662.93	171,741,351.73
XX.	Total assets	2,584,188,325.79	89,576,138.74	2,108,454,680.13	-1,659,077,826.99	3,123,141,317.67
XXI.	Total liabilities	1,703,080,592.01	49,767,447.61	1,075,361,573.44	-1,018,284,492.37	1,809,925,120.69
XXII.	Other significant non-cash items	0.00	0.00	0.00	0.00	0.00
	– Long-term equity investments in associates and jointly controlled entities	0.00	0.00	271,884,894.47	0.00	271,884,894.47
	– Additions of non-current assets other than long-term equity investments	56,003,076.42	23,999.15	390,274.02	0.00	56,417,349.59

Item		Manufacturing As at the end of 2011	Trading As at the end of 2011	Unallocated As at the end of 2011	Elimination As at the end of 2011	Total As at the end of 2011
I.	Revenue	3,640,511,890.48	153,282,172.56	5,339,024.50	0.00	3,799,133,087.54
II.	Inter-segment revenue	0.00	283,121,562.84	0.00	-283,121,562.84	0.00
III.	Share of profit or loss of associates and jointly controlled entities	0.00	0.00	53,937,472.72	0.00	0.00
IV.	Asset impairment losses	-1,251,638.59	307,656.47	195,360.10	-273,075.03	-748,622.02
V.	Depreciation and amortization	67,842,708.86	60,760.65	6,108,796.15	0.00	74,012,265.66
VI.	Total profit/(total loss)	361,767,135.88	24,896,014.06	39,722,382.00	-98,093,426.87	328,292,105.07
VII.	Income tax expenses	16,435,065.74	6,456,688.42	26,679,353.24	-1,494,663.55	48,076,443.85
VIII.	Net profit/(net loss)	345,332,070.14	18,439,325.64	13,043,028.76	-96,598,763.32	280,215,661.22
IX.	Total assets	2,631,266,349.47	101,921,180.36	2,169,463,606.72	-1,755,290,530.17	3,147,360,606.38
X.	Total liabilities	1,796,694,895.99	64,890,063.65	979,764,901.29	-1,101,573,420.16	1,739,776,440.77
XI.	Other significant non-cash items	0.00	0.00	0.00	0.00	0.00
	– Long-term equity investments in associates and jointly controlled entities	0.00	0.00	256,840,103.12	0.00	256,840,103.12
	– Additions of non-current assets other than long-term equity investments	75,810,111.10	-96,734.04	-3,007,513.74	0.00	72,705,863.32

Item		Manufacturing As at the end of 2010	Trading As at the end of 2010	Unallocated As at the end of 2010	Elimination As at the end of 2010	Total As at the end of 2010
I.	Revenue	3,227,688,164.21	86,225,290.50	2,947,574.47	0.00	3,316,861,029.18
II.	Inter-segment revenue	0.00	283,121,562.84	285,879,350.59	0.00	0.00
III.	Share of profit or loss of associates and jointly controlled entities	0.00	0.00	0.00	53,937,472.72	36,182,024.42
IV.	Asset impairment losses	3,212,996.55	307,656.47	78,328.74	195,360.10	109,585.47
V.	Depreciation and amortization	66,053,847.60	60,760.65	72,771.87	6,108,796.15	6,429,112.15
VI.	Total profit	277,437,114.31	24,896,014.06	22,458,286.79	39,722,382.00	9,475,017.36
VII.	Income tax expenses	13,452,609.09	6,456,688.42	5,770,298.51	26,679,353.24	18,841,141.05
VIII.	Net profit/(net loss)	263,984,505.22	18,439,325.64	16,687,988.28	13,043,028.76	-9,366,123.69
IX.	Total assets	2,515,707,464.10	101,921,180.36	77,499,232.48	2,169,463,606.72	2,061,900,395.73
X.	Total liabilities	1,697,393,637.17	64,890,063.65	48,893,441.41	979,764,901.29	1,107,218,189.20
XI.	Other significant non-cash items	0.00	0.00	0.00	0.00	0.00
	– Long-term equity investments in associates and jointly controlled entities	0.00	0.00	242,982,962.18	0.00	0.00
	– Additions of non-current assets other than long-term equity investments	92,496,087.12	-96,734.04	262,724.32	-3,007,513.74	6,318,399.19

Item		Manufacturing As at the end of 2009	Trading As at the end of 2009	Unallocated As at the end of 2009	Elimination As at the end of 2009	Total As at the end of 2009
I.	Revenue	2,738,421,408.63	53,995,569.78	2,688,568.17	0.00	2,795,105,546.58
II.	Inter-segment revenue	0.00	288,938,468.11	0.00	-288,938,468.11	0.00
III.	Share of profit or loss of associates and jointly controlled entities	0.00	0.00	30,846,281.11	0.00	30,846,281.11
IV.	Asset impairment losses	-266,189.53	-16,376.07	2,177,300.01	-18,888.90	1,875,845.51
V.	Depreciation and amortization	74,094,136.43	70,297.18	7,760,817.59	0.00	81,925,251.20
VI.	Total profit/(total loss)	184,689,386.02	19,807,158.18	-28,154,650.77	-58,724,549.98	117,617,343.45
VII.	Income tax expenses	57,243.61	4,586,171.88	-7,851,645.98	-342,748.31	-3,550,978.80
VIII.	Net profit/(net loss)	184,632,142.41	15,220,986.30	-20,303,004.79	-58,381,801.67	121,168,322.25
IX.	Total assets	2,462,805,801.55	71,376,413.06	2,023,609,131.01	-1,612,737,070.16	2,945,054,275.46
X.	Total liabilities	1,656,423,529.43	46,087,310.27	1,246,707,778.56	-972,329,642.44	1,976,888,975.82
XI.	Other significant non-cash items	0.00	0.00	0.00	0.00	0.00
	– Long-term equity investments in associates and jointly controlled entities	0.00	0.00	209,721,241.11	0.00	209,721,241.11
	– Additions of non-current assets other than long-term equity investments	32,377,841.72	1,126,545.91	21,907,452.34	0.00	55,411,839.97

② ***Revenue from external customers and total non-current assets by locations***

BYS and its subsidiaries' revenue from external customers in the PRC and other countries, and the total non-current assets other than financial assets, separate account assets and deferred tax assets located in the PRC and other countries are summarized as follows:

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Revenue from external customers in the PRC	2,387,197,517.16	2,034,374,826.85	3,799,133,087.54	3,316,861,029.18	2,795,105,546.58

Item	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Non-current assets in the PRC	1,523,085,608.27	1,503,749,956.70	1,499,124,833.37	1,459,663,705.66

6. Miscellaneous

① GPHL started to plan the major assets reorganization since 7 November 2011. Pursuant to the Report on the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions of Guangzhou Pharmaceutical Company Limited (draft) published by both GPC and the Company on 15 June 2012, the main content of the report include: (1) GPC will issue new A shares in exchange for shares in BYS by way of absorption; (2) GPC will issue new A shares to acquire some trademarks, buildings, 100% equity interest in Po Lian Development Co. Ltd. and 12.5% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. held by GPHL. Such major assets reorganization shall be subject to the approval by the respective general meetings of GPC and BYS and the approval of the relevant government authorities.

② On 15 April 2011, two investment proposals were considered and passed by the second meeting of 2011 of the sixth board of directors of BYS: "Proposal Regarding the Implementation of Expansion Project of the branch company Guangzhou Baiyunshan Pharmaceutical General Factory's Fourth Manufacturing Department in Other Area" and "Proposal Regarding the Implementation of the Industrial Upgrade of Innovative New Medicine Cephathiamidine Powder-Needle and Other Cephalosporin Powder-Needle Preparations of the branch company Guangzhou Baiyunshan Pharmaceutical General Factory". The details of the projects are as follows:

The Fourth Manufacturing Department of Guangzhou Baiyunshan Pharmaceutical General Factory* (廣州白雲山製藥總廠) implemented expansion projects in the places other than Guangzhou. The project has a proposed land area of 111,888 m^2 (approximately 168 mu), with a planned gross floor area of 31,540 m^2. The project includes civil work, decoration and equipment upgrade of penicillin solid preparations workshop* (青黴素固體製劑車間), general solid preparations workshop* (普通固體製劑車間) and public works. The project commenced from April 2011, and was expected to be completed by December 2013. It's planned to invest RMB55.468 million of the company's own resources on the project. As of 30 June 2012, had signed a contract of RMB2.4464 million of which RMB0.6388 million was paid.

Guangzhou Baiyunshan Pharmaceutical General Factory* (廣州白雲山製藥總廠), the branch company, implemented industrialization upgrade of innovative medicine Cephathiamidine powder-needle and other cephalosporin powder-needle preparations* (頭孢硫脒粉針及其他頭孢粉針製劑) by constructing manufacturing building and purchasing new production lines in the open area of the main factory: 1. Constructing a new three-storied building covering an area of about 4,500m^2, the first floor for public facility and warehouse, the second for warehouse temporarily and the third for workshop of cephalosporin powder-needle* (頭孢粉針). The layout and decoration of the workshop and warehouse shall observe 2010 GMP's new standard. 2. Purchasing three powder-needle production lines including one combining domestic and imported equipment and the other two domestic lines, and a batch of supporting equipment. The construction period of the project will be from April 2011 to December 2013. It is planned to invest RMB69.70 million of the company's own resources on the project. As of 30 June 2012, the Company had signed a contract of RMB30.0414 million of which RMB7.4678 million was paid.

③ On 26 October 2011, a proposal of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司), a subsidiary of BYS, renting Conghua Mingzhu Industrial Park of Guangzhou* (廣州從化工業園) from Guangzhou Xingzhou Pharmaceutical Co., Ltd* (廣州星州藥業有限公司) and setting Xingzhou liquid Naken workshop* (星州液體納克場外車間) with its self-raised funds of RMB9.71 million, was considered and passed at the third meeting of 2011 of BYS's Seventh Board of Directors. The project is expected to last half a year. As of 30 June 2012, Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd., had signed a contract of RMB8.3422 million of which RMB6.4986 million was paid.

④ On 28 March 2012, the proposal of implementing production expansion and transformation in the workshop of oral Cephalosporin in the Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山製藥總廠), the branch of BYS was considered and passed at the third meeting of 2012 of BYS's Seventh Board of Directors. It is expected that the total investment of the project is RMB7.85 million, the fund shall be raised by the company itself. As at 30 June 2012, BYS had signed a contract of RMB4.72 million of which RMB2.0803 million was paid.

⑤ On 28 March 2012, the proposal of transforming the production line of Cephalosporin sterile pharmaceutical ingredients in Guangzhou Baiyunshan Chemical Medicine Factory (廣州白雲山化學製藥廠), the branch company of BYS was considered and passed at the third meeting of 2012 of BYS's Seventh Board of Directors. It is expected that the total investment of the project is RMB48.3811 million, the fund shall be raised by the company itself. As at 30 June 2012, BYS had signed a contract of RMB0.48 million of which RMB0.25 million was paid.

SECTION XI. NOTES TO THE FINANCIAL STATEMENTS OF BYS
(All amounts are in Renminbi yuan unless otherwise stated)

(1) Accounts receivable

1. The aging of accounts receivable is analysed as below:

	30 June 2012			
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	182,365,027.91	83.56%	3,308,650.27	1.81%
1 to 2 years	701,589.67	0.32%	70,158.97	10.00%
2 to 3 years	516,829.93	0.24%	155,048.98	30.00%
3 to 4 years	190,749.72	0.09%	95,374.87	50.00%
4 to 5 years	420,282.99	0.19%	336,226.38	80.00%
Over 5 years	34,048,142.51	15.60%	34,048,142.51	100.00%
Total	218,242,622.73	100.00%	38,013,601.98	17.42%

	31 December 2011			
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	187,760,584.42	83.18%	3,362,605.83	1.79%
1 to 2 years	581,322.02	0.26%	58,132.20	10.00%
2 to 3 years	648,766.83	0.29%	194,630.05	30.00%
3 to 4 years	2,067,172.54	0.92%	1,033,586.28	50.00%
4 to 5 years	1,109,679.72	0.49%	950,445.52	85.65%
Over 5 years	33,531,673.99	14.86%	33,531,673.99	100.00%
Total	225,699,199.52	100.00%	39,131,073.87	17.34%

	31 December 2010			
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	145,780,988.03	77.54%	1,457,809.88	1.00%
1 to 2 years	2,865,197.48	1.52%	286,519.74	10.00%
2 to 3 years	2,908,762.64	1.55%	872,628.80	30.00%
3 to 4 years	1,474,649.04	0.78%	893,824.52	60.61%
4 to 5 years	1,366,032.60	0.73%	1,289,951.33	94.43%
Over 5 years	33,614,477.31	17.88%	33,614,477.31	100.00%
Total	188,010,107.10	100.00%	38,415,211.58	20.43%

	31 December 2009			
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	140,587,025.88	76.42%	1,405,870.26	1.00%
1 to 2 years	4,161,345.12	2.26%	416,134.51	10.00%
2 to 3 years	2,657,793.72	1.44%	1,018,194.23	38.31%
3 to 4 years	1,612,998.03	0.88%	1,298,057.77	80.47%
4 to 5 years	1,076,527.66	0.59%	861,222.14	80.00%
Over 5 years	33,867,522.68	18.41%	33,867,522.68	100.00%
Total	183,963,213.09	100.00%	38,867,001.59	21.13%

2. Accounts receivable by categories are analyzed as follows:

	30 June 2012			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Subject to provision by groups	215,173,916.09	98.59%	34,944,895.34	16.24%
Individually insignificant but subject to separate provision	3,068,706.64	1.41%	3,068,706.64	100.00%
Total	218,242,622.73	100.00%	38,013,601.98	17.42%

	31 December 2011			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Subject to provision by groups	222,630,492.88	98.64%	36,062,367.23	16.20%
Individually insignificant but subject to separate provision	3,068,706.64	1.36%	3,068,706.64	100.00%
Total	225,699,199.52	100.00%	39,131,073.87	17.34%

	31 December 2010			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Subject to provision by groups	186,441,400.46	99.17%	36,846,504.94	19.76%
Individually insignificant but subject to separate provision	1,568,706.64	0.83%	1,568,706.64	100.00%
Total	188,010,107.10	100.00%	38,415,211.58	20.43%

	31 December 2009			
Category	Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Subject to provision by groups	182,394,506.45	99.15%	37,298,294.95	20.45%
Individually insignificant but subject to separate provision	1,568,706.64	0.85%	1,568,706.64	100.00%
Total	183,963,213.09	100.00%	38,867,001.59	21.13%

3. The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	30 June 2012			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	180,865,027.91	84.06%	1,808,650.27	1.00%
1 to 2 years	701,589.67	0.33%	70,158.97	10.00%
2 to 3 years	516,829.93	0.24%	155,048.98	30.00%
3 to 4 years	190,749.72	0.09%	95,374.87	50.00%
4 to 5 years	420,282.99	0.20%	336,226.38	80.00%
Over 5 years	32,479,435.87	15.08%	32,479,435.87	100.00%
Total	215,173,916.09	100.00%	34,944,895.34	16.24%

	31 December 2011			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	186,260,584.42	83.66%	1,862,605.84	1.00%
1 to 2 years	581,322.02	0.26%	58,132.20	10.00%
2 to 3 years	648,766.83	0.29%	194,630.05	30.00%
3 to 4 years	2,067,172.54	0.93%	1,033,586.28	50.00%
4 to 5 years	796,170.98	0.36%	636,936.77	80.00%
Over 5 years	32,276,476.09	14.50%	32,276,476.09	100.00%
Total	222,630,492.88	100.00%	36,062,367.23	16.20%

	31 December 2010			
Aging	Balance	% of total balance	Provision for bad debts	Ratio
Within 1 year	145,788,930.29	78.20%	1,465,752.14	1.00%
1 to 2 years	2,865,197.48	1.54%	286,519.74	10.00%
2 to 3 years	2,908,762.64	1.56%	872,628.80	30.00%
3 to 4 years	1,161,649.04	0.62%	580,824.52	50.00%
4 to 5 years	380,406.36	0.20%	304,325.09	80.00%
Over 5 years	33,336,454.65	17.88%	33,336,454.65	100.00%
Total	186,441,400.46	100.00%	36,846,504.94	19.76%

Aging	Balance	31 December 2009 % of total balance	Provision for bad debts	Ratio
Within 1 year	140,587,025.88	77.08%	1,405,870.26	1.00%
1 to 2 years	4,161,345.12	2.28%	416,134.51	10.00%
2 to 3 years	2,342,284.98	1.28%	702,685.49	30.00%
3 to 4 years	629,880.53	0.35%	314,940.27	50.00%
4 to 5 years	1,076,527.66	0.59%	861,222.14	80.00%
Over 5 years	33,597,442.28	18.42%	33,597,442.28	100.00%
Total	182,394,506.45	100.00%	37,298,294.95	20.45%

4. Accounts receivable that are individually insignificant but subject to separate provision:

① As at the end of June 2012

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 5 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 5 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 5 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmaceutical and Chemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 4 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 5 years, unable to be collected following a number of collections
Wuhan Elite Pharmaceutical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 5 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhongxin Pharmaceutical Tangshan Xinhua Co., Ltd.* (中新藥業唐山新華有限公司)	1,500,000.00	100.00%	1,500,000.00	Aging of within 1 year, bills has been reported loss and judged by the court to stop payment, which resulted in the amount was unable to be collected.
Sub-total	3,068,706.64		3,068,706.64	

② As at the end of 2011:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 5 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 5 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 5 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmaceutical and Chemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 4 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 5 years, unable to be collected following a number of collections
Wuhan Elite Pharmaceutical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 5 years, unable to be collected following a number of collections
Zhongxin Pharmaceutical Tangshan Xinhua Co., Ltd.* (中新藥業唐山新華有限公司)	1,500,000.00	100.00%	1,500,000.00	Aging of within 1 year, bills has been reported loss and judged by the court to stop payment, which resulted in the amount was unable to be collected.
Sub-total	3,068,706.64		3,068,706.64	

③ As at the end of 2010:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 4 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 5 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 4 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmaceutical and Chemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 3years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 4 years, unable to be collected following a number of collections

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Wuhan Elite Pharmaceutical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 4 years, unable to be collected following a number of collections
Sub-total	1,568,706.64		1,568,706.64	

④ As at the end of 2009:

Accounts receivable	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Zhuhai Hangtong Pharmacy Co., Ltd.* (珠海行通製藥有限公司)	365,000.00	100.00%	365,000.00	Aging of over 3 years, unable to be collected following a number of collections
Shanghai Jinke Quanjiao Pharmaceutical Co., Ltd.* (上海今科全椒製藥有限公司)	270,080.40	100.00%	270,080.40	Aging of over 3 years, unable to be collected following a number of collections
Changzhou Fangyuan Pharmaceutical Co., Ltd.* (常州方圓製藥有限公司)	470,000.00	100.00%	470,000.00	Aging of over 3 years, unable to be collected following a number of collections
Jiangsu Yonghe Pharmaceutical and Chemical Co., Ltd.* (江蘇永和醫藥化工有限公司)	315,508.74	100.00%	315,508.74	Aging of over 3 years, unable to be collected following a number of collections
Kailufa (Shanghai) Biochemical Co., Ltd.* (凱璐珐(上海)生物化學有限公司)	79,000.00	100.00%	79,000.00	Aging of over 3 years, unable to be collected following a number of collections
Wuhan Elite Pharmaceutical Technology Development Co., Ltd.* (武漢精英醫藥科技發展公司)	69,117.50	100.00%	69,117.50	Aging of over 3 years, unable to be collected following a number of collections
Sub-total	1,568,706.64		1,568,706.64	

5. Changes in the provision for bad debt of accounts receivable are as follows:

	Balance at the beginning of the year	Amount of provision for the period	Decrease for the period Reversal	Write-off	Balance at the end of the period
2009	38,113,103.15	1,271,327.24	0.00	517,428.80	38,867,001.59
2010	38,867,001.59	-572,085.21	0.00	-120,295.20	38,415,211.58
2011	38,415,211.58	-84,137.71	0.00	-800,000.00	39,131,073.87
January 2012 to June 2012	39,131,073.87	-1,117,471.89	0.00	0.00	38,013,601.98

6. There were no accounts receivable the provision of which were fully made or in large proportion of which were made prior to the Reporting Periods.

7. Accounts receivable from non-related parties that were written off during the Reporting Periods and accounts receivable that were written off in prior years and were collected during the Reporting Periods are analyzed as follows:

	Accounts receivable	Balance written-off	Reason for write-off
January 2012 to June 2012	nil		
2011	Sunze County Medicines Company Town Wholesale Department* (孫澤縣醫藥公司大鎮批發部)	-800,000.00	Written off in prior years, collected during the period
2010	Northeast Pharmaceutical Group Corporation Supply and Marketing Company* (東北製藥集團公司供銷公司)	-120,295.20	Written off in prior years, collected during the period
2009	Other	517,428.80	The counterparty was deregistered

8. As at the end of June 2012, 2010 and 2009, there were no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

9. There were no securitisations that targeted at accounts receivable for the Reporting Periods.

10. BYS offer credit terms from 30 days to 180 days for its client according to their respective credibility the credit terms begin from the day of delivery of goods and issuance of invoices.

(2) Other receivables

1. The aging of other receivables is analysed as below:

		30 June 2012		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	37,968,788.27	49.33%	1,169,586.94	3.08%
1 to 2 years	1,999,617.25	2.60%	47,191.29	2.36%
2 to 3 years	85,259.06	0.11%	4,401.54	5.16%
3 to 4 years	1,613,349.61	2.10%	107,650.48	6.67%
4 to 5 years	97,184.08	0.13%	3,379.87	3.48%
Over 5 years	35,188,070.56	45.73%	16,321,503.42	46.38%
Total	76,952,268.83	100.00%	17,653,713.54	22.94%

		31 December 2011		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	19,600,751.33	31.35%	745,333.05	3.80%
1 to 2 years	707,991.25	1.13%	27,891.22	3.94%
2 to 3 years	694,742.08	1.11%	41,684.52	6.00%
3 to 4 years	1,889,362.03	3.02%	113,361.73	6.00%
4 to 5 years	139,006.74	0.22%	8,340.40	6.00%
Over 5 years	39,494,043.28	63.17%	16,316,713.78	41.31%
Total	62,525,896.71	100.00%	17,253,324.70	27.59%

		31 December 2010		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	16,558,274.40	23.78%	900,493.33	5.44%
1 to 2 years	1,542,181.76	2.21%	60,222.36	3.91%
2 to 3 years	4,941,542.60	7.10%	122,108.38	2.47%
3 to 4 years	4,245,399.79	6.10%	11,034.63	0.26%
4 to 5 years	2,103,762.41	3.02%	15,975.01	0.76%
Over 5 years	40,233,430.72	57.79%	16,310,173.62	40.54%
Total	69,624,591.68	100.00%	17,420,007.33	25.02%

		31 December 2009		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	20,279,661.02	18.90%	1,001,588.80	4.94%
1 to 2 years	5,033,635.78	4.69%	127,633.98	2.54%
2 to 3 years	4,411,673.07	4.11%	2,493.05	0.06%
3 to 4 years	2,115,835.51	1.97%	15,499.39	0.73%
4 to 5 years	49,331,421.75	45.99%	24,051.40	0.05%
Over 5 years	26,101,404.46	24.33%	18,822,476.24	72.11%
Total	107,273,631.59	100.00%	19,993,742.86	18.64%

2. Other receivables by categories are analyzed as follows:

	30 June 2012			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	430,077.57	0.56%	430,077.57	100.00%
Subject to provision by groups	60,664,989.69	78.83%	1,366,434.40	2.25%
Individually insignificant but subject to separate provision	15,857,201.57	20.61%	15,857,201.57	100.00%
Total	76,952,268.83	100.00%	17,653,713.54	22.94%

	31 December 2011			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	430,077.57	0.69%	430,077.57	100.00%
Subject to provision by groups	46,238,617.57	73.95%	966,045.56	2.09%
Individually insignificant but subject to separate provision	15,857,201.57	25.36%	15,857,201.57	100.00%
Total	62,525,896.71	100.00%	17,253,324.70	27.59%

	31 December 2010			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	430,077.57	0.62%	430,077.57	100.00%
Subject to provision by groups	53,337,312.54	76.60%	1,132,728.18	2.12%
Individually insignificant but subject to separate provision	15,857,201.57	22.78%	15,857,201.57	100.00%
Total	69,624,591.68	100.00%	17,420,007.32	25.02%

	31 December 2009			
Category	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Individually significant and subject to separate provision	2,963,595.57	2.76%	2,963,595.57	100.00%
Subject to provision by groups	88,452,834.45	82.46%	1,172,945.72	1.33%
Individually insignificant but subject to separate provision	15,857,201.57	14.78%	15,857,201.57	100.00%
Total	107,273,631.59	100.00%	19,993,742.86	18.64%

3. During the Reporting Periods, other receivables that are individually significant and subject to separate provision:

① As at the end of June 2012:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	Aging of over 5 years, and the counterparty has been deregistered.

② As at the end of 2011:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	Aging of over 5 years, and the counterparty has been deregistered.

③ As at the end of 2010:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	The counterparty has been deregistered.

④ As at the end of 2009:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Food Additives Plant* (食品添加劑廠)	430,077.57	100.00%	430,077.57	The counterparty has been deregistered.
Land transfer cost from Zhenlong Town Government, Zengcheng* (增城鎮龍鎮政府)	2,533,518.00	100.00%	2,533,518.00	Aging of over 5 years, unable to be collected

4. The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

		30 June 2012		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	37,968,788.27	62.58%	1,169,586.94	3.08%
1 to 2 years	1,999,617.25	3.30%	47,191.29	2.36%
2 to 3 years	85,259.06	0.14%	4,401.54	5.16%
3 to 4 years	1,613,349.61	2.66%	107,650.48	6.67%
4 to 5 years	97,184.08	0.16%	3,379.87	3.48%
Over 5 years	18,900,791.42	31.16%	34,224.28	0.18%
Total	60,664,989.69	100.00%	1,366,434.40	2.25%

		31 December 2011		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	19,600,751.33	42.39%	745,333.05	3.80%
1 to 2 years	707,991.25	1.53%	27,891.22	3.94%
2 to 3 years	694,742.08	1.50%	41,684.52	6.00%
3 to 4 years	1,889,362.03	4.09%	113,361.73	6.00%
4 to 5 years	139,006.74	0.30%	8,340.40	6.00%
Over 5 years	23,206,764.14	50.19%	29,434.64	0.13%
Total	46,238,617.57	100.00%	966,045.56	2.09%

		31 December 2010		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	16,558,274.40	31.04%	900,493.33	5.44%
1 to 2 years	1,542,181.76	2.89%	60,222.36	3.91%
2 to 3 years	4,941,542.60	9.26%	122,108.38	2.47%
3 to 4 years	4,245,399.79	7.96%	11,034.63	0.26%
4 to 5 years	2,103,762.41	3.94%	15,975.01	0.76%
Over 5 years	23,946,151.58	44.91%	22,894.47	0.10%
Total	53,337,312.54	100.00%	1,132,728.18	2.12%

		31 December 2009		
Aging	**Balance**	**% of total balance**	**Provision for bad debts**	**Ratio**
Within 1 year	20,279,661.02	22.93%	1,001,588.80	4.94%
1 to 2 years	5,033,635.78	5.69%	127,633.98	2.54%
2 to 3 years	4,411,673.07	4.99%	2,493.05	0.06%
3 to 4 years	2,115,835.51	2.39%	15,499.39	0.73%
4 to 5 years	49,331,421.75	55.77%	24,051.40	0.05%
Over 5 years	7,280,607.32	8.23%	1,679.10	0.02%
Total	88,452,834.45	100.00%	1,172,945.72	1.33%

5. Other receivables which are individually insignificant but subject to separate provision:

① As at the end of 2012:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Old account of Baiyunshan	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Alexander Pharmacy* (大藥房)	1,095,032.51	100%	1,095,032.51	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District* (白雲區稅務局)	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 5 years, unable to be collected
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Loan to Lihui* (黎輝)	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Sub-total	15,857,201.57		15,857,201.57	

② As at the end of 2011:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Old account of Baiyunshan	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 5 years, unable to be collected
Alexander Pharmacy* (大藥房)	1,095,032.51	100%	1,095,032.51	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District* (白雲區稅務局)	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Loan to Lihui* (黎輝)	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Sub-total	15,857,201.57		15,857,201.57	

③ As at the end of 2010:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 3 years, unable to be collected
Old account of Baiyunshan	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Other (Alexander Pharmacy)	1,095,032.51	100%	1,095,032.51	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Other	11,900.00	100%	11,900.00	Aging of over 5 years, unable to be collected
Payment to be dealt with for Chinese Medicine Factory* (中藥廠)	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
	15,857,201.57		15,857,201.57	

④ As at the end of 2009:

Other receivables	Ending balance	Percentage of provision	Amount of provision for bad debts	Reason
First Affiliated Hospital of Sun Yat-sen University* (中山醫科大附屬一院)	59,063.00	100%	59,063.00	Aging of over 5 years, unable to be collected
Linhong* (林紅)	50,000.00	100%	50,000.00	Aging of over 5 years, unable to be collected
Deposit in transit of the General Factory* (總廠)	746,534.68	100%	746,534.68	Aging of over 3 years.
Old account of Baiyunshan	10,012,683.05	100%	10,012,683.05	Aging of over 5 years, unable to be collected
Guangzhou Baiyunshan Enterprise Group Foreign Economic Ministry* (廣州白雲山企業集團外經部)	1,659,000.00	100%	1,659,000.00	Aging of over 5 years, unable to be collected
Taxation Bureau of Baiyun District	940,000.00	100%	940,000.00	Aging of over 5 years, unable to be collected
Guangzhou Luhu Park Real Estate Company* (廣州麓湖莊園房地產公司)	40,000.00	100%	40,000.00	Aging of over 5 years, unable to be collected
Baiyun Company* (白雲公司)	850,165.00	100%	850,165.00	Aging of over 5 years, unable to be collected
Other	1,106,932.51	100%	1,106,932.51	Aging of over 5 years, unable to be collected
Payment to be dealt with	392,823.33	100%	392,823.33	Aging of over 5 years, unable to be collected
Sub-total	15,857,201.57		15,857,201.57	

6. Changes in the provision for bad debt of other receivables are as follows:

	Balance at the beginning of the year	Amount of provision for the period	Decrease for the period Reversal	Decrease for the period Write-off	Balance at the end of the period
June 2012	17,253,324.70	400,388.84	0.00	0.00	17,653,713.54
2011	17,420,007.32	-166,682.62	0.00	0.00	17,253,324.70
2010	19,993,742.86	-2,573,735.54	0.00	0.00	17,420,007.32
2009	19,800,540.33	231,990.58	0.00	38,788.05	19,993,742.86

7. In January 2012 to June 2012 and 2010, BYS reversed other receivables of RMB2,533,518.00 for which bad debt provision has been made in full in prior years, and there was no such reversal in January 2012 to June 2012, 2011 and 2009.

8. Other receivables that were written off during the Reporting Periods are set out as below:

① As at January 2012 to June 2012, there were no other receivables of BYS that were written off.

② There were no other receivables of BYS that were written off during 2011 and 2010.

③ During 2009:

Item	Amount written-off	Nature	Reason	Related party
He Ji Gong Trade Company* (何濟公經貿公司)	38,788.05	Engineering payment	The company has been deregistered, unable to be collected	No

9. As at the end of June 2012, 2011, 2010 and 2009, there were no other receivables due from shareholders who hold more than 5% (including 5%) of the voting rights of BYS.

10. There were no securitisations that targeted at accounts receivable for the Reporting Periods.

(3) Long-term equity investments

	30 June 2012		31 December 2011		31 December 2010		31 December 2009	
	Balance	Provision for impairment	Balance	Provision for impairment	Balance	Provision for impairment	Balance	Provision for impairment
Long-term equity investments under cost method	192,163,653.39	3,375,000.00	192,163,653.39	3,375,000.00	191,663,653.39	3,375,000.00	191,663,653.39	3,375,000.00
Long-term equity investments under equity method	271,616,007.42	0.00	256,840,103.12	0.00	242,982,962.18	0.00	0.00	0.00
Jointly controlled entities	271,616,007.42	0.00	256,840,103.12	0.00	242,982,962.18	0.00	205,977,431.16	0.00
Associates	0.00	0.00	0.00	0.00	0.00	0.00	2,790,557.92	0.00
Sub-total	271,616,007.42	0.00	256,840,103.12	0.00	242,982,962.18	0.00	208,767,989.08	0.00
Total	463,779,660.81	3,375,000.00	449,003,756.51	3,375,000.00	434,646,615.57	3,375,000.00	400,431,642.47	3,375,000.00

1. Long-term equity investments under cost method

Investee	Initial Amount	Investment Proportion	31 December 2008	Increase during the period	Decrease during the period	31 December 2009
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	96,192,658.47	82.49%	96,192,658.47	0.00	0.00	96,192,658.47
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	53,659,963.75	84.48%	53,659,963.75	0.00	0.00	53,659,963.75
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	12,581,294.18	100.00%	12,581,294.18	0.00	0.00	12,581,294.18
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	10,444,783.48	100.00%	10,444,783.48	0.00	0.00	10,444,783.48
Guangzhou Baiyunshan Alexander Pharmacy* (廣州白雲山大藥房)	1,000,000.00	100.00%	1,000,000.00	0.00	0.00	1,000,000.00
Bozhou Baiyunshan Pharmaceutical Co., Ltd.* (亳州白雲山制藥有限公司)	400,000.00	80.00%	400,000.00	0.00	0.00	400,000.00
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	1,020,000.00	51.00%	1,020,000.00	0.00	0.00	1,020,000.00
Wuhan Pharmaceutical Co., Ltd* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Medicine Limited Company* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou of Cambridge Scheme and Technology Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	10,235,200.00	13.00%	7,677,876.51	0.00	0.00	7,677,876.51

Investee	Initial Amount	Investment Proportion	31 December 2008	Increase during the period	Decrease during the period	31 December 2009
Guangzhou East Pharmaceutical Company Limited* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	3,500,000.00	1,500,000.00	0.00	5,000,000.00
Total			190,163,653.39			191,663,653.39

Investee	Initial Amount	Investment Proportion	31 December 2009	Increase during the period	Decrease during the period	31 December 2010
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	96,192,658.47	82.49%	96,192,658.47	0.00	0.00	96,192,658.47
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	53,659,963.75	84.48%	53,659,963.75	0.00	0.00	53,659,963.75
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	12,581,294.18	100.00%	12,581,294.18	0.00	0.00	12,581,294.18
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	10,444,783.48	100.00%	10,444,783.48	0.00	0.00	10,444,783.48
Guangzhou Baiyunshan Alexander Pharmacy* (廣州白雲山大藥房)	1,000,000.00	100.00%	1,000,000.00	0.00	0.00	1,000,000.00
Bozhou Baiyunshan Pharmaceutical Co., Ltd.* (亳州白雲山制藥有限公司)	400,000.00	80.00%	400,000.00	0.00	0.00	400,000.00
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	1,020,000.00	51.00%	1,020,000.00	0.00	0.00	1,020,000.00
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Medicine Limited Company* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou of Cambridge Science and Technology Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00

Investee	Initial Amount	Investment Proportion	31 December 2009	Increase during the period	Decrease during the period	31 December 2010
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou East Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Total			191,663,653.39			191,663,653.39

Investee	Initial Amount	Investment Proportion	31 December 2010	Increase during the period	Decrease during the period	31 December 2011
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	96,192,658.47	82.49%	96,192,658.47	0.00	0.00	96,192,658.47
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	53,659,963.75	84.48%	53,659,963.75	0.00	0.00	53,659,963.75
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	12,581,294.18	100.00%	12,581,294.18	0.00	0.00	12,581,294.18
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	10,444,783.48	100.00%	10,444,783.48	0.00	0.00	10,444,783.48
Guangzhou Baiyunshan Alexander Pharmacy* (廣州白雲山大藥房)	1,000,000.00	100.00%	1,000,000.00	0.00	0.00	1,000,000.00
Bozhou Baiyunshan Pharmaceutical Co., Ltd.* (亳州白雲山制藥有限公司)	400,000.00	80.00%	400,000.00	0.00	0.00	400,000.00
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	1,020,000.00	51.00%	1,020,000.00	0.00	0.00	1,020,000.00
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00
Guangzhou of Cambridge Science and Technology Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00

Investee	Initial Amount	Investment Proportion	31 December 2010	Increase during the period	Decrease during the period	31 December 2011
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin PharmaceuticalCo., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou East Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Guangzhou Baiyunshan Health Hotel Co., Ltd.* (廣州白雲山大健康酒店有限公司)	0.00	100.00%	0.00	500,000.00	0.00	500,000.00
Total			191,663,653.39			192,163,653.39

Investee	Initial Amount	Investment Proportion	31 December 2011	Increase during the period	Decrease during the period	30 June 2012
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.* (廣州白雲山天心製藥股份有限公司)	96,192,658.47	82.49%	96,192,658.47	0.00	0.00	96,192,658.47
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.* (廣州白雲山光華製藥股份有限公司)	53,659,963.75	84.48%	53,659,963.75	0.00	0.00	53,659,963.75
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司)	12,581,294.18	100.00%	12,581,294.18	0.00	0.00	12,581,294.18
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.* (白雲山威靈藥業有限公司)	10,444,783.48	100.00%	10,444,783.48	0.00	0.00	10,444,783.48
Guangzhou Baiyunshan Alexander Pharmacy* (廣州白雲山大藥房)	1,000,000.00	100.00%	1,000,000.00	0.00	0.00	1,000,000.00
Bozhou Baiyunshan Pharmaceutical Co., Ltd.* (亳州白雲山制藥有限公司)	400,000.00	80.00%	400,000.00	0.00	0.00	400,000.00
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.* (廣州白雲山醫藥科技發展有限公司)	1,020,000.00	51.00%	1,020,000.00	0.00	0.00	1,020,000.00
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	2,000,000.00	2.80%	2,000,000.00	0.00	0.00	2,000,000.00
Guangdong Zhonglian Guangshen Pharmaceutical Co., Ltd.* (廣東中聯廣深醫藥有限公司)	289,747.00	–	312,077.00	0.00	0.00	312,077.00

Investee	Initial Amount	Investment Proportion	31 December 2011	Increase during the period	Decrease during the period	30 June 2012
Guangzhou of Cambridge Science and Technology Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	300,000.00	9.97%	300,000.00	0.00	0.00	300,000.00
Northeast General Pharmaceutical Factory* (東北製藥總廠)	750,000.00	–	750,000.00	0.00	0.00	750,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.* (廣州南新製藥有限公司)	7,677,876.51	13.00%	7,677,876.51	0.00	0.00	7,677,876.51
Guangzhou East Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	5.00%	275,000.00	0.00	0.00	275,000.00
Business Activity Center Securities* (企業活動中心證券)	50,000.00	–	50,000.00	0.00	0.00	50,000.00
Guangdong Southern China Advanced Pharmaceutical Co., Ltd* (廣東華南新藥創制有限公司)	5,000,000.00	5.56%	5,000,000.00	0.00	0.00	5,000,000.00
Guangzhou Baiyunshan Health Hotel Co., Ltd.* (廣州白雲山大健康酒店有限公司)	0.00	100.00%	500,000.00	0.00	0.00	500,000.00
Total			192,163,653.39	0.00	0.00	192,163,653.39

2. *Major information of jointly controlled entities*

(Currency Unit: RMB'0000)

Investee	Entity Type	Registered address	Nature of business	Registered Capital	% equity interest	% voting rights
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	Limited Liability Company	Guangzhou	Manufacturing of Medicine	20,000.00	50%	50%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	Limited Liability Company	Guangzhou	Manufacturing of Medicine	17,750.00	50%	50%

During the Reporting Periods, the financial condition of the jointly controlled entities are as follows:

(Currency Unit: RMB'0000)

Investee	% equity interest held by BYS	30 June 2012 Total assets	30 June 2012 Total liabilities	30 June 2012 Total operating income	30 June 2012 Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	102,290.44	48,725.51	72,813.95	6,831.81	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	20,546.27	17,473.55	11,291.45	123.37	Jointly controlled entities

Investee	% equity interest held by BYS	31 December 2011 Total assets	31 December 2011 Total liabilities	31 December 2011 Total operating income	31 December 2011 Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	88,642.47	38,086.40	110,637.12	10,311.74	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	18,589.48	15,640.13	21,053.75	475.75	Jointly controlled entities

Investee	% equity interest held by BYS	31 December 2010 Total assets	31 December 2010 Total liabilities	31 December 2010 Total operating income	31 December 2010 Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	77,205.51	30,317.16	102,428.33	8,939.89	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	17,400.37	14,926.77	19,643.49	-1,875.02	Jointly controlled entities

Investee	% equity interest held by BYS	31 December 2009 Total assets	31 December 2009 Total liabilities	31 December 2009 Total operating income	31 December 2009 Net profit	Relationship
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	50.00%	75,404.85	37,625.89	92,979.39	9,656.03	Jointly controlled entities
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	50.00%	16,901.69	12,543.19	16,797.97	-3,933.04	Jointly controlled entities
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	42.54%	2,068.27	995.62	7,422.50	316.98	Associates

3. Long-term equity investments under equity method

Investee	Initial investment cost	31 December 2008	Changes in equity for the year: Total	Changes in equity for the year: Including: Cash bonus received	31 December 2009
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	140,021,739.19	44,163,158.45	5,000,000.00	184,184,897.64
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	41,457,710.48	-19,665,176.96	0.00	21,792,533.52
Sub-total	137,000,000.00	181,479,449.67	24,497,981.49	5,000,000.00	205,977,431.16
Associate					
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	5,000,000.00	1,998,111.74	792,446.18	0.00	2,790,557.92
Total	142,000,000.00	183,477,561.41	25,290,427.67	5,000,000.00	208,767,989.08

Investee	Initial investment cost	31 December 2009	Changes in equity for the year: Total	Changes in equity for the year: Including: Cash bonus received	31 December 2010
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	184,184,897.64	46,430,079.40	0.00	230,614,977.04
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	37,000,000.00	21,792,533.52	-9,424,548.38	0.00	12,367,985.14
Sub-total	137,000,000.00	205,977,431.16	37,005,531.02	0.00	242,982,962.18
Associate					
Guangzhou Pharmaceutical Football Club Co., Ltd.* (廣州醫藥足球俱樂部有限公司)	5,000,000.00	2,790,557.92	-2,790,557.92	0.00	0.00
Total	142,000,000.00	208,767,989.08	34,214,973.10	0.00	242,982,962.18

Investee	Initial investment cost	31 December 2010	Changes in equity for the year: Total	Changes in equity for the year: Including: Cash bonus received	31 December 2011
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	230,614,977.04	11,478,379.18	40,000,000.00	242,093,356.22
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. * (廣州百特僑光醫療用品有限公司)	37,000,000.00	12,367,985.14	2,378,761.76	0.00	14,746,746.90
Total	137,000,000.00	242,982,962.18	13,857,140.94	40,000,000.00	256,840,103.12

Investee	Initial investment cost	31 December 2011	Changes in equity for the year: Total	Changes in equity for the year: Including: Cash bonus received	30 June 2012
Jointly controlled entities					
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	100,000,000.00	242,093,356.22	14,159,072.19	20,000,000.00	256,252,428.41
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. * (廣州百特僑光醫療用品有限公司)	37,000,000.00	14,746,746.90	616,832.11	0.00	15,363,579.01
Total	137,000,000.00	256,840,103.12	14,775,904.30	20,000,000.00	271,616,007.42

Equity interests of the Guangzhou Pharmaceutical Football Club Co., Ltd held by BYS as at 2010 was transferred to Guangzhou Football Development Center (廣州足球發展中心), an entity registered in PRC and independent of BYS and its related parties.

4. *Provision for impairment of long-term equity investments*

Investee	31 December 2008	Increase for the year	Decrease for the year	31 December 2009	Increase for the year	Decrease for the year	31 December 2010	Increase for the year	Decrease for the year	31 December 2011	Increase for the year	December for the year	30 June 2012	Reasons for provision
Business Activity Center Securities* (企業活動中心證券)	50,000.00	0.00	0.00	50,000.00	0.00	0.00	50,000.00	0.00	0.00	50,000.00	0.00	0.00	50,000.00	The investee no longer existed.
Guangzhou East Pharmaceutical Co., Ltd.* (廣州東寧製藥有限公司)	275,000.00	0.00	0.00	275,000.00	0.00	0.00	275,000.00	0.00	0.00	275,000.00	0.00	0.00	275,000.00	The investee no longer existed.
Wuhan Pharmaceutical Co., Ltd.* (武漢醫藥股份有限公司)	0.00	2,000,000.00	0.00	2,000,000.00	0.00	0.00	2,000,000.00	0.00	0.00	2,000,000.00	0.00	0.00	2,000,000.00	The investee has neither provided financial statements, nor made profit distribution.
Guangzhou of Cambridge Science and Technology Co., Ltd.* (廣州中英劍橋科技創業園有限公司)	0.00	300,000.00	0.00	300,000.00	0.00	0.00	300,000.00	0.00	0.00	300,000.00	0.00	0.00	300,000.00	The financial condition of the investee continued to deteriorate.
Northeast General Pharmaceutical Factory* (東北製藥總廠)	0.00	750,000.00	0.00	750,000.00	0.00	0.00	750,000.00	0.00	0.00	750,000.00	0.00	0.00	750,000.00	The investee has conducted the stock reform, this proportion of equity interest cannot be recognized.
Total	325,000.00	3,050,000	0.00	3,375,000.00	0.00	0.00	3,375,000.00	0.00	0.00	3,375,000.00	0.00	0.00	3,375,000.00	

(4) Revenue and cost of sales

Revenue of sales	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Main operations	1,324,217,820.07	1,144,767,570.34	2,162,107,214.19	2,058,880,849.96	1,738,831,442.47
Other operations	91,190,248.03	51,870,964.16	95,728,488.46	128,719,048.52	95,371,776.58
	1,415,408,068.10	1,196,638,534.50	2,257,835,702.65	2,187,599,898.48	1,834,203,219.05

Cost of sales	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Main operations	809,451,161.44	759,830,899.10	1,414,490,769.16	1,383,685.18	1,174,729,466.51
Other operations	75,194,753.08	38,729,068.53	71,883,343.33	84,422,409.57	70,645,906.17
	884,645,914.52	798,559,967.63	1,486,374,112.49	1,468,107,862.75	1,245,364,372.68

1. Revenue and cost of sales of main operations by category are summarised as follows:

Revenue of sales of main operation	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
(1) Active pharmaceutical ingredients manufacturing	284,014,024.75	241,833,929.19	467,315,363.74	471,603,552.09	377,365,567.39
(2) Chemical dosage manufacturing	818,561,250.51	740,865,193.73	1,323,480,860.21	1,187,913,516.29	1,005,810,604.40
(3) Chinese medicine and Chinese patent medicine processing	217,236,880.42	157,717,749.68	364,598,702.97	393,324,331.59	349,704,981.08
(4) Other pharmaceutical manufacturing	4,405,664.39	4,350,697.74	6,712,287.27	6,039,449.99	5,950,289.60
Total	1,324,217,820.07	1,144,767,570.34	2,162,107,214.19	2,058,880,849.96	1,738,831,442.47

Cost of sales of main operation	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
(1) Active pharmaceutical ingredients manufacturing	237,030,263.12	220,541,776.84	408,178,815.34	427,879,091.52	331,733,448.97
(2) Chemical dosage manufacturing	389,704,674.82	401,639,302.68	699,012,555.03	619,518,471.80	553,195,646.43
(3) Chinese medicine and Chinese patent medicine processing	178,226,805.47	133,143,853.82	300,421,756.34	330,101,887.44	282,550,028.50
(4) Other pharmaceutical manufacturing	4,489,418.03	4,505,965.76	6,877,642.45	6,186,002.42	7,250,342.61
Total	809,451,161.44	759,830,899.10	1,414,490,769.16	1,383,685,453.18	1,174,729,466.51

2. Revenue and cost of sales of main operations by regions are summarised as follows:

Revenue of sales of main operation	For the six months ended 30 June 2012	2011	For the year ended 31 December 2011	2010	2009
Southern China	618,231,189.73	493,210,783.22	909,863,194.14	947,029,662.93	773,070,443.07
Eastern China	198,939,837.42	111,315,177.49	333,852,741.00	219,769,095.89	175,727,046.19
Northern China	137,295,241.66	188,909,210.13	270,843,648.58	306,504,317.60	207,487,251.18
Northeastern China	31,562,794.93	32,704,042.53	87,753,932.81	62,112,960.87	58,885,038.07
Southwestern China	133,430,579.23	120,142,157.91	213,773,651.94	178,719,438.38	140,647,162.04
Northwestern China	60,479,701.90	15,284,491.81	75,301,704.95	32,923,530.24	25,980,904.57
Central China	144,278,475.20	183,201,707.25	270,718,340.77	311,821,844.05	357,033,597.35
Total	1,324,217,820.07	1,144,767,570.34	2,162,107,214.19	2,058,880,849.96	1,738,831,442.47

Cost of sales of main operation	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Southern China	381,842,409.59	323,479,630.79	621,686,880.65	643,628,394.94	525,916,673.11
Eastern China	126,731,260.47	86,228,554.37	218,653,261.08	158,008,614.32	124,454,389.64
Northern China	87,586,413.61	128,472,038.51	180,126,503.22	213,254,145.92	135,609,035.84
Northeastern China	17,781,421.67	21,461,630.27	58,060,083.89	39,346,354.39	39,393,496.49
Southwestern China	82,703,200.31	73,355,004.51	128,988,127.16	110,559,028.49	90,406,572.14
Northwestern China	35,430,136.61	9,100,359.97	45,020,395.81	19,932,592.78	15,624,522.80
Central China	77,376,319.18	117,733,680.68	161,955,517.35	198,956,322.34	243,324,776.49
Total	809,451,161.44	759,830,899.10	1,414,490,769.16	1,383,685,453.18	1,174,729,466.51

(5) Investment income

Name of the project or investee	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Income from long-term equity investments:					
(1) Income from long-term equity investments under cost method	9,722,600.00	0.00	80,071,669.32	55,981,519.54	51,373,587.11
(2) Income from long-term equity investments under equity method	34,775,904.30	28,901,932.29	53,937,472.72	36,182,024.42	30,290,427.67
Income from the equity transfer:					
Income from the transfer of Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	0.00	0.00	0.00	2,217,642.08	0.00
Total	44,498,504.30	28,901,932.29	134,009,142.04	94,381,186.04	81,664,014.78

Of which, income from long-term equity investments under equity method mainly includes:

Investee	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	34,159,072.19	30,171,153.97	51,558,710.96	45,582,553.81	49,163,158.45
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.* (廣州百特僑光醫療用品有限公司)	616,832.11	-1,269,221.68	2,378,761.76	-9,400,529.39	-19,665,176.96
Guangzhou Pharmaceutical Football Club Co., Ltd* (廣州醫藥足球俱樂部有限公司)	0.00	0.00	0.00	0.00	792,446.18
Total	34,775,904.30	28,901,932.29	53,937,472.72	36,182,024.42	30,290,427.67

There was no significant restriction in the repatriation of the investment income of BYS.

(6) Notes to cash flow statement

1. Supplementary information to the cash flow statement

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
I. Reconciliation from net profit to cash flows from operating activities					
Net profit	153,047,916.38	97,952,406.96	244,758,633.83	193,434,473.21	102,764,912.54
Add: Provisions for asset impairment	-2,301,493.54	-1,877,207.94	-1,502,544.37	-397,403.48	19,592,486.07
Depreciation of fixed assets	20,213,357.57	17,411,330.64	39,252,284.00	40,360,121.39	43,042,175.42
Amortization of intangible assets	2,361,514.76	1,897,455.83	3,782,401.44	3,931,555.23	3,544,635.88
Amortization of long-term prepaid expenses	396,449.86	278,497.30	870,928.61	725,809.56	1,856,657.93
Losses on disposal of fixed assets, intangible assets and other long-term assets (gain is marked with "-")	-1,923.08	-696.15	-6,131,001.58	-6,217,270.01	-24,386,745.51
Losses on scrapping of fixed assets (gain is marked with "-")	12,235.72	220,170.25	2,028,687.21	793,525.43	4,242,738.97
Loss (gain is marked with "-") on change in fair value	-5,315,240.00	0.00	-46,150.00	-2,768,786.00	-1,744,076.51
Financial expenses (gain is marked with "-")	24,321,808.08	24,124,108.10	47,913,459.92	49,222,618.39	57,185,231.08
Investment loss (gain is marked with "-")	-44,498,504.30	-28,901,932.29	-134,009,142.04	-94,381,186.04	-81,664,014.78
Decrease in deferred tax assets (increase is marked with "-")	-10,894,987.26	0.00	-2,770,962.49	-2,756,882.73	-786,266.74
Increase in deferred tax liabilities (decrease is marked with "-")	643,641.49	0.00	241,733.43	674,655.72	-38,735,429.86
Decrease in inventories (increase is marked with "-")	12,272,286.82	13,623,803.44	37,479,073.27	-145,087,227.13	42,020,645.08
Decrease in operating receivables (increase is marked with "-")	-133,408,251.66	-174,289,079.49	-106,869,057.94	207,213,854.71	-24,413,505.56
Increase in operating payables (decrease is marked with "-")	150,237,133.17	133,257,808.89	74,527,444.10	-8,884,317.91	34,393,960.45
Other	-2,000,000.00	0.00	-2,000,000.00	2,100,000.00	0.00
Net cash flows from operating activities	165,085,944.01	83,696,665.44	197,525,787.39	237,963,540.34	136,913,404.46

2. Cash and cash equivalents

Item	30 June 2012	30 June 2011 (unaudited)	31 December 2011	31 December 2010	31 December 2009
I. Cash	295,087,294.99	160,321,479.43	171,854,026.77	217,971,624.93	154,112,927.21
Including: Cash on hand	65,219.57	119,379.17	111,839.77	140,449.19	125,743.58
Bank deposits that are readily available for payment	295,022,075.42	160,202,100.26	171,742,187.00	217,831,175.74	153,987,183.63
II. Cash and cash equivalents	0.00	0.00	0.00	0.00	0.00
III. Closing balance of cash and cash equivalents	295,087,294.99	160,321,479.43	171,854,026.77	217,971,624.93	154,112,927.21

3. Cash received relating to other operating activities

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Cash received from repayment of Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.* (廣州白雲山和記黃埔中藥有限公司)	0.00	0.00	0.00	32,500,000.00	0.00
Cash received from rental and technical support service income	9,651,245.22	11,542,427.63	23,488,411.48	22,489,672.25	27,339,017.55
Government grants received	3,483,868.50	2,997,000.00	20,575,100.00	14,448,768.00	9,133,800.00
Interest income received	1,511,988.54	703,014.40	1,859,846.35	1,124,227.90	792,186.10

4. Cash paid relating to other operating activities

Item	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
Operating expenses paid in cash	41,286,205.11	33,651,689.44	116,351,701.72	167,282,270.16	247,329,571.37
General and administrative expenses paid in cash	25,922,886.56	22,600,000.63	58,130,329.79	72,548,672.03	63,329,764.10

XII. SUPPLEMENTARY INFORMATION

(All amounts of this section are extracted from BYS and its subsidiaries unless otherwise stated)

(1) Non-recurring profit or loss

Item		For the six months ended 30 June		For the year ended 31 December		
		2012	2011 (unaudited)	2011	2010	2009
(I)	Gains on disposal of non-current assets, including write-off of provision for asset impairment;	-5,945.60	-359,179.05	2,267,950.54	27,435,308.44	20,144,006.54
(II)	Government grants recognized in profits or losses (excluding those government grants that are closely relevant to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government);	6,082,826.03	621,237.50	12,321,357.68	13,827,690.66	11,814,822.99
(III)	Losses arising from debt restructuring;	0.00	0.00	0.00	-20,000.00	-3,943.88
(IV)	Gains/(losses) arising from changes in fair value of investment properties under fair value model;	5,266,230.00	0.00	-699,940.00	3,008,486.00	1,875,845.51
(V)	One-off adjustments to profit or loss as required by taxation and accounting laws and regulations;	0.00	0.00	0.00	0.00	28,586,820.46
(VI)	Reversal of provision for bad-debts of accounts receivable subject to separate provision;	0.00	0.00	0.00	2,533,518.00	0.00
(VII)	Other non-operating income and expenses other than the aforementioned Items	-4,578,191.53	2,575,859.32	-355,114.84	343,765.83	944,228.25
Total		6,764,918.90	2,837,917.77	13,534,253.38	47,128,768.93	63,361,779.87
Less: Amount of effect on income tax		-1,257,828.52	435,490.85	871,001.32	5,736,807.02	5,416,141.90
Less: Amount of effect on minority interest		201,873.33	301,374.56	1,851,340.56	636,614.70	-503,519.38
Total		5,708,963.71	2,101,052.36	10,811,911.50	40,755,347.21	58,449,157.35

(2) Return on net assets and earnings per share

	For the six months ended 30 June					
	2012			2011 (unaudited)		
	Return on net assets	Earnings per share		Return on net assets	Earnings per share	
	Weighted average	Basic earnings per share	Diluted earnings per share	Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the company	15.14%	0.4647	0.4647	13.58%	0.3401	0.3401
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the company	14.74%	0.4526	0.4526	13.40%	0.3356	0.3356

	For the year ended 31 December								
	2011			2010			2009		
	Return on net assets	Earnings per share		Return on net assets	Earnings per share		Return on net assets	Earnings per share	
	Weighted average	Basic earnings per share	Diluted earnings per share	Weighted average	Basic earnings per share	Diluted earnings per share	Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the company	21.31%	0.5566	0.5566	20.28%	0.4365	0.4365	12.55%	0.2298	0.2298
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the company	20.43%	0.5336	0.5336	16.24%	0.3496	0.3496	5.74%	0.1051	0.1051

XIII. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements of BYS and its subsidiaries have been made up in respect of any period subsequent to 30 June 2012.

BDO CHINA SHU LUN PAN CPAs LLP

The following is the text of an accountants' report of Po Lian, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO China Shu Lun Pan CPAs LLP, an audit firm that is licensed to conduct securities and futures related business in China and approved by the relevant PRC authorities to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong.

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

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4 September 2012

The Board of
Guangzhou Pharmaceutical Company Limited

Dear Sirs,

We set out below our report of the financial information (the "Financial Information") of Po Lian Development Co. Ltd. ("Po Lian") for the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 (the "Reporting Periods") prepared on the basis set out in note 2(1) of Section B below for the inclusion in the circular of Guangzhou Pharmaceutical Company Limited ("GPC") dated 4 September 2012 (the "Circular") issued in relation to the proposed absorption and merger with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap and acquisition of target assets.

Po Lian is a Hong Kong company which wholly set up and operated by Guangzhou Pharmaceutical Holdings Limited ("GPHL") with the approval of Guangzhou Municipal People's Government Foreign Economic Relations and Trade Commission* (廣州市人民政府對外經濟貿易委員) (Sui Wai Jing Mao [1988] No. 125)* (穗外經貿[1998] 125號文) and Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau* (廣州市清理整頓駐港澳機構領導小組) (Sui Wai Jing Mao Ji Qing (1990) No. 07)* (穗外經貿際清[1990] 07號文). On 15 January 1988, Po Lian was incorporated as a company with limited liability under the Hong Kong Companies Ordinance with authorized and issued share capital of HK$1 million. In October 1998, Po Lian's authorized and issued share capital has increased to HK$5 million.

Po Lian has adopted 31 March as its financial year end date. Its statutory financial statements are prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and requirements of Hong Kong Companies Ordinance. Its statutory financial statements for the three years ended 31 March 2009, 2010 and 2011 were audited by NICHOLAS FUNG & CO., the certified public accountants registered in Hong Kong.

For the purpose of this report, the directors of Po Lian have prepared the financial statements of Po Lian for the Reporting Periods that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, the relevant disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in note 2(1) of section B, as well as adopted the accounting period and accounting policies that all in consistent with those adopted by GPC, for which the management of Po Lian are solely responsible for. We have carried out an audit in accordance with China Auditing Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006 and Statement 3.340 Auditing Guideline "Prospectuses and the Reporting Accountant" issued by HKICPA.

The directors of the Po Lian are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of Po Lian as at 31 December 2009, 2010 and 2011 and 30 June 2012, and of the operating results and cash flows of the Po Lian for the Reporting Periods.

Review on the comparative financial information at the end of the Reporting Period

We have reviewed the comparative financial information contained in Section A & B of this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of Po Lian for the six months ended 30 June 2011 ("comparative financial information").

The directors of Po Lian has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in note 2(1) of Section B of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in note 2(1) of Section B of this report.

A. FINANCIAL INFORMATION

BALANCE SHEET

(All amounts in Renminbi Yuan unless otherwise stated)

ITEMS	Notes	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Current assets:					
Cash in bank and cash on hand	4(1)	9,903,894.86	14,062,493.83	21,115,456.94	19,796,211.22
Financial assets held for trading		0.00	0.00	0.00	0.00
Notes receivable		0.00	0.00	0.00	0.00
Accounts receivable	4(2)	22,680,245.34	24,236,272.33	17,729,827.55	31,349,773.43
Prepayment		13,455,380.83	0.00	0.00	53,569.62
Interest receivable		0.00	0.00	0.00	0.00
Dividends receivable		0.00	0.00	0.00	0.00
Other receivables	4(3)	424,333.77	338,175.27	209,496.49	297,106.17
Inventories		0.00	0.00	0.00	0.00
Non-current assets due within one year		0.00	0.00	0.00	0.00
Other current assets		0.00	0.00	0.00	0.00
Total current assets		**46,463,854.80**	**38,636,941.43**	**39,054,780.98**	**51,496,660.44**
Non-current assets:					
Available-for-sale financial assets		0.00	0.00	0.00	0.00
Held-to-maturity investments		0.00	0.00	0.00	0.00
Long-term receivables		0.00	0.00	0.00	0.00
Long-term equity investments		0.00	0.00	0.00	0.00
Investment properties	4(4)	4,475,816.23	4,505,366.18	4,842,838.34	5,128,984.87
Fixed assets	4(5)	6,058,676.74	6,101,106.22	6,548,376.56	6,930,768.62
Construction in progress		0.00	0.00	0.00	0.00
Construction materials		0.00	0.00	0.00	0.00
Disposal of fixed assets		0.00	0.00	0.00	0.00
Intangible assets		0.00	0.00	0.00	0.00
Development costs		0.00	0.00	0.00	0.00
Goodwill		0.00	0.00	0.00	0.00
Long-term prepaid expenses		0.00	0.00	0.00	0.00
Deferred income tax assets		0.00	0.00	0.00	0.00
Other non-current assets		0.00	0.00	0.00	0.00
Total non-current assets		**10,534,492.97**	**10,606,472.40**	**11,391,214.90**	**12,059,753.49**
TOTAL ASSETS		**56,998,347.77**	**49,243,413.83**	**50,445,995.88**	**63,556,413.93**

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

ITEMS	Notes	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Current liabilities:					
Short-term borrowings		0.00	0.00	0.00	0.00
Financial liabilities held for trading		0.00	0.00	0.00	0.00
Notes payable		0.00	0.00	0.00	0.00
Accounts payable	4(7)	4,081,579.14	9,593,709.09	10,564,673.72	25,728,824.16
Received in advance		13,557,357.51	0.00	0.00	0.00
Salary payable	4(8)	0.00	0.00	0.00	0.00
Taxes payable	4(9)	1,442,116.48	2,106,502.39	1,851,790.36	1,505,398.17
Interest payable		0.00	0.00	0.00	0.00
Dividend payable		0.00	0.00	0.00	0.00
Other payables	4(10)	2,677,479.76	2,991,446.74	3,463,119.17	2,782,304.58
Non-current liabilities due within one year		0.00	0.00	0.00	0.00
Other current liabilities		0.00	0.00	0.00	0.00
Total current liabilities		**21,758,532.89**	**14,691,658.22**	**15,879,583.25**	**30,016,526.91**
Non-current liabilities:					
Long-term borrowings		0.00	0.00	0.00	0.00
Debentures payable		0.00	0.00	0.00	0.00
Long-term payables		0.00	0.00	0.00	0.00
Payables for specific projects		0.00	0.00	0.00	0.00
Provisions		0.00	0.00	0.00	0.00
Deferred income tax liabilities		0.00	0.00	0.00	0.00
Other non-current liabilities	4(11)	286,993.61	285,409.37	288,641.41	303,102.44
Total non-current liabilities		**286,993.61**	**285,409.37**	**288,641.41**	**303,102.44**
Total liabilities		**22,045,526.50**	**14,977,067.59**	**16,168,224.66**	**30,319,629.35**
Shareholders' equity:					
Share capital	4(12)	4,747,300.00	4,747,300.00	4,747,300.00	4,747,300.00
Capital surplus		0.00	0.00	0.00	0.00
Less: Treasury share		0.00	0.00	0.00	0.00
Surplus reserve		0.00	0.00	0.00	0.00
Undistributed profits	4(13)	36,624,888.51	36,129,957.00	34,480,912.08	32,286,284.88
Difference on translation of foreign currency financial statements		-6,419,367.24	-6,610,910.76	-4,950,440.86	-3,796,800.30
Total equity attributable to shareholders of the parent company		**34,952,821.27**	**34,266,346.24**	**34,277,771.22**	**33,236,784.58**
Minority interest		0.00	0.00	0.00	0.00
Total shareholders' equity		**34,952,821.27**	**34,266,346.24**	**34,277,771.22**	**33,236,784.58**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**56,998,347.77**	**49,243,413.83**	**50,445,995.88**	**63,556,413.93**

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT

(All amounts in Renminbi Yuan unless otherwise stated)

ITEMS	Notes	For the six months ended 30 June 2012	For the six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
1. Revenue	4(14)	**25,904,634.12**	**50,963,292.28**	**122,228,682.42**	**109,069,027.73**	**102,700,148.17**
Less: Cost of sales	4(14)	24,367,012.72	48,340,972.00	117,024,734.24	104,434,741.51	99,283,098.78
Taxes and surcharges		0.00	0.00	0.00	0.00	0.00
Selling and distribution expenses	4(15)	18,097.23	21,618.80	51,964.03	66,191.98	72,525.17
General and administrative expenses	4(16)	1,238,937.15	1,186,128.21	2,719,929.12	2,331,644.92	2,553,905.85
Finance costs	4(17)	-295,115.08	119,200.03	356,235.96	-395,093.13	465,550.75
Asset impairment losses	4(18)	-17,030.24	-45,460.19	76,027.97	-129,143.97	164,829.24
Add: Gain arising from changes in fair value		0.00	0.00	0.00	0.00	0.00
Investment income		0.00	0.00	0.00	0.00	0.00
Including: Share of profit of associates and jointly controlled entities		0.00	0.00	0.00	0.00	0.00
2. Operating Profit		**592,732.34**	**1,340,833.43**	**1,999,791.10**	**2,760,686.42**	**160,238.38**
Add: Non-operating income		0.00	0.00	0.00	0.00	0.00
Less: Non-operating expenses		0.00	0.00	0.00	0.00	0.00
Including: Losses on disposal of non-current assets		0.00	0.00	0.00	0.00	0.00
3. Total profit		**592,732.34**	**1,340,833.43**	**1,999,791.10**	**2,760,686.42**	**160,238.38**
Less: Income tax expenses	4(19)	97,800.83	221,237.51	350,746.18	566,059.22	26,439.33
4. Net profit		**494,931.51**	**1,119,595.92**	**1,649,044.92**	**2,194,627.20**	**133,799.05**
(1) Attributable to shareholders of the parent company		494,931.51	1,119,595.92	1,649,044.92	2,194,627.20	133,799.05
(2) Minority interest		0.00	0.00	0.00	0.00	0.00
5. Earnings per share						
(1) Basic earnings per share		0.10	0.24	0.35	0.46	0.03
(2) Diluted earnings per share		0.10	0.24	0.35	0.46	0.03
6. Other comprehensive income	4(20)	191,543.52	-764,485.89	-1,660,469.90	-1,153,640.56	-1,047,787.63
7. Total comprehensive income		686,475.03	355,110.03	-11,424.98	1,040,986.65	-913,988.58
(1) Equity attributable to shareholders of the parent company		686,475.03	355,110.03	-11,424.99	1,040,986.65	-913988.58
(2) Minority interest		0.00	0.00	0.00	0.00	0.00

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT

(All amounts in Renminbi Yuan unless otherwise stated)

ITEMS	Notes	For the six months ended 30 June 2012	2011 (unaudited)	For the year ended 31 December 2011	2010	2009
1. Cash flows from operating activities						
Cash received from sales of goods or rendering of services		40,915,635.63	92,269,473.73	113,230,223.39	121,088,897.31	89,574,037.41
Refund of taxes and levies		0.00	0.00	0.00	0.00	93,433.64
Cash received relating to other operating activities		718,143.36	308,904.10	2,904,846.07	2,819,738.43	2,553,330.65
Sub-total of cash inflows from operating activities		**41,633,778.99**	**92,578,377.83**	**116,135,069.46**	**123,908,635.74**	**92,220,801.70**
Cash paid for goods and services		43,615,262.73	84,354,660.29	117,413,022.90	119,013,530.50	89,637,471.17
Cash paid to and on behalf of employees		577,164.53	474,236.53	891,394.65	1,017,840.72	1,171,915.93
Payments of taxes and surcharges		774,144.08	0.00	0.00	169,093.47	305,499.70
Cash paid relating to other operating activities		1,139,789.19	863,552.08	3,626,381.96	1,526,675.64	5,854,310.51
Sub-total of cash outflows from operating activities		**46,106,360.53**	**85,692,448.90**	**121,930,799.51**	**121,727,140.33**	**96,969,197.31**
Net cash flows from operating activities		**-4,472,581.54**	**6,885,928.93**	**-5,795,730.05**	**2,181,495.41**	**-4,748,395.61**
2. Cash flows from investing activities						
Cash received from investments		0.00	0.00	0.00	0.00	0.00
Cash received from disposal of subsidiaries		0.00	0.00	0.00	0.00	0.00
Cash received from returns on investments		0.00	0.00	0.00	0.00	0.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		0.00	0.00	0.00	0.00	0.00
Cash received relating to other investing activities		0.00	0.00	0.00	0.00	0.00
Sub-total of cash inflows from investing activities		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cash paid to acquire fixed assets, intangible assets and other long-term assets		4,450.99	18,669.42	19,544.57	32,172.87	75,899.08
Cash paid to acquire investments		0.00	0.00	0.00	0.00	0.00
Net cash received from payment of subsidiaries		0.00	0.00	0.00	0.00	0.00
Cash paid relating to other investing activities		0.00	0.00	0.00	0.00	0.00
Sub-total of cash outflows from investing activities		**4,450.99**	**18,669.42**	**19,544.57**	**32,172.87**	**75,899.08**
Net cash flows from investing activities		**-4,450.99**	**-18,669.42**	**-19,544.57**	**-32,172.87**	**-75,899.08**

CASH FLOW STATEMENT (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

ITEMS	Notes	For the six months ended 30 June 2012	For the six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
3. Cash flows from financing activities						
Proceeds from absorbing investments		0.00	0.00	0.00	0.00	0.00
Including: Cash received from minority shareholders from subsidiaries		0.00	0.00	0.00	0.00	0.00
Cash received from borrowings		0.00	0.00	0.00	0.00	0.00
Cash received relating to other financing activities		0.00	0.00	0.00	0.00	0.00
Sub-total of cash inflows from financing activities		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cash repayments of borrowings		0.00	0.00	0.00	0.00	0.00
Cash paid for distribution of dividends, profits or interests		0.00	0.00	0.00	0.00	0.00
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		0.00	0.00	0.00	0.00	0.00
Cash payments relating to other financing activities		0.00	0.00	0.00	0.00	0.00
Sub-total of cash outflows from financing activities		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Net cash flows from financing activities		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
4. Effect of foreign exchange rate changes on cash and cash equivalents		318,433.56	-479,665.51	-1,237,688.49	-830,076.82	-35,308.38
5. Net (decrease)/increase in cash and cash equivalents	4(21)(a)	**-4,158,598.97**	**6,387,594.00**	**-7,052,963.11**	**1,319,245.72**	**-4,859,603.07**
Add: Cash and cash equivalents at beginning of year	4(21)(a)	14,062,493.83	21,115,456.94	21,115,456.94	19,796,211.22	24,655,814.29
6. Cash and cash equivalent at end of year	4(21)(b)	**9,903,894.86**	**27,503,050.94**	**14,062,493.83**	**21,115,456.94**	**19,796,211.22**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi Yuan unless otherwise stated)

	Attributable to shareholders of the parent company								
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Difference on translation of foreign currency financial statements	Minority interest	Total shareholders' equity
1. Balance at 31 December 2011	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**36,129,957.00**	**-6,610,910.76**	**0.00**	**34,266,346.24**
Add: Changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrections of prior period's errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balance at 1 January 2012	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**36,129,957.00**	**-6,610,910.76**	**0.00**	**34,266,346.24**
3. Movements for January to June 2012	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**494,931.51**	**191,543.52**	**0.00**	**686,475.03**
(1) Net profit	0.00	0.00	0.00	0.00	0.00	494,931.51	0.00	0.00	494,931.51
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00	191,543.52	0.00	191,543.52
Subtotal of items (1) and (2)	0.00	0.00	0.00	0.00	0.00	494,931.51	191,543.52	0.00	686,475.03
(3) Capital contribution and withdrawal by shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by the shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Share-based payment charged to equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation to general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Profit distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer from capital surplus to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Transfer from surplus reserves to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserves used to offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(6) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at 30 June 2012	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**36,624,888.51**	**-6,419,367.24**	**0.00**	**34,952,821.27**

STATEMENT OF CHANGES IN EQUITY (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

	Attributable to shareholders of the parent company								
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Difference on translation of foreign currency financial statements	Minority interest	Total shareholders' equity
1. Balance at 31 December 2010	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34,480,912.08**	**-4,950,440.86**	**0.00**	**34,277,771.22**
Add: Changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrections of prior period's errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balance at 1 January 2011	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34,480,912.08**	**-4,950,440.86**	**0.00**	**34,277,771.22**
3. Movements for January to June 2011	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**1,119,595.92**	**-764,485.89**	**0.00**	**355,110.03**
(1) Net profit	0.00	0.00	0.00	0.00	0.00	1,119,595.92	0.00	0.00	1,119,595.92
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00	-764,485.89	0.00	-764,485.89
Subtotal of items (1) and (2)	0.00	0.00	0.00	0.00	0.00	1,119,595.92	-764,485.89	0.00	355,110.03
(3) Capital contribution and withdrawal by shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by the shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Share-based payment charged to equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation to general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Profit distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer from capital surplus to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Transfer from surplus reserves to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserves used to offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(6) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at 30 June 2011	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**35,600,508.00**	**-5,714,926.75**	**0.00**	**34,632,881.25**

STATEMENT OF CHANGES IN EQUITY (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

	Attributable to shareholders of the parent company								
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Difference on translation of foreign currency financial statements	Minority interest	Total shareholders' equity
1. Balance at 31 December 2010	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34,480,912.08**	**-4,950,440.86**	**0.00**	**34,277,771.22**
Add: Changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrections of prior period's errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balance at 1 January 2011	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34,480,912.08**	**-4,950,440.86**	**0.00**	**34,277,771.22**
3. Movements for 2011	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**1,649,044.92**	**-1,660,469.90**	**0.00**	**-11,424.98**
(1) Net profit	0.00	0.00	0.00	0.00	0.00	1,649,044.92	0.00	0.00	1,649,044.92
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00	-1,660,469.90	0.00	-1,660,469.90
Subtotal of items (1) and (2)	0.00	0.00	0.00	0.00	0.00	1,649,044.92	-1,660,469.90	0.00	-11,424.98
(3) Capital contribution and withdrawal by shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by the shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Share-based payment charged to equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation to general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Profit distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer from capital surplus to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Transfer from surplus reserves to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserves used to offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(6) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at 31 December 2011	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**36,129,957.00**	**-6,610,910.76**	**0.00**	**34,266,346.24**

STATEMENT OF CHANGES IN EQUITY (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

	Attributable to shareholders of the parent company								
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Difference on translation of foreign currency financial statements	Minority interest	Total shareholders' equity
1. Balance at 31 December 2009	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**32,286,284.88**	**-3,796,800.30**	**0.00**	**33,236,784.58**
Add: Changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrections of prior period's errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balance at 1 January 2010	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**32,286,284.88**	**-3,796,800.30**	**0.00**	**33,236,784.58**
3. Movements for 2010	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**2,194,627.20**	**-1,153,640.56**	**0.00**	**1,040,986.64**
(1) Net profit	0.00	0.00	0.00	0.00	0.00	2,194,627.20	0.00	0.00	2,194,627.20
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00	-1,153,640.56	0.00	-1,153,640.56
Subtotal of items (1) and (2)	0.00	0.00	0.00	0.00	0.00	2,194,627.20	-1,153,640.56	0.00	1,040,986.64
(3) Capital contribution and withdrawal by shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by the shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Share-based payment charged to equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation to general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Profit distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer from capital surplus to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Transfer from surplus reserves to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserves used to offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(6) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at 31 December 2010	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34,480,912.08**	**-4,950,440.86**	**0.00**	**34,277,771.22**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (Continued)

(All amounts in Renminbi Yuan unless otherwise stated)

	Attributable to shareholders of the parent company								
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Difference on translation of foreign currency financial statements	Minority interest	Total shareholders' equity
1. Balance at 31 December 2008	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**32,152,485.83**	**-2,749,012.67**	**0.00**	**34,150,773.16**
Add: Changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrections of prior period's errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balance at 1 January 2009	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**32,152,485.83**	**-2,749,012.67**	**0.00**	**34,150,773.16**
3. Movements for 2009	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**133,799.05**	**-1,047,787.63**	**0.00**	**-913,988.58**
(1) Net profit	0.00	0.00	0.00	0.00	0.00	133,799.05	0.00	0.00	133,799.05
(2) Other comprehensive income	0.00	0.00	0.00	0.00	0.00	0.00	-1,047,787.63	0.00	-1,047,787.63
Subtotal of items (1) and (2)	0.00	0.00	0.00	0.00	0.00	133,799.05	-1,047,787.63	0.00	-913,988.58
(3) Capital contribution and withdrawal by shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by the shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Share-based payment charged to equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation to surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation to general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Profit distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer from capital surplus to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Transfer from surplus reserves to share capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserves used to offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(6) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at 31 December 2009	**4,747,300.00**	**0.00**	**0.00**	**0.00**	**0.00**	**32,286,284.88**	**-3,796,800.30**	**0.00**	**33,236,784.58**

The accompanying notes form an integral part of these financial statements.

B. NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

Po Lian is a company incorporated and operated in Hong Kong by GPHL as approved by Guangzhou Municipal People's Government Foreign Economic Relations and Trade Commission* (廣州市人民政府對外經濟貿易委員) (Sui Wai Jing Mao [1988] No. 125* (穗外經貿[1998]125號文)) and Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau* (廣州市清理整頓駐港澳機構領導小組) (Sui Wai Jing Mao Ji Qing (1990) No. 07* (穗外經貿際清(1990)07號文)). Po Lian was incorporated as a company with limited liability under the Hong Kong Companies Ordinance on 15 January 1988 with authorized and issued share capital of HK$1 million. In October 1998, the authorized and issued share capital of Po Lian increased to HK$5 million.

The principal activity of Po Lian is the operation and investment of the state-owned assets funded by GPHL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation of financial statements

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises" or "CAS") as well as in compliance with the relevant disclosure requirements of the Listing Rules of Hong Kong Stock Exchange and Hong Kong Companies Ordinance.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of Po Lian are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of Po Lian as of the Reporting Periods and its financial conditions, operating results, changes in equity, cash flows and other related information for the Reporting Periods.

(3) Accounting period

Accounting year is from 1 January to 31 December of each calendar year.

(4) Reporting currency

The reporting currency is Hong Kong Dollar (HK$).

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into HK$ using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into HK$ using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the construction of assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into HK$ at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into HK$ using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates determined according to reasonable manner of the system and similar to those on the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates determined according to reasonable manner of the system and similar to those on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(7) Financial Instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on Po Lian's intention and ability to hold the financial assets.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

2) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in non-current assets with maturity within one year; held to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

(ii) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when Po Lian becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss as fair value gain or loss. Interests or cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in shareholder's equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

(iii) Impairment of financial assets

Po Lian assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, it shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

If there is objective evidence that the available-for-sale financial assets are impaired, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in shareholder's equity directly.

(iv) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When Po Lian transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if it substantially retains all the risks and rewards of ownership of the financial asset. If it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss of the current period.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in Po Lian mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and measured subsequently at amortized costs using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the non-current liabilities due within one year. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to Po Lian.

(8) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(a) ***Receivables that are individually significant and subject to separate provision:***

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1 million (including RMB1 million) and other receivables are individually more than RMB100 thousand (including RMB100 thousand).
Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

(b) ***Receivables that are combined into certain groups and subject to provision by groups:***

Basis for determination of groups is as follow:

Group name	**Criteria**
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Po Lian determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which do not have similar credit risk characteristics are subject to separate impairment assessment at the end of the period. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognized.
Group 3	Other receivables due from related parties
Group 4	deposits, security deposits and staff advances

Method for provision of receivables that are combined into certain groups and subject to provision:

Group name	**Method for provision**
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Aging	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

(c) Receivables which are individually insignificant but subject to separate provision:

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method can not reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

(9) Inventories

(a) Classification of inventories

Inventories mainly include commodity stocks.

(b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost of inventories: The cost is determined by specific identification.

(c) Basis for the determination of net realizable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) Inventory system

Po Lian adopts the perpetual inventory system.

(10) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to Po Lian and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

Po Lian adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which Po Lian adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which Po Lian adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at the date of the transfer when transfer, the carrying amount immediately before transfer is taken as the costs of assets.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(11) Fixed assets

(a) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to Po Lian and its cost can be reliably measured. Fixed assets purchased or constructed by Po Lian are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to Po Lian and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon the estimated useful lives and their estimated residual values of fixed assets. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, motor vehicles and other equipment. The estimated residual values are not set aside for fixed assets and the estimated useful lives are as follows:

Category	Estimated useful lives
Buildings	According to the remaining years of lease when purchase
Motor vehicles	5 years
Other equipment	5 years

(c) Impairment of fixed assets and provision for impairment

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(d) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which Po Lian adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased fixed asset is depreciated over the estimated useful lives; if not, the leased fixed asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(e) Other specification

Disposal of fixed assets

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

(12) Revenue

(a) Sales of goods

Sales of goods are recognized when Po Lian has delivered products to the customer and the customer has accepted the goods, Po Lian retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to Po Lian and the relevant revenue and costs can be measured reliably.

(b) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

(c) Transfer of asset use rights

Income from transfer of asset use rights include:

– Interest income is recognized on a time-proportion basis using the effective interest method;

– License fee income is recognized when the right to receive payment is established;

– Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(13) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

There are no changes in accounting policies of Po Lian in 1 January 2009 to 30 June 2012.

(b) Changes in accounting estimates

There are no changes in accounting estimates of Po Lian in 1 January 2009 to 30 June 2012.

(14) Correction of prior period's accounting errors

There was no correction of significant accounting errors of Po Lian in 1 January 2009 to 30 June 2012.

3. TAXATION

(1) Type of tax and corresponding tax rate

Tax	**Tax basis**	**Tax rates for the years of assessment 2009-2012**
Hong Kong Profits Tax	Calculated by taxable income	16.5%

4. NOTES TO THE FINANCIAL STATEMENTS

(1) Cash in bank and cash on hand

	30 June 2012			**31 December 2011**		
	Foreign currency	**Exchange rate**	**RMB**	**Foreign currency**	**Exchange rate**	**RMB**
Bank deposits						
RMB	5,498,072.38	1.0000	5,498,072.38	4,982,248.02	1.0000	4,982,248.08
US Dollars (USD)	93,458.10	6.3249	591,113.13	499,031.12	6.3235	3,155,603.32
HK$	239,630.26	0.8152	195,346.59	2,154,820.83	0.8107	1,746,913.25
Japanese yen	0.00		0.00	1.00	7.0000	0.07
Euro	459,835.05	7.8710	3,619,361.68	482,662.55	8.2216	3,968,274.02
GBP	0.11	9.8169	1.08	20,357.99	10.2886	209,455.09
			9,903,894.86			14,062,493.83

	31 December 2010			31 December 2009		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Bank deposits						
RMB	0.00	1.0000	0.00	0.00	1.0000	0.00
US Dollars (USD)	1,317,304.37	6.6373	8,743,283.70	931,425.88	6.8679	6,396,939.80
HK$	7,654,938.82	0.8509	6,513,817.09	7,283,461.54	0.8805	6,413,087.89
Japanese yen	16,765,843.00	7.9176	1,327,451.83	45,000,001.00	7.6165	3,427,427.36
Euro	481,024.30	8.9623	4,311,078.28	427,132.94	7.7992	3,331,314.93
GBP	20,355.86	10.7992	219,826.04	20,353.73	11.1744	227,441.24
			21,115,456.94			19,796,211.22

(2) Accounts receivable

(a) The aging of accounts receivable is analyzed as follows:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Within 1 year	22,909,338.73	24,481,083.16	17,908,916.72	31,666,437.81
	22,909,338.73	24,481,083.16	17,908,916.72	31,666,437.81

Po Lian offers credit periods from 60 days to 180 days to its customers according to their respective credibility, the credit periods commence from the date that the goods are delivered and the invoice is issued.

(b) Accounts receivable by categories are analyzed as follows:

	30 June 2012			
	Book balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups:				
Group with credit risk by aging	22,909,338.73	100.00%	229,093.39	1.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	22,909,338.73	100.00%	229,093.39	1.00%

	31 December 2011			
	Book balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups: Group with credit risk by aging	24,481,083.16	100.00%	244,810.83	1.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	24,481,083.16	100.00%	244,810.83	1.00%

	31 December 2010			
	Book balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups: Group with credit risk by aging	17,908,916.72	100.00%	179,089.17	1.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	17,908,916.72	100.00%	179,089.17	1.00%

	31 December 2009			
	Book balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups: Group with credit risk by aging	31,666,437.81	100.00%	316,664.38	1.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	31,666,437.81	100.00%	316,664.38	1.00%

For classification of accounts receivable: please refer to Note 2(8).

(c) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there were no accounts receivable that are individually significant and subject to separate provision.

(d) The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	30 June 2012			31 December 2011		
	Book balance	% of groups accounts	Provisions for bad debts	Book balance	% of groups accounts	Provisions for bad debts
Within 1 year	22,909,338.73	100.00%	229,093.39	24,481,083.17	100.00%	244,810.83
	22,909,338.73	100.00%	229,093.39	24,481,083.17	100.00%	244,810.83

	31 December 2010			31 December 2009		
	Book balance	% of groups of accounts	Provisions for bad debts	Book balance	% of groups of accounts	Provisions for bad debts
Within 1 year	17,908,916.72	100.00%	179,089.17	31,666,437.81	100.00%	316,664.38
	17,908,916.72	100.00%	179,089.17	31,666,437.81	100.00%	316,664.38

(e) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there were no accounts receivable that are individually insignificant but subject to separate provision.

(f) There was no reversal or collection of accounts receivable in January to June 2012, the years 2011, 2010 and 2009.

(g) There were no accounts receivable that have been collected by restructuring or other manners in January to June 2012, the years 2011, 2010 and 2009.

(h) There was no written off of accounts receivable in January to June 2012, the years 2011 and 2010. The written off of accounts receivable in 2009 amounted to RMB38,309.43.

(i) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of Po Lian.

(j) As at 30 June 2012, the major accounts receivables are the amounts due from related parties. For details, please refer to Note 5.

(k) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, accounts receivable from related parties represented 95.22%, 98.87%, 98.31% and 98.89% of total accounts receivable respectively. Refer to Note 5 for details.

(l) There was no accounts receivables derecognized due to transfer of financial assets in January to June 2012, the years 2011, 2010 and 2009.

(m) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no securitizations that targeted at accounts receivable.

(3) Other receivables

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Petty cash	46,915.53	46,837.74	44,631.41	45,391.91
Deposits	377,418.24	291,337.53	164,865.08	251,714.26
	424,333.77	338,175.27	209,496.49	297,106.17
Less: provision for bad debts	0.00	0.00	0.00	0.00
	424,333.77	338,175.27	209,496.49	297,106.17

(a) Other receivables by categories are analyzed as follows:

	30 June 2012			
	Book Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups:				
Deposits and staff advances	424,333.77	100.00%	0.00	0.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	424,333.77	100.00%	0.00	0.00%

	31 December 2011			
	Book Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups:				
Deposits and staff advances	338,175.27	100.00%	0.00	0.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	338,175.27	100.00%	0.00	0.00%

	31 December 2010			
	Book Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups:				
Deposits and staff advances	209,496.49	100.00%	0.00	0.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	209,496.49	100.00%	0.00	0.00%

	31 December 2009			
	Book Balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	0.00	0.00%	0.00	0.00%
Receivables that are combined into groups and subject to provision by groups:				
Deposits and staff advances	297,106.17	100.00%	0.00	0.00%
Individually insignificant but subject to separate provision	0.00	0.00%	0.00	0.00%
	297,106.17	100.00%	0.00	0.00%

(b) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there were no other receivables that are individually significant and subject to separate provision.

(c) The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

	30 June 2012			31 December 2011		
	Book balance	% of total balance	Provisions for bad debts	Book balance	% of total balance	Provisions for bad debts
Within 1 year	130,896.99	30.85%	0.00	220,058.11	65.07%	0.00
1 to 2 years	181,528.24	42.78%	0.00	75,244.41	22.25%	0.00
2 to 3 years	75,662.07	17.83%	0.00	16,371.28	4.84%	0.00
3 to 4 years	16,462.16	3.88%	0.00	0.00	0.00%	0.00
4 to 5 years	0.00	0.00%	0.00	26,501.47	7.84%	0.00
Over 5 years	19,784.31	4.66%	0.00	0.00	0.00%	0.00
	424,333.77	100.00%	0.00	338,175.27	100.00%	0.00

	31 December 2010			31 December 2009		
	Book balance	% of total balance	Provision for bad debts	Book balance	% of total balance	Provision for bad debts
Within 1 year	162,733.17	77.68%	0.00	263,554.79	88.71%	0.00
1 to 2 years	17,183.69	8.20%	0.00	265.67	0.09%	0.00
2 to 3 years	0.00	0.00%	0.00	33,285.71	11.20%	0.00
3 to 4 years	29,579.63	14.12%	0.00	0.00	0.00%	0.00
4 to 5 years	0.00	0.00%	0.00	0.00	0.00%	0.00
	209,496.49	100.00%	0.00	297,106.17	100.00%	0.00

(d) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there were no other receivables that are individually insignificant but subject to separate provision.

(e) There were no other receivables the provision of which were fully made or large proportion of which were made prior to the Reporting Periods but were reversed or collected in full or part in January to June 2012, the years 2011, 2010 and 2009.

(f) There were no other receivables that have been collected by restructuring or other manners in January to June 2012, the years 2011, 2010 and 2009.

(g) There were no other receivables that are written off in prior years but collected in January to June 2012, the years 2011, 2010 and 2009.

(h) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no other receivables from shareholders who hold more than 5% (including 5%) of the voting rights of Po Lian.

(i) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no other receivables from related parties.

(j) There was no other receivables derecognized due to transfer of financial assets in January to June 2012, the years 2011, 2010 and 2009.

(k) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no securitizations that targeted at other receivables.

(4) Investment properties

(a) Investment properties under cost method:

	Buildings
Cost:	
31 December 2008	7,110,333.81
Addition in the current year	0.00
Disposal in the current year	0.00
Effect of changes in exchange rate	-11,207.03
31 December 2009	7,099,126.78
Addition in the current year	0.00
Disposal in the current year	0.00
Effect of changes in exchange rate	-238,411.33
31 December 2010	6,860,715.45
Addition in the current year	0.00
Disposal in the current year	0.00
Effect of changes in exchange rate	-324,358.74
31 December 2011	6,536,356.71
Addition in the current year	0.00
Disposal in the current year	0.00
Effect of changes in exchange rate	36,281.74
30 June 2012	6,572,638.45
Accumulated depreciation:	
31 December 2008	1,855,209.15
Addition in the current year	94,892.52
Disposal in the current year	0.00
Effect of changes in exchange rate	20,040.24
31 December 2009	1,970,141.91
Addition in the current year	94,892.52
Disposal in the current year	0.00
Effect of changes in exchange rate	-47,157.32
31 December 2010	2,017,877.11
Addition in the current year	94,892.52
Disposal in the current year	0.00
Effect of changes in exchange rate	-81,779.10
31 December 2011	2,030,990.53
Addition in the current year	54,410.92
Disposal in the current year	0.00
Effect of changes in exchange rate	11,420.77
30 June 2012	2,096,822.22
Net book value:	
31 December 2008	5,255,124.66
31 December 2009	5,128,984.87
31 December 2010	4,842,838.34
31 December 2011	4,505,366.18
30 June 2012	4,475,816.23

	Buildings
Provision for impairment:	
31 December 2008	0.00
Addition in the current year	0.00
Disposal in the current year	0.00
31 December 2009	0.00
Addition in the current year	0.00
Disposal in the current year	0.00
31 December 2010	0.00
Addition in the current year	0.00
Disposal in the current year	0.00
31 December 2011	0.00
Addition in the current year	0.00
Disposal in the current year	0.00
30 June 2012	0.00
Carrying amount:	
31 December 2008	5,255,124.66
31 December 2009	5,128,984.87
31 December 2010	4,842,838.34
31 December 2011	4,505,366.18
30 June 2012	4,475,816.23

For January to June 2012 and the years 2011, 2010 and 2009, the rental income generated from leasing of investment properties amounted to RMB291,220, RMB589,200, RMB510,620 and RMB473,200 respectively and incurred direct leasing expenses amounted to RMB54,410, RMB94,890 , RMB94,890 and RMB94,890 respectively.

(b) The Company's interests in investment property at net book value are analyzed as follows:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
A lease term of 10 to 50 years	3,586,089.50	3,613,278.39	3,891,215.07	4,128,495.27
A lease term of over 50 years	889,726.73	892,087.79	951,623.27	1,000,489.60
	4,475,816.23	4,505,366.18	4,842,838.34	5,128,984.87

(5) Fixed assets

(a) Fixed assets

	Buildings	Motor Vehicles	Other Equipment	Total
Cost:				
31 December 2008	7,842,555.17	781,163.27	1,237,276.95	9,860,995.39
Addition in the current year	0.00	0.00	0.00	0.00
Disposal in the current year	0.00	0.00	0.00	0.00
Effect of changes in exchange rate	-12,361.12	-1,231.24	-1,950.15	-15,542.51
31 December 2009	7,830,194.05	779,932.03	1,235,326.80	9,845,452.88
Addition in the current year	0.00	0.00	31,627.37	31,627.37
Disposal in the current year	0.00	0.00	89,526.35	89,526.35
Effect of changes in exchange rate	-262,962.91	-26,192.61	-41,486.21	-330,641.73
31 December 2010	7,567,231.14	753,739.42	1,135,941.61	9,456,912.17
Addition in the current year	0.00	0.00	19,071.72	19,071.72
Disposal in the current year	0.00	0.00	426,523.05	426,523.05
Effect of changes in exchange rate	-357,761.16	-35,635.05	-53,704.70	-447,100.91
31 December 2011	7,209,469.98	718,104.37	674,785.58	8,602,359.93
Addition in the current year	0.00	0.00	4,450.99	4,450.99
Disposal in the current year	0.00	0.00	0.00	0.00
Effect of changes in exchange rate	40,018.02	3,986.02	3,745.58	47,749.62
30 June 2012	7,249,488.00	722,090.39	682,982.15	8,654,560.54
Accumulated depreciation				
31 December 2008	931,097.63	781,163.27	1,019,167.55	2,731,428.45
Addition in the current year	128,218.59	0.00	59,638.50	187,857.09
Disposal in the current year	0.00	0.00	0.00	0.00
Effect of changes in exchange rate	-1,669.60	-1,231.24	-1,700.38	-4,601.28
31 December 2009	1,057,646.56	779,932.03	1,077,105.67	2,914,684.26
Addition in the current year	123,717.29	0.00	57,544.80	181,262.09
Disposal in the current year	0.00	0.00	89,526.35	89,526.35
Effect of changes in exchange rate	-35,519.14	-26,192.61	-36,172.64	-97,884.39
31 December 2010	1,145,844.71	753,739.42	1,008,951.48	2,908,535.61
Addition in the current year	117,868.22	0.00	38,881.75	156,749.97
Disposal in the current year	0.00	0.00	426,523.05	426,523.05
Effect of changes in exchange rate	-54,172.88	-35,635.05	-47,700.89	-137,508.82
31 December 2011	1,209,540.05	718,104.37	573,609.29	2,501,253.71
Addition in the current year	59,261.24	0.00	21,485.00	80,746.24
Disposal in the current year	0.00	0.00	0.00	0.00
Effect of changes in exchange rate	6,713.86	3,986.02	3,183.97	13,883.85
30 June 2012	1,275,515.15	722,090.39	598,278.26	2,595,883.80
Net book value				
31 December 2008	6,911,457.54	0.00	218,109.40	7,129,566.94
31 December 2009	6,772,547.49	0.00	158,221.13	6,930,768.62
31 December 2010	6,421,386.43	0.00	126,990.13	6,548,376.56
31 December 2011	5,999,929.93	0.00	101,176.29	6,101,106.22
30 June 2012	5,973,972.85	0.00	84,703.89	6,058,676.74

	Buildings	Motor Vehicles	Other Equipment	Total
Provision for impairment				
31 December 2008	0.00	0.00	0.00	0.00
Addition in the current year	0.00	0.00	0.00	0.00
Disposal in the current year	0.00	0.00	0.00	0.00
31 December 2009	0.00	0.00	0.00	0.00
Addition in the current year	0.00	0.00	0.00	0.00
Disposal in the current year	0.00	0.00	0.00	0.00
31 December 2010	0.00	0.00	0.00	0.00
Addition in the current year	0.00	0.00	0.00	0.00
Disposal in the current year	0.00	0.00	0.00	0.00
31 December 2011	0.00	0.00	0.00	0.00
Addition in the current year	0.00	0.00	0.00	0.00
Disposal in the current year	0.00	0.00	0.00	0.00
30 June 2012	0.00	0.00	0.00	0.00
Carrying amount				
31 December 2008	6,911,457.54	0.00	218,109.40	7,129,566.94
31 December 2009	6,772,547.49	0.00	158,221.13	6,930,768.62
31 December 2010	6,421,386.43	0.00	126,990.13	6,548,376.56
31 December 2011	5,999,929.93	0.00	101,176.29	6,101,106.22
30 June 2012	5,973,972.85	0.00	84,703.89	6,058,676.74

(i) For January to June 2012, the years 2011, 2010 and 2009, there was no fixed assets transferred from construction in progress.

(ii) Depreciation of fixed assets for the January to June 2012 amounted to RMB80,750 in total, of which RMB0, RMB0 and RMB80,750 were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively.

Depreciation of fixed assets for the year 2011 amounted to RMB156,750 in total, of which RMB0, RMB0 and RMB156,750 were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively.

Depreciation of fixed assets for the year 2010 amounted to RMB181,260 in total, of which RMB0, RMB0 and RMB181,260 were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively.

Depreciation of fixed assets for the year 2009 amounted to RMB187,860 in total, of which RMB0, RMB0 and RMB187,860 were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively.

(b) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no fixed assets which were temporarily idle.

(c) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no fixed assets which were lack of ownership certificate.

(d) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no fixed assets held for sale.

(e) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no fixed assets held under operating leases.

(f) As at 30 June 2012, integrated credit loan of HK$300,000.00 and letter of credit and trust letter amounted to HK$100.00 million from Bank of China (Hong Kong) Limited were obtained against the buildings and structures of fixed assets with original value of HK$8,892,895 and investment properties with original value of HK$6,842,608.50. As at 30 June 2012, the outstanding trust letter issued amounted to JPY12.584 million and USD57,000.00 and outstanding letter of credit issued amounted to USD556,605.77 and JPY94,162,500.00.

As at 31 December 2011, integrated credit loan of HK$300,000.00 and letter of credit and trust letter amounted to HK$100.00 million from Bank of China (Hong Kong) Limited were obtained against the buildings and structures of fixed assets with original value of HK$8,892,895 and investment properties with original value of HK$6,842,608.50. As at 31 December 2011, the outstanding trust letter issued amounted to JPY68.875 million and USD51,750.00 and outstanding letter of credit issued amounted to USD365,080.20, HK$1,800,420.00 and JPY12.584 million.

As at 31 December 2010, integrated credit loan of HK$300,000.00 and letter of credit and trust letter amounted to HK$100.00 million from Bank of China (Hong Kong) Limited were obtained against the buildings and structures of fixed assets with original value of HK$8,892,895 and investment properties with original value of HK$6,842,608.50. As at 31 December 2010, the outstanding trust letter issued amounted to USD70,500.00 and HK$6,269,763.25 and outstanding letter of credit issued amounted to USD828,902.50 and HK$3,843,178.00.

As at 31 December 2009, integrated credit loan of HK$300,000.00 and letter of credit and trust letter amounted to HK$100.00 million from Bank of China (Hong Kong) Limited were obtained against the buildings and structures of fixed assets with original value of HK$8,892,895 and investment properties with original value of HK$6,842,608.50. As at 31 December 2009, the outstanding trust letter issued amounted to USD1,206,368.98 and HK$8,982,570.00 and outstanding letter of credit issued amounted to USD204,937.00, HK$5,587,939.00 and JPY50,000,000.00.

(g) The Company's interests in leasehold land at net book value are analyzed as follows:

	30 June 2012	**31 December 2011**	**31 December 2010**	**31 December 2009**
A lease term of 10 to 50 years	4,210,743.33	4,231,119.30	0.00	0.00
A lease term of over 50 years	1,763,229.52	1,768,810.63	6,421,386.43	6,772,547.49
	5,973,972.85	5,999,929.93	6,421,386.43	6,772,547.49

(6) Provision for asset impairment

	31 December 2011	**Current year additions**	**The impact of the changes in exchange rate in current year**	**Current year reductions**		**30 June 2012**
				Reversal	**Write-off**	
Provision for bad debts	244,810.83	-17,030.24	1,312.80	0.00	0.00	229,093.39
	244,810.83	-17,030.24	1,312.80	0.00	0.00	229,093.39

	31 December 2010	Current year additions	The impact of the changes in exchange rate in current year	Current year reductions		31 December 2011
				Reversal	Write-off	
Provision for bad debts	179,089.17	76,027.97	-10,306.31	0.00	0.00	244,810.83
	179,089.17	76,027.97	-10,306.31	0.00	0.00	244,810.83

	31 December 2009	Current additions	The impact of the changes in exchange rate in current year	Current year reductions		31 December 2010
				Reversal	Write-off	
Provision for bad debts	316,664.38	-129,143.97	-8,431.24	0.00	0.00	179,089.17
	316,664.38	-129,143.97	-8,431.24	0.00	0.00	179,089.17

(7) Accounts payable

(a) Details of accounts payable

	30 June 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	4,081,579.14	100.00%	9,593,709.09	100.00%
	4,081,579.14	100.00%	9,593,709.09	100.00%

	31 December 2010		31 December 2009	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	10,564,673.72	100.00%	25,728,824.16	100.00%
	10,564,673.72	100.00%	25,728,824.16	100.00%

(b) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, there was no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of Po Lian.

(c) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, the amount of accounts payable to related parties represented 30.03%, 1.82%, 0.41% and 0.60% of the total accounts payable respectively. Refer to Note 5 for details.

(8) Salary payable

	31 December 2011	Current year additions	Current year reductions	30 June 2012
Wages and salaries, bonuses, allowances and subsidies	0.00	428,808.32	428,808.32	0.00
Staff welfare	0.00	0.00	0.00	0.00
Social insurances	0.00	0.00	0.00	0.00
Including: Medical insurance	0.00	0.00	0.00	0.00
Basic pension insurance	0.00	0.00	0.00	0.00
Annuity	0.00	0.00	0.00	0.00
Unemployment insurance	0.00	0.00	0.00	0.00
Work injury insurance	0.00	0.00	0.00	0.00
Maternity insurance	0.00	0.00	0.00	0.00
Other insurances	0.00	0.00	0.00	0.00
Housing provident funds	0.00	0.00	0.00	0.00
Labor union funds and employee education funds	0.00	0.00	0.00	0.00
Non-monetary welfare	0.00	0.00	0.00	0.00
Compensation for lay-off	0.00	0.00	0.00	0.00
Housing allowance	0.00	0.00	0.00	0.00
Service fee	0.00	0.00	0.00	0.00
Staff and workers' bonus and welfare fund	0.00	0.00	0.00	0.00
Others (MPF)	0.00	26,076.21	26,076.21	0.00
	0.00	454,884.53	454,884.53	0.00

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Wages and salaries, bonuses, allowances and subsidies	0.00	891,394.65	891,394.65	0.00
Staff welfare	0.00	0.00	0.00	0.00
Social insurances	0.00	0.00	0.00	0.00
Including: Medical insurance	0.00	0.00	0.00	0.00
Basic pension insurance	0.00	0.00	0.00	0.00
Annuity	0.00	0.00	0.00	0.00
Unemployment insurance	0.00	0.00	0.00	0.00
Work injury insurance	0.00	0.00	0.00	0.00
Maternity insurance	0.00	0.00	0.00	0.00
Other insurances	0.00	0.00	0.00	0.00
Housing provident funds	0.00	0.00	0.00	0.00
Labor union funds and employee education funds	0.00	0.00	0.00	0.00
Non-monetary welfare	0.00	0.00	0.00	0.00
Compensation for lay-off	0.00	0.00	0.00	0.00
Housing allowance	0.00	0.00	0.00	0.00
Service fee	0.00	0.00	0.00	0.00
Staff and workers' bonus and welfare fund	0.00	0.00	0.00	0.00
Others (MPF)	0.00	41,287.27	41,287.27	0.00
	0.00	932,681.92	932,681.92	0.00

	31 December 2009	Current year additions	Current year reductions	31 December 2010
Wages and salaries, bonuses, allowances and subsidies	0.00	699,498.59	699,498.59	0.00
Staff welfare	0.00	0.00	0.00	0.00
Social insurances	0.00	0.00	0.00	0.00
Including: Medical insurance	0.00	0.00	0.00	0.00
Basic pension insurance	0.00	0.00	0.00	0.00
Annuity	0.00	0.00	0.00	0.00
Unemployment insurance	0.00	0.00	0.00	0.00
Work injury insurance	0.00	0.00	0.00	0.00
Maternity insurance	0.00	0.00	0.00	0.00
Other insurances	0.00	0.00	0.00	0.00
Housing provident funds	0.00	0.00	0.00	0.00
Labor union funds and employee education funds	0.00	0.00	0.00	0.00
Non-monetary welfare	0.00	0.00	0.00	0.00
Compensation for lay-off	0.00	0.00	0.00	0.00
Housing allowance	0.00	0.00	0.00	0.00
Service fee	0.00	0.00	0.00	0.00
Staff and workers' bonus and welfare fund	0.00	0.00	0.00	0.00
Others (MPF)	0.00	42,107.65	42,107.65	0.00
	0.00	741,606.24	741,606.24	0.00

(9) Taxes payable

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Hong Kong Profits Tax	1,442,116.48	2,106,502.39	1,851,790.36	1,505,398.17
	1,442,116.48	2,106,502.39	1,851,790.36	1,505,398.17

(10) Other payables

(a) The aging of other payables is analysed as below:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Within 1 year	199,614.68	468,845.70	967,413.04	296,829.17
Over 1 year	2,477,865.08	2,522,601.04	2,495,706.13	2,485,475.41
	2,677,479.76	2,991,446.74	3,463,119.17	2,782,304.58

(b) Other payables are analysed by categories as follows:

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Deposits	84,291.68	83,826.38	93,602.30	91,043.70
Payables to third parties	0.00	128,861.09	884,448.73	0.00
Payables to related parties	2,245,876.00	2,233,478.50	2,344,312.15	2,425,777.50
Others	347,312.08	545,280.77	140,755.99	265,483.38
	2,677,479.76	2,991,446.74	3,463,119.17	2,782,304.58

(c) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of Po Lian are other payables of RMB2,245,880, RMB2,233,480, RMB2,344,310 and RMB2,425,780 to GPHL respectively. For details, please refer to Note 5.

(d) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, other payables to related parties represented 83.88%, 74.66%, 67.69% and 87.19% of the total other payables. For details, please refer to Note 5.

(e) As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, significant other payables whose aging are over 1 year mainly include payables to related parties.

(11) Other non-current liabilities

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Provision for long service payments	286,993.61	285,409.37	288,641.41	303,102.44
	286,993.61	285,409.37	288,641.41	303,102.44

(12) Share capital

	31 December 2011	Current year additions	Current year reductions	30 June 2012
Authorized, issued and paid-up share capital:– 5,000,000 ordinary shares of HK$1 each	4,747,300.00	0.00	0.00	4,747,300.00

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Authorized, issued and paid-up share capital:– 5,000,000 ordinary shares of HK$1 each	4,747,300.00	0.00	0.00	4,747,300.00

	31 December 2009	Current year additions	Current year reductions	31 December 2010
Authorized, issued and paid-up share capital:–				
5,000,000 ordinary shares of HK$1 each	4,747,300.00	0.00	0.00	4,747,300.00
	4,747,300.00	0.00	0.00	4,747,300.00

(13) Undistributed profits

	30 June 2012	2011	2010	2009
Undistributed profits at the beginning of the year (before adjustments)	36,129,957.00	34,480,912.08	32,286,284.88	32,152,485.83
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	0.00	0.00	0.00	0.00
Undistributed profits at the beginning of the year (after adjustments)	36,129,957.00	34,480,912.08	32,286,284.88	32,152,485.83
Add: Net profit for the current year	494,931.51	1,649,044.92	2,194,627.20	133,799.05
Less: Appropriation for statutory surplus reserve	0.00	0.00	0.00	0.00
Less: Ordinary shares dividend payable	0.00	0.00	0.00	0.00
Undistributed profits at the end of the period	36,624,888.51	36,129,957.00	34,480,912.08	32,286,284.88

No dividend was paid or proposed during the Reporting Periods, nor has any dividend been proposed since the end of Reporting Period.

(14) Revenue and cost of sales

	For the six months ended 30 June		For the year ended 31 December		
Main operation	**2012**	**2011 (unaudited)**	**2011**	**2010**	**2009**
Revenue of sales	25,356,055.38	50,661,282.84	121,383,064.26	108,250,955.19	101,749,320.62
Cost of sales	24,312,601.80	48,286,012.29	116,929,841.72	104,339,848.99	99,188,206.26
Gross profit	1,043,453.58	2,375,270.55	4,453,222.54	3,911,106.20	2,561,114.36

	For the six months ended 30 June		For the year ended 31 December		
Other operation	**2012**	**2011 (unaudited)**	**2011**	**2010**	**2009**
Revenue of sales	548,578.74	302,009.44	845,618.16	818,072.54	950,827.55
Cost of sales	54,410.92	54,959.71	94,892.52	94,892.52	94,892.52
Gross profit	494,167.82	247,049.73	750,725.64	723,180.02	855,935.03

(a) ***Revenue and cost of sales of main operation by businesses are summarised as follows:***

	For the six months ended 30 June		For the year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
		(unaudited)			
Revenue from main operation:					
Pharmaceutical trading	25,356,055.38	50,661,282.84	121,383,064.26	108,250,955.19	101,749,320.62
	25,356,055.38	50,661,282.84	121,383,064.26	108,250,955.19	101,749,320.62

	For the six months ended 30 June		For the year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
		(unaudited)			
Cost from main operation:					
Pharmaceutical trading	24,312,601.80	48,286,012.29	116,929,841.72	104,339,848.99	99,188,206.26
	24,312,601.80	48,286,012.29	116,929,841.72	104,339,848.99	99,188,206.26

(b) ***Revenue and cost of sales of main operation by regions are summarised as follows:***

	For the six months ended 30 June		For the year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
		(unaudited)			
Revenue from main operation:					
Southern China	24,602,697.06	50,661,282.84	119,817,467.35	106,532,219.08	100,058,525.35
Revenue from main operation:					
Export	753,358.32	0.00	1,565,596.91	1,718,736.11	1,690,795.27
	25,356,055.38	50,661,282.84	121,383,064.26	108,250,955.19	101,749,320.62

	For the six months ended 30 June		For the year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
		(unaudited)			
Cost from main operation:					
Southern China	23,590,245.72	48,286,012.29	115,259,449.33	102,826,781.30	97,547,791.13
Cost from main operation:					
Export	722,356.08	0.00	1,670,392.39	1,513,067.69	1,640,415.13
	24,312,601.80	48,286,012.29	116,929,841.72	104,339,848.99	99,188,206.26

(c) The sale to the major customers amounted to RMB23,230,000, RMB119,817,000, RMB106,532,000 and RMB100,058,000 respectively for January to June 2012, the years 2011, 2010 and 2009, which represented 91.62%, 98.71%, 98.41% and 98.34% of the total revenue in such years.

January to June 2012	**Revenue from main operation**	**Percentage of the revenue from main operation**
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	23,229,876.24	91.62%
	23,229,876.24	91.62%

January to June 2011	**Revenue from main operation**	**Percentage of the revenue from main operation**
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	50,122,157.32	98.94%
	50,122,157.32	98.94%

2011	**Revenue from main operation**	**Percentage of the revenue from main operation**
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	119,817,467.35	98.71%
	119,817,467.35	98.71%

2010	**Revenue from main operation**	**Percentage of the revenue from main operation**
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	80,768,494.89	74.61%
Guangzhou Pharmaceutical Corporation* (廣州醫藥有限公司)	25,763,724.19	23.80%
	106,532,219.08	98.41%

2009	Revenue from main operation	Percentage of the revenue from main operation
Guangzhou Pharmaceutical Import and Export Company Limited* (廣州醫藥進出口有限公司)	55,953,367.03	54.99%
Guangzhou Pharmaceutical Corporation* (廣州醫藥有限公司)	44,105,158.32	43.35%
	100,058,525.35	98.34%

(d) Revenue from other operation

	For the six months ended 30 June 2012	For the six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
Leases of assets	291,216.60	288,241.20	589,203.36	510,624.49	473,204.40
Commission income	126,384.10	0.00	242,724.87	307,312.32	170,036.35
Others	130,978.04	13,768.24	13,689.93	135.73	307,586.80
	548,578.74	302,009.44	845,618.16	818,072.54	950,827.55

(e) Cost of sales of other operation

	For the six months ended 30 June 2012	For the six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
Depreciation of assets leased out	54,410.92	54,959.71	94,892.52	94,892.52	94,892.52
	54,410.92	54,959.71	94,892.52	94,892.52	94,892.52

(15) Selling and distribution expenses

	For the six months ended 30 June 2012	For the six months ended 30 June 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
Transportation cost	8,035.69	9,487.32	27,294.27	40,458.32	42,215.82
Insurance cost	5,615.07	7,723.85	14,995.42	15,601.68	22,113.23
Others	4,446.47	4,407.63	9,674.34	10,131.98	8,196.12
	18,097.23	21,618.80	51,964.03	66,191.98	72,525.17

(16) General and administrative expenses

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Employee benefit expenses	428,808.32	316,823.89	891,394.65	699,498.59	894,337.93
Depreciation of fixed assets	80,746.24	87,861.44	156,749.97	181,262.09	187,857.09
Utilities	4,288.58	7,292.09	13,849.35	13,491.80	12,322.76
Administrative expenses	99,592.82	88,893.41	75,808.56	61,177.82	91,567.91
Travelling expenses	59,820.10	83,969.43	169,172.98	95,250.17	93,282.48
Entertainment expenses	210,619.02	314,943.04	462,610.09	302,850.33	240,515.64
Repairing expenses	1,583.72	385.96	1,203.00	1,082.13	15,363.90
Professional service fees	4,081.26	0.00	27,416.40	122,712.98	82,612.50
Transportation expenses	37,003.21	28,448.01	73,947.75	96,913.15	134,722.93
Board meeting expenditure	121,950.00	133,527.12	360,802.32	276,234.48	277,578.00
Auditors' remuneration	24,390.00	24,636.00	65,666.70	79,136.49	82,546.88
Others	166,053.88	99,347.82	421,307.35	402,034.89	441,197.83
	1,238,937.15	1,186,128.21	2,719,929.12	2,331,644.92	2,553,905.85

(a) Directors' remuneration

Directors' remuneration as at January to June 2012 were as follow:

Name of Director	Fees	Wages and Salaries	Bonuses	Allowances	Mandatory provident fund contributions	Amount of other non-cash benefits	Total
Xu Hantou	0.00	121,950.00	0.00	4,430.85	4,878.00	0.00	131,258.85
Yang Rongming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shi Shaobin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xia Zemin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liu Xinquan	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Directors' remuneration as at January to June 2011 were as follow:

Name of Director	Fees	Wages and Salaries	Bonuses	Allowances	Mandatory provident fund contributions	Amount of other non-cash benefits	Total
Xu Hantou	0.00	133,527.12	0.00	0.00	4,927.20	0.00	138,454.32
Yang Rongming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shi Shaobin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xia Zemin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liu Xinquan	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Directors' remuneration for the year of 2011 were as follow:

Name of Director	Fees	Wages and Salaries	Bonuses	Allowances	Mandatory provident fund contributions	Amount of other non-cash benefits	Total
Xu Hantou	0.00	229,590.24	122,482.99	13,984.57	9,728.40	0.00	375,786.20
Yang Rongming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shi Shaobin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xia Zemin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liu Xinquan	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Directors' remuneration for the year of 2010 were as follow:

Name of Director	Fees	Wages and Salaries	Bonuses	Allowances	Mandatory provident fund contributions	Amount of other non-cash benefits	Total
Xu Hantou	0.00	214,434.36	74,956.72	12,168.30	10,211.16	0.00	311,770.54
Yang Rongming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lin Jihong	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xia Zemin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liu Xinquan	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Directors' remuneration for the year of 2009 were as follow:

Name of Director	Fees	Wages and Salaries	Bonuses	Allowances	Mandatory provident fund contributions	Amount of other non-cash benefits	Total
Xu Hantou	0.00	221,886.00	55,471.50	18,138.30	10,566.00	0.00	306,061.80
Yang Rongming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Li Chuyuan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yang Xiuwei	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lin Jihong	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Xia Zemin	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liu Xinquan	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(b) Of the five individuals with the highest emoluments in Po Lian, one was Director of Po Lian whose emolument was included in the disclosures in note (a) above. The emolument of the remaining four individuals were as follows:

	January to June 2012	January to June 2011	2011	2010	2009
Wages and Salaries, bonuses, allowances and mandatory provident fund contributions	427,651.10	316,823.89	834,523.55	723,544.07	886,632.69

(17) Finance costs

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Interest expenses	92.40	184.16	217.60	21.13	2,979.81
Interest income	-29,786.05	-16,799.74	-40,507.12	-23,662.39	-89,598.00
Exchange losses/(gains)	-386,352.48	23,293.90	140,692.05	-700,132.04	295,016.06
Bank charges	120,931.05	112,521.71	255,833.43	328,680.17	257,152.88
	-295,115.08	119,200.03	356,235.96	-395,093.13	465,550.75

(18) Asset impairment losses

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Provision for bad debts	-17,030.24	-45,460.19	76,027.97	-129,143.97	164,829.24
	-17,030.24	-45,460.19	76,027.97	-129,143.97	164,829.24

(19) Income tax expense

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Current tax – Hong Kong Profits Tax	97,800.83	221,237.51	350,746.18	566,059.22	26,439.33
Deferred tax	0.00	0.00	0.00	0.00	0.00
	97,800.83	221,237.51	350,746.18	566,059.22	26,439.33

The income tax expenses calculated at applicable tax rates can be reconciled to the total profit per income statement as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Total profit	592,732.34	1,340,833.43	1,999,791.10	2,760,686.42	160,238.38
Tax calculated at applicable tax rates 16.5% (2009-2012: 16.5%)	97,800.83	221,237.51	329,965.53	455,513.26	26,439.33
Effect of settlement of enterprise income tax for the previous year	0.00	0.00	20,780.65	110,545.96	0.00
Income tax expense	97,800.83	221,237.51	350,746.18	566,059.22	26,439.33

(20) Other comprehensive income

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Difference on translation of foreign currency financial statements	191,543.52	-764,485.89	-1,660,469.90	-1,153,640.56	-1,047,787.63

(21) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Net profit	494,931.51	1,119,595.92	1,649,044.92	2,194,627.20	133,799.05
Add: Provision for assets impairment	-17,030.24	-45,460.19	76,027.97	-129,143.97	164,829.24
Depreciation of fixed assets, and depreciation and amortization of Investment properties	135,157.16	142,821.15	251,642.49	276,154.61	282,749.61
Amortization of intangible assets	0.00	0.00	0.00	0.00	0.00
Amortization of long-term prepaid expenses	0.00	0.00	0.00	0.00	0.00
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	0.00	0.00	0.00	0.00	0.00
Loss on scrapping of fixed assets	0.00	0.00	0.00	0.00	0.00
Loss (less: gain) on changes in fair value	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	0.00	0.00	0.00	0.00
Investment gain	0.00	0.00	0.00	0.00	0.00
Decrease in deferred tax assets	0.00	0.00	0.00	0.00	0.00
Increase/(less: decrease) in deferred tax liabilities	0.00	0.00	0.00	0.00	0.00
Increase in inventories	0.00	0.00	0.00	0.00	0.00
Decrease of operating receivables	15,406,684.70	40,751,210.30	-6,700,845.22	13,845,130.77	-12,846,062.86
Increase of operating payables	-20,492,324.67	-35,082,238.25	-1,071,600.21	-14,005,273.20	7,516,289.35
Net cash flows from operating activities	-4,472,581.54	6,885,928.93	-5,795,730.05	2,181,495.41	-4,748,395.61

(ii) Investing and financing activities that do not involve cash receipts and payments

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Conversion of debt into capital	0.00	0.00	0.00	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00	0.00	0.00	0.00
Fixed assets held under finance leases	0.00	0.00	0.00	0.00	0.00

(iii) Net movement in cash and cash equivalents

	For the six months ended 30 June		For the year ended 31 December		
	2012	2011 (unaudited)	2011	2010	2009
Cash at the end of year	9,903,894.86	27,503,050.94	14,062,493.83	21,115,456.94	19,796,211.22
Less: cash at the beginning of year	14,062,493.83	21,115,456.94	21,115,456.94	19,796,211.22	24,655,814.29
Add: cash equivalents at end of the year	0.00	0.00	0.00	0.00	0.00
Less: cash equivalents at beginning of the year	0.00	0.00	0.00	0.00	0.00
Net (decrease)/increase in cash and cash equivalents	-4,158,598.97	6,387,594.00	-7,052,963.11	1,319,245.72	-4,859,603.07

(b) Details of cash and cash equivalents

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Cash	9,903,894.86	14,062,493.83	21,115,456.94	19,796,211.22
Including: Cash on hand	0.00	0.00	0.00	0.00
Bank deposits that are readily available for payment	9,903,894.86	14,062,493.83	21,115,456.94	19,796,211.22
Other cash that are readily available for payment	0.00	0.00	0.00	0.00
Cash equivalents	0.00	0.00	0.00	0.00
Total cash and cash equivalents	9,903,894.86	14,062,493.83	21,115,456.94	19,796,211.22

(22) Net current assets

Items	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Current asset	46,463,854.80	38,636,941.43	39,054,780.98	51,496,660.44
Current liability	21,758,532.89	14,691,658.22	15,879,583.25	30,016,526.91
Net current asset	24,705,321.91	23,945,283.21	23,175,197.73	21,480,133.53

(23) Total assets less current liabilities

Items	30 June 2012	31 December 2011	31 December 2010	31 December 2009
Total asset	56,998,347.77	49,243,413.83	50,445,995.88	63,556,413.93
Current liability	21,758,532.89	14,691,658.22	15,879,583.25	30,016,526.91
Total assets less current liabilities	35,239,814.88	34,551,755.61	34,566,412.63	33,539,887.02

5. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Details of the parent company of Po Lian

Name of the parent company	Relationship	Entity type	Registered address	Legal Representative	Nature of business	Registered Capital (RMB'0,000)	% equity interest in Po Lian	% voting rights in Po Lian	Ultimate holding company of Po Lian	Organization code
GPHL	Parent company	Limited liability company	No. 45 Sha Mian North Street, Guangzhou	Yang Rongming	Manufacturing and trading	125,281	100.00%	100.00%	Guangzhou State-owned Assets Supervision and Administration Commission	2312473

Registered capital and changes in registered capital of the parent company (RMB'0,000):

	30 June 2012	31 December 2011	31 December 2010	31 December 2009
GPHL	125,281	125,281	125,281	125,281

The percentage of equity interests and voting rights held by the parent company in Po Lian:

	30 June 2012		31 December 2011		31 December 2010		31 December 2009	
	% equity interest held	% voting rights held	% equity interest held	% voting rights held	% equity interest held	% voting rights held	% equity interest held	% voting rights held
GPHL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(2) Information of other related parties that do not control or are controlled by Po Lian

Name of entity	Relationship with Po Lian	Organization code
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	Controlled by the parent company	19047097-7
Guangzhou Pharmaceuticals Corporation	Jointly controlled by the parent company	73296653-X

(3) Related party transactions

(a) Purchases of goods from related parties

Name of related party	Type of transaction	Pricing policies and decision-making procedures of related party transaction	January to June 2012 Amount	January to June 2012 Percentage of similar transaction (%)	January to June 2011 (unaudited) Amount	January to June 2011 (unaudited) Percentage of similar transaction (%)
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	Purchase of goods	Market price	2,063,557.42	8.49	1,288,633.46	2.67
			2,063,557.42	8.49	1,288,633.46	2.67

Name of related party	Type of transaction	Pricing policies and decision-making procedures of related party transaction	2011 Amount	2011 Percentage of similar transactions (%)	2010 Amount	2010 Percentage of similar transactions (%)	2009 Amount	2009 Percentage of similar transactions (%)
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	Purchase of goods	Market price	1,670,392.39	1.43	1,513,067.69	1.45	1,640,415.13	1.65
			1,670,392.39	1.43	1,513,067.69	1.45	1,640,415.13	1.65

(b) Sales of goods to related parties

Name of related party	Type of transaction	Pricing policies and decision-making procedures of related party transaction	January to June 2012 Amount	January to June 2012 Percentage of similar transaction (%)	January to June 2011 (unaudited) Amount	January to June 2011 (unaudited) Percentage of similar transaction (%)
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	Sales of goods	Market price	23,229,876.24	91.62	50,122,157.32	98.94
			23,229,876.24	91.62	50,122,157.32	98.94

Name of related party	Type of transaction	Pricing policies and decision-making procedures of related party transaction	2011 Amount	2011 Percentage of similar transactions (%)	2010 Amount	2010 Percentage of similar transactions (%)	2009 Amount	2009 Percentage of similar transactions (%)
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	Sales of goods	Market price	119,817,467.35	98.71	80,768,494.89	74.61	55,953,367.03	54.99
Guangzhou Pharmaceuticals Corporation	Sales of goods	Market price	0.00	0.00	25,763,724.19	23.80	44,105,158.32	43.35
			119,817,467.35	98.71	106,532,219.08	98.41	100,058,525.35	98.34

(c) Remaining of receivables from and payables to related parties

(i) Receivables from related parties

Name of related party	30 June 2012 Book balance	30 June 2012 Provision for bad debts	31 December 2011 Book balance	31 December 2011 Provision for bad debts
Accounts receivable:				
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	21,813,549.00	218,135.49	24,203,596.36	242,035.96
	21,813,549.00	218,135.49	24,203,596.36	242,035.96

Name of related party	31 December 2010 Book balance	31 December 2010 Provision for bad debts	31 December 2009 Book balance	31 December 2009 Provision for bad debts
Accounts receivable:				
Guangzhou Pharmaceutical Corporation (廣州醫藥有限公司)	0.00	0.00	5,335,722.20	53,357.22
Guangzhou Pharmaceutical Import and Export Co., Ltd.* (廣州醫藥進出口有限公司)	17,606,847.56	176,068.48	25,979,603.58	259,796.04
	17,606,847.56	176,068.48	31,315,325.78	313,153.26

(ii) Payables to related parties

Name of related party	30 June 2012 Book balance	30 June 2012 Provision for bad debts	31 December 2011 Book balance	31 December 2011 Provision for bad debts
Accounts payable:				
Guangzhou Pharmaceutical Import and Export Co., Ltd.*（廣州醫藥進出口有限公司）	1,225,679.29	0.00	174,280.39	0.00
Other payables:				
GPHL	2,245,876.00	0.00	2,233,478.50	0.00
Received in advance:				
Pharmaceutical Import and Export Co., Ltd.*（廣州醫藥進出口有限公司）	13,557,357.51	0.00	0.00	0.00
	17,028,912.80	0.00	2,407,758.89	0.00

Name of related party	31 December 2010 Book balance	31 December 2010 Provision for bad debts	31 December 2009 Book balance	31 December 2009 Provision for bad debts
Accounts payable:				
Guangzhou Pharmaceutical Import and Export Co., Ltd.*（廣州醫藥進出口有限公司）	43,038.84	0.00	155,286.22	0.00
Other payables:				
GPHL	2,344,312.15	0.00	2,425,777.50	0.00
	2,387,350.99	0.00	2,581,063.72	0.00

6. CONTINGENCIES

As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, Po Lian had no material contingency.

7. COMMITMENTS

As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, Po Lian had no material commitment.

8. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of this report, Po Lian had no material event after the balance sheet date.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Po Lian have been made up in respect of any period subsequent to 30 June 2012.

10. OTHER SIGNIFICANT EVENTS

As at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009, Po Lian had no other discloseable significant event.

BDO CHINA SHU LUN PAN CPAs LLP

AUDITED FINANCIAL INFORMATION OF BAXTER

The following is a summary of the audited financial information of Baxter for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 with respect to the income statements and balance sheets of Baxter extracted from the audited report of Baxter for the three years ended 31 December 2011 and the six months ended 30 June 2012.

The audited financial statements of Baxter for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 were prepared by Baxter in accordance with the China Accounting Standards for Business Enterprises and audited by Baxter's auditor, PricewaterhouseCoopers Zhong Tian CPA Limited Company ("PwC Zhong Tian"), in accordance with the China Standards on Auditing, unqualified audit opinions in respect of the financial statements of Baxter for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 have been issued by PwC Zhong Tian.

(i) Income statement

	For the year ended			For the six months ended 30 June
	2009	2010	2011	2012
	RMB	*RMB*	*RMB*	*RMB*
Revenue	680,135,521	819,045,046	974,993,700	511,648,727
Less: Cost of sales	(366,903,645)	(438,487,104)	(534,578,583)	(299,798,736)
Taxes and surcharges	(60,355)	(1,183,241)	(9,037,889)	(3,852,337)
Less: Selling and distribution expenses	123,057,739	(155,393,303)	(200,340,857)	(116,340,795)
General and administrative expenses	(3,503,522)	(5,383,640)	(8,273,950)	(5,695,457)
Add: Financial income – net	1,704,154	2,715,379	6,285,116	3,243,038
Operating profit	188,314,414	221,313,137	229,047,537	89,204,440
Add: Non-operating income	2,186,998	899,741	6,556,139	391,022
Less: Non-operating expenses	(619,929)	(190,496)	(295,082)	(130,957)
Including: Loss on disposal of non-current assets	(616,729)	(157,747)	(285,966)	(130,957)
Total profit	189,881,483	222,022,382	235,308,594	89,464,505
Less: Income tax expenses	(37,947,555)	(49,242,246)	(55,855,843)	(22,368,492)
Net profit	151,933,928	172,780,136	179,452,751	67,096,013
Other comprehensive income	–	–	–	–
Total comprehensive income	151,933,928	172,780,136	179,452,751	67,096,013

(ii) Balance sheet

	As at			As at
	31 December 2009	31 December 2010	31 December 2011	30 June 2012
	RMB	*RMB*	*RMB*	*RMB*
Current assets				
Cash at bank and on hand	33,374,386	19,709,894	26,897,595	52,955,486
Notes receivable	16,871,179	7,520,116	14,596,958	647,999
Accounts receivable	122,559,511	161,450,980	191,280,747	166,324,350
Advances to suppliers	3,969,343	436,823	932,570	398,288
Interest receivable	–	345,550	360,772	313,199
Other receivables	35,820,489	120,392,455	67,219,024	84,465,531
Inventories	54,568,456	60,155,495	90,573,122	121,600,204
Total current assets	267,163,364	370,011,313	391,860,788	426,705,057
Non-current assets				
Fixed assets	205,528,085	198,590,829	267,464,339	348,492,721
Construction in progress	32,641,899	130,917,495	218,453,050	172,088,188
Intangible assets	5,599,346	5,418,722	5,238,098	5,147,786
Deferred tax assets	667,119	2,330,709	2,291,691	2,403,114
Total non-current assets	244,436,449	337,257,755	493,447,178	528,131,809
Total assets	511,599,813	707,269,068	885,307,966	954,836,866

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	RMB	*RMB*	*RMB*	*RMB*
Current liabilities				
Accounts payable	32,021,959	29,110,453	54,567,078	49,517,667
Advances from customers	828,000	1,111,288	3,861,713	838,560
Employee benefits payable	8,608,795	11,134,268	10,236,437	9,499,484
Taxes payable	14,889,331	24,958,330	16,305,276	18,700,686
Other payables	46,482,636	109,405,501	139,335,483	148,182,477
Total current liabilities	102,830,721	175,719,840	224,305,987	226,738,874
Total liabilities	102,830,721	175,719,840	224,305,987	226,738,874
Shareholders' equity				
Share capital	65,427,875	65,427,875	65,427,875	65,427,875
Capital surplus	19,812,444	19,812,444	19,812,444	19,812,444
Surplus reserve	61,443,644	84,209,597	84,209,597	84,209,597
Undistributed profits	262,085,129	362,099,312	491,552,063	558,648,076
Total shareholders' equity	408,769,092	531,549,228	661,001,979	728,097,992
Total liabilities & shareholders' equity	511,599,813	707,269,068	885,307,966	954,836,866

The following is the text of a report, prepared solely for the purpose of inclusion in this circular.

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

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4 September 2012

The Directors of
Guangzhou Pharmaceutical Company Limited

Report of Certified Public Accountant on Agreed-Upon Procedures Performed

Dear Sirs,

Guangzhou Pharmaceutical Company Limited (hereinafter referred to as "the Company") proposed to issue A Shares as the consideration for the acquisition of properties (hereinafter referred to as "the Target Properties") and trademarks (hereinafter referred to as "the Target Trademarks") owned by Guangzhou Pharmaceutical Holdings Limited (hereinafter referred to as "GPHL") or which it has the right of disposal. We have been engaged to carry out certain agreed-upon procedures with the Company on the income statements of the Target Properties and the Target Trademarks and its notes for years ended 31 December 2009, 2010 and 2011 and January to June 2012 (hereinafter referred to as the "3 and a half Years' Income Statements") . The Company has agreed on such procedures and is responsible for their adequacy and appropriateness. Our responsibility is to perform the agreed-upon procedures in accordance with the requirements of the Standards on Related Services No. 4101 for Chinese Certified Public Accountants – Performing Agreed-Upon Procedures Regarding Financial Information and our engagement letter, and to report the findings in performing the procedures. This report is solely complied for the purpose of the Company to fulfill the requirements as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to the major assets reorganization involving the application for the absorption and merger through shares swap and issue of shares for assets acquisition, and for no other purposes. The procedures carried out and the findings are as follows:

I. Procedures carried out

1. We were given the accounting policies of the Company and compared it with the 3 and a half Years' Income Statements to see if the statements are properly complied on a basis consistent with the accounting policies of the Company; and

2. We were given the data sources of the 3 and a half Years' Income Statements and ascertained whether the information are all derived from underlying books and records of the Target Properties and the Target Trademarks.

II. Findings in performing the procedures

After completion of procedures 1 and 2 above, we are of the opinion that the 3 and a half Years' Income Statements have been properly complied on a basis consistent with the accounting policies of the Company and that the information are all derived from underlying books and records.

The above agreed upon procedures performed do not constitute either an audit or a review and we do not express any such assurance to the 3 and a half years' Income Statements. Different results might have been drawn into our report if procedures other than the aforementioned agreed upon procedures, or an audit or a review was conducted.

This report is solely for the purpose stated in the first paragraph and shall not be used for any other purposes and be distributed to any other parties/individuals. This report relates only to the financial information specified above and does not extend to the financial statement taken as a whole.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Zhang Ning

Certified Public Accountant of China: Zhang Xi

Shanghai, the PRC

The followings are the unaudited profit and loss statements on the identifiable net income stream in relation to the Target Properties and the Target Trademarks for the three years ended 31 December 2011 and the six months ended 30 June 2012, which are compiled and derived from the underlying books and records of the Target Properties and the Target Trademarks, and are prepared using accounting policies materially consistent with those of the Group.

Income statement for the Target Properties

	For the year ended 31 December			January to June
Items	**2009**	**2010**	**2011**	**2012**
	RMB	*RMB*	*RMB*	*RMB*
1. Revenue	5,035,062.20	5,035,062.07	5,421,529.88	2,750,108.96
Less: Cost of sales	921,201.96	950,863.20	950,863.20	475,431.60
Less: Taxes and surcharges	891,206.03	891,205.98	959,610.79	486,769.30
Less: Selling and distribution expenses, general and administrative expenses, and financial expenses	999,750.02	999,750.02	999,750.02	499,875.01
2. Operating profit (loss marked with "-")	2,222,904.19	2,193,242.87	2,511,305.87	1,288,033.05
Add: Investment income	0.00	0.00	0.00	0.00
3. Total profit (loss marked with "-")	2,222,904.19	2,193,242.87	2,511,305.87	1,288,033.05
Less: Income tax expenses	555,726.05	548,310.72	627,826.47	322,008.26
4. Net profit (loss marked with "-")	1,667,178.14	1,644,932.15	1,883,479.40	966,024.79

Income statement for the Target Trademarks

	For the year ended 31 December			January to June
Items	**2009**	**2010**	**2011**	**2012**
	RMB	*RMB*	*RMB*	*RMB*
1. Revenue	3,802,422.81	4,403,097.93	5,345,157.95	3,779,177.58
Less: Cost of sales	0.00	0.00	0.00	0.00
Less: Taxes and surcharges	216,738.09	250,976.59	304,674.01	215,413.12
Less: Selling and distribution expenses, general and administrative expenses, and financial expenses	0.00	0.00	0.00	0.00
2. Operating profit (loss marked with "-")	3,585,684.72	4,152,121.34	5,040,483.94	3,563,764.46
Add: Investment income	0.00	0.00	0.00	0.00
3. Total profit (loss marked with "-")	3,585,684.72	4,152,121.34	5,040,483.94	3,563,764.46
Less: Income tax expenses	896,421.18	1,038,030.34	1,260,120.99	890,941.12
4. Net profit (loss marked with "-")	2,689,263.54	3,114,091.00	3,780,362.95	2,672,823.34

1. Basis of preparation for the income statements for three years ended 31 December 2011 and the six months ended 30 June 2012

The income statements for three years ended 31 December 2011 and the six months ended 30 June 2012 were prepared based on transactions and events actually occurred in accordance with the Basic Standard of the Accounting Standards for Business Enterprises and 38 specific accounting standards issued by the Ministry of Finance of the PRC on 15 February 2006, and the application guidance for the Accounting Standard for Business Enterprises, interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively hereafter referred to as "the Accounting Standards for Business Enterprises").

2. Accounting policies for revenue

(1) Basis for recognizing revenue from the transfer of use rights of the assets

It is highly probable that future economic benefits attributable to the transaction will flow to the company and the amount of such revenue can be measured reliably.

3. Major taxes

Type	Basis of taxation	Tax rate
Business tax	Calculated and paid on taxable revenue	5%
City maintenance and construction tax	Calculated and paid on actual business tax paid	7%
Education surcharge	Calculated and paid on actual business tax paid	3%
Local education surcharge	Calculated and paid on actual business tax paid	2%
Property tax (for rental)	Calculated on rental revenue	12%
Property tax (for own use)	Calculated on 70% of the original price of the property	1.2%
Enterprise income tax	Calculated and paid on taxable income	25%

(A) MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

(i) For the six months ended 30 June 2012

I. Business Scope and Analysis of Operations

1. Business Scope

The Group is principally engaged in (1) the research and development, manufacture and sales of Chinese Patent Medicine, natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

2. Analysis of Operating Results

(1) Operations review

During the Reporting Period, the Group has firmly pushed forward works including marketing, production, quality, technology and the major assets reorganization, and has accelerated marketing, adjustment and optimization in products and industrial transformation, deepened the progress of resources integration and strengthened the cost management based on the annual operation targets so as to ensure a stable and continual growth of its principal operations.

During the Reporting Period, the Group recorded an income from principal operations of RMB3,447,724,000, with a growth of 24.44% as compared with the corresponding period of last year. The profit before tax amounted to RMB248,618,000, representing an increase of 20.79% over the corresponding period of last year and the net profit attributable to shareholders of the Company amounted to RMB217,085,000, representing an increase of 20.86% over the corresponding period of last year.

A breakdown of the overall operating results and the result of each principal operating of the Group during the Reporting Period is set out as follows:

Item	**The Reporting Period** *(RMB'000)*	**The corresponding period of 2011** *(RMB'000)*	**Increase/ (Decrease)** *(%)*
Income from principal operations	3,447,724	2,770,532	24.44
Operating profit	240,475	196,019	22.68
Total profit	248,618	205,832	20.79
Net profit attributable to Shareholders of the Company	217,085	179,621	20.86

Principal Operations	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations	Increase/ (Decrease) over the corresponding period of last year	Cost of principal operations	Increase/ (Decrease) over the corresponding period of last year	Profit margin of principal operations	Increase/ (Decrease) over the corresponding period of last year
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Overall operations	3,447,724	24.44	2,659,807	26.12	22.85	A decrease of 1.03 percentage points
Include:						
Manufacturing	1,489,762	14.40	797,966	8.41	46.44	An increase of 2.96 percentage points
Trading	1,957,962	33.35	1,861,841	35.61	4.91	A decrease of 1.58 percentage points
Include: Pharmaceutical trading	1,386,647	33.59	1,296,616	36.86	6.49	A decrease of 2.24 percentage points
Other trading	571,315	32.79	565,225	32.83	1.07	A decrease of 0.03 percentage point

Profit margin of principal operations = (Income from principal operations — Cost from principal operations) / Income from principal operations

Geographical analysis of sales arising from the operations of the Group for the first half of 2012 is set out as follows:

Region	**Income from principal operations**	**Increase/ (Decrease) over the corresponding period of last year**	**Percentage on overall income from principal operations**
	(RMB'000)	*(%)*	*(%)*
Southern China	2,425,893	23.71	70.36
Eastern China	306,345	7.34	8.89
Northern China	233,773	32.09	6.78
North-Eastern China	53,891	10.11	1.56
South-Western China	226,599	82.88	6.57
North-Western China	57,411	3.17	1.67
Exports	143,812	21.20	4.17
Total	**3,447,724**	**24.44**	**100.00**

(2) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the manufacturing operations actively developed works on government affairs and followed up with the expansion of the list of basic medicine and the bidding of basic medicine and non-basic medicine, which fostered the growth in sales volume of the Group's products in hospitals. Secondly, the Group vigorously organized marketing campaigns for brand building and activities in the cultural and academic field and enhanced the ability in market development. During the Reporting Period, the six subordinated manufacturing enterprises of the Company and their products were authorized and licensed for the use the tradename and trademark of "Baiyunshan" in order to enhance the sales volume of the products in markets outside the Guangdong Province. Based on the event of "Company's celebration"（「賀司慶」）, the Group proactively commenced the brand and product promotion and enhance the brand recognition. Meanwhile, the Group has put more efforts in academic promotion for key products such as Xiao Ke Wan*（消渴丸）and Hua Tuo Zai Zao Wan*（華佗再造丸）. Through various kinds of academic conferences and trainings as well as series of thematic activities including "Chinese Medicine in China"*（中醫中藥中國行）, "Enter the rural areas, Enter the communities and Enter the family"*（進鄉村、進社區、進家庭）, "Chain Cooperation among the Top 100 Enterprises"*（百强連鎖合作）and "Poverty Relief with Medicine in rural areas"*（扶貧送藥下鄉）, the Group went deep into the medical institutions at the grassroots level, and strengthened academic training and patient education and service, enhanced the force in pulling the sales at terminal. In order to develop the business of the great health industry, the Company invested to establish Guangzhou Wang Lao Ji Great Health Industry Company Limited*（廣州王老吉大健康產業有限公司）("WLJ Great Health") during the first half of the year. Currently, WLJ Great Health has been granted a permit to use "Wang Lao Ji" trademark to speedily develop the distribution and market of the relevant great health products such as red-canned Wang Lao Ji throughout the nation. Thirdly, the Group vigorously advanced the key products development, accelerated the adjustment of product structure and product transformation, focused on the increase in the market share of products with high gross profit and high value-adding in order to enhance the integrated gross profit margin. Fourthly, the Group innovated the marketing mode, utilized the service agent mode of "Commercial Platform + Industrial Operation", fostering the sale of second and third line products such as An Shen Bu Nao Ye*（安神補腦液）. The Group pushed onward the promotional sale of key products and main category products and rapidly increased the market shares of e-commerce retailer of medicine through the trial operation of e-commerce platform. Fifthly, the Group accelerated the development of GMP authentication of its subsidiaries. Currently, the Chinese medicine preprocessing workshop of Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited ("**Zhong Yi**") and the Chinese medicine preprocessing and extraction (oral treatment) workshop and drug substance of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. ("**Guangzhou Han Fang**") have passed the 2010 GMP authentication Sixthly, the Group reinforced the production cost management and strived to reduce the operation cost.

During the Reporting Period, the gross profit margin of the manufacturing operations was 46.44%, representing an increase of 2.96 percentage points as compared with the corresponding period of last year. It was mainly due to the general decrease in prices of raw materials and the subsidiaries of the Company reinforced the management of energy consumption in the course of production and enhanced the production efficiency etc.

During the Reporting Period, the Group obtained nine invention patents in total. The prescription of Zhong Yi Wei Nai An Jiao Nang*（中一牌胃乃安膠囊）of Zhong Yi was granted with the excellence award of the first session of patent award of Guangzhou Municipality*（第一屆廣州市專利獎優秀獎）. Meanwhile, "The study and industrialization of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan)"*（消渴丸製藥過程品質控制高技術產業化示範工程）was listed as the "the Second Batch Industrial Technology Research and Development Funding on the Investment Plans in High-tech Industry Development Projects of 2012"*（2012年第二批產業技術研究與開發資金高技術產業發展項目投資計劃）of China and had obtained from the Central Industrial Technology Research and Development Grant*（中央產業技術研發資金補助）of RMB5 million. Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. ("**Pan Gao Shou**") and Guangzhou Han Fang were recognized as the "Second Batch of Innovative Trial Enterprise in Guangzhou"*（廣州市第二批創新型試點企業）. Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. ("**Chen Li Ji**") was awarded the "2011 Technology Contribution Award by Chinese Association of Integrative Medicine"*（2011年中國中西醫結合學會科技貢獻獎）. In the first half of 2012, Dr. Murad and Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. ("**Qi Xing**") entered into a cooperation framework agreement for the purpose of using his Nobel Prize winning theory of nitric oxide technology in the research of "Hua Tuo Zai Zao Wan"*（華佗再造丸）so as to foster the establishment of modern academic theory mechanism and the linkage to advance international research in pharmaceutical sciences with Hua Tuo Zai Zao Wan. The application for the international patents for Kun Xian Jiao Nang*（昆仙膠囊）of Chen Li Ji (PCT) was granted with the patent in Australia, Korea, Russia and the United States. The project of "Critical technical research on the quality control of Wei C Yin Qiao Pian and granule"*（維C銀翹片、顆粒控制質量的關鍵技術研究）undertaken by Guangxi Ying Kang Pharmaceutical Co. Ltd. ("**Guangxi Ying Kang**") passed the technical verification and reached the leading level of similar products in China.

At present, the eight subsidiaries of the Company, including Zhong Yi, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. ("**Jing Xiu Tang**"), Qi Xing, Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. ("**Xing Qun**"), Chen Li Ji, Pan Gao Shou, Guangzhou Han Fang and Guangxi Ying Kang and the joint venture of the Company, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("**Wang Lao Ji**") have obtained the "Certificate of High/New Technology Enterprise" and all of them can enjoy the relevant preferential tax policies pursuant to the relevant requirements during the Reporting Period.

During the Reporting Period, the progress of the IIb clinical research of the therapeutic dual – plasmid HBV DNA vaccine*（治療性雙質粒HBV DNA疫苗）of the Company and all the relevant parties has been carried out smoothly. Among the 231 participants in the group, 223 participants were under the period of re-interview and observation.

During the Reporting Period, there was a steady growth in the sale of key products like Xiao Ke Wan*（消渴丸）, Hua Tuo Zai Zao Wan*（華佗再造丸）and Xia Sang Ju Ke Li*（夏桑菊顆粒）, the increase in the sales of such products over the corresponding period of the last year amounted to 18.84%, 29.19% and 19.76% respectively. Other products such as An Gong Niu Huang Wan*（安宮牛黃丸）, Zi Shen Yu Tai Wan*（滋腎育胎丸）, Ling Zhi Bao Zi You Jiao Nang*（靈芝孢子油膠囊）, An Shen Bu Nao Ye*（安神補腦液）, Shu Jin Jian Yao Wan*（舒筋健腰丸）, Ru He San Jie Pian*（乳核散結片）and Mi Lian Chuan Bei Pi Pa Gao*（蜜煉川貝枇杷膏）etc also recorded a higher growth in the sales as compared with the corresponding period of the last year.

An analysis of sales of major products of the manufacturing operations for the Reporting Period is as follows:

	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
Types of products	Income from principal operations	Increase/ (Decrease) over the corresponding period of last year	Cost of principal operations	Increase/ (Decrease) over the corresponding period of last year	Profit margin of principal operations	Increase/ (Decrease) over the corresponding period of last year
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Heat clearing and anti-toxic medicine	213,144	18.34	113,970	6.44	46.53	An increase of 5.98 percentage points
Diabetes medicine	298,893	18.84	113,405	(8.08)	62.06	An increase of 11.11 percentage points
Cough and phlegm clearing medicine	199,856	8.25	100,256	9.29	49.84	A decrease of 0.48 percentage point
Arthritis medicine	198,694	29.99	99,714	24.06	49.82	An increase of 2.40 percentage points
Gastric medicine	51,181	(3.83)	27,274	4.34	46.71	A decrease of 4.17 percentage points
Other products	527,994	10.01	343,347	11.70	34.97	A decrease of 0.98 percentage point

Profit margin of principal operations = (Income from principal operations – Cost from principal operations) / Income from principal operations

(3) The trading operations

The trading operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the trading operations further strengthened the coordination and communication with distributors and manufacturers, expanded the introduction of products and consolidation in sale as well as optimized the efforts. The Group fostered the growth in sale volume of the operating varieties through measures such as the optimization of channels and network, advertising, terminal promotional sale and promotional sale in various channels in response to the medical reform policies and market demand. Secondly, the Group constantly improved the cooperation with the production enterprises on such issues as the list of basic medicine and bidding, strengthen the introduction and distribution and the hospital medicine use of the products. Thirdly, the Group further gave full play to the advantage of the integration platform of various resources in trading operations. Guangzhou Cai Zhi Lin Company Limited*（廣州采芝林藥業有限公司）(“**Cai Zhi Lin**”), a subsidiary of the Company, exerted its unique advantage of centralized procurement of Chinese medicine, implemented centralized management in screening of procurement species, prepared well for the analysis and forecast of the market trend and price of Chinese medicine, got the market information timely and accurately and adjusted the procurement strategy quickly in order to implement quality and quantity assurance and procurement in lower cost. Guangzhou Pharmaceutical Import & Export Co., Ltd.*（廣州醫藥進出口有限公司）(“**Pharmaceutical Import & Export**”) accelerated the development of the operation platform of the raw materials and featured pharmaceutical products distribution and achieved a rapid growth in operations. Fourthly, the Group accelerated the establishment of Chinese medicine base, reinforced the cooperation with various raw material planting bases for Chinese medicine across the country to control key products and bulk medicine from the source. As at 30 June 2012, the Group has established the procurement platform of Chinese medicine and GAP planting base companies in Tibet, Shandong, Inner Mongolia and Guizhou.

During the Reporting Period, the gross profit margin of the trading operations of the Group was 4.91%, representing a decrease of 1.58 percentage points as compared with the corresponding period of last year.

As at 30 June 2012, the Group had 47 retail chain pharmacy outlets, including 46 “Cai Zhi Lin” which specializes in traditional Chinese medicines and one pharmacy named Ying Bang.

Details of Operation and Results of the Company's Subordinated Enterprises during the Reporting Period

Name of enterprises	Equity directly held by the Company	Income from principal operation	Total profit	Net profit
	(%)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
(1) Subsidiaries				
Xing Qun *(Note a)*	88.99	167,876	12,204	10,226
Zhong Yi *(Note a)*	100.00	454,448	60,862	50,694
Chen Li Ji *(Note a)*	100.00	160,167	19,431	16,316
Qi Xing *(Note a)*	75.00	228,045	21,647	18,484
Jing Xiu Tang *(Note a)*	88.40	137,718	13,485	11,439
Pan Gao Shou *(Note a)*	87.77	194,799	15,982	13,410
Guangxi Ying Kang	51.00	22,573	786	786
Guangzhou Bai Di Bio-technology Co., Ltd.	98.48	1,428	17,629	17,629
Guangzhou Han Fang	97.97	68,875	2,393	2,393
Cai Zhi Lin	100.00	1,177,102	6,281	4,881
Pharmaceutical Import & Export	100.00	1,193,644	5,712	4,198
WLJ Great Health	100.00	–	(1,863)	(1,863)

Name of enterprises	Equity directly held by the Company (%)	Income from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(2) Branch Company				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	1,293	60	60
(3) Joint Ventures				
Wang Lao Ji *(Note b)*	48.05	1,341,026	121,484	103,401
Guangzhou Pharmaceuticals Corporation ("GP Corp.") *(Note c)*	50.00	9,452,865	112,297	81,072
Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng") *(Note d)*	approximately 50.00	141,809	57,658	49,262

Notes:

(a) During the Reporting Period, the subsidiaries of the Company, formerly known as Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Zhong Yi Pharmaceutical Co., Ltd., Guangzhou Chen Li Ji Factory Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. were granted the right to use the tradename of "Baiyunshan". Their company names were changed to "Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.", "Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.", "Guangzhou Baiyunshan Chen Li Ji Factory Pharmaceutical Co., Ltd.", "Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.", "Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd." and "Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd." during May and June 2012.

(b) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in the research, manufacture and sales of Chinese Patent Medicine and foodstuffs.

During the Reporting Period, Wang Lao Ji put more efforts in product distribution and vigorously commenced different thematic marketing activities, proactively advanced the medical reforms such as the national basic list of medicines, community healthcare and new cooperative medical system for rural areas. Wang Lao Ji strictly controlled the cost and strengthened the foundation management.

In the first half of 2012, Wang Lao Ji achieved an income from principal operations of RMB1,341,026,000, representing an increase of 23.12% as compared with the corresponding period of last year. Its total profit amounted to RMB121,484,000, representing an increase of 8.58% as compared with the corresponding period of last year and its net profit was RMB103,401,000, representing an increase of 0.78% as compared with the corresponding period of last year. Sales of Wang Lao Ji herbal tea, Run Hou Tang（潤喉糖）, Xiao Er Qi Xing Cha Ke Li（小兒七星茶顆粒）and Bao Ji Kou Fu Ye（保濟口服液）enjoyed increases as compared with the corresponding period of last year, representing increases of 26.34%, 57.30%, 8.85% and 33.39%.

(c) The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in the wholesale and retail of western pharmaceutical products and medical apparatus. During the first half of 2012, GP Corp. proactively expanded the sale channels and network, explored the new cooperation mode between commerce and hygiene, accelerated the construction of warehouses for logistics across the country at the same time, strengthened the terminal distribution and fostered the steady growth of principal operation. On the other hand, GP Corp. continued to advance the foreign investment and acquisition inside and outside the province as well as expand the scale of enterprises. As at 30 June 2012, GP Corp. has completed the mergers and acquisitions projects in Foshan, Meizhou, Hainan, Hunan and Shanxi etc.

In the first half of 2012, income from principal operations of GP Corp. amounted to RMB9,452,865,000, representing an increase of 22.97% as compared with the corresponding period of last year, its total profit was RMB112,297,000, representing an increase of 14.88% as compared with the corresponding period of last year and its net profit was RMB81,072,000, representing an increase of 19.93% as compared with the corresponding period of last year.

(d) The results of Nuo Cheng were stated in full amount in the above table.

Currently, Nuo Cheng is mainly engaged in the production of Rabies Bacterin. Rabies Bacterin has become a variety of over 100 million. In the first half of 2012, Nuo Cheng actively promoted the existing rabies vaccine workshop of new GMP reconstruction work, which is currently in progress smoothly.

In the first half of 2012, income from principal operations of Nuo Cheng amounted to RMB141,809,000, representing an increase of 505.61% as compared with the corresponding period of last year; its total profit was RMB57,658,000, representing an increase of 1,616.99% as compared with the same period of last year and its net profit was RMB49,262,000, representing an increase of 914.14% as compared with the corresponding period of last year.

Except the above mentioned joint ventures, namely Wang Lao Ji, GP Corp. and Nuo Cheng, the Company did not derive an investment income from an investee company equal to 10% or more of the net profit of the Company during the Reporting Period.

During the Reporting Period, the Company did not engage in any other operations other operations which had significant impact on the net profit of the Group.

II. Analysis of Financial Conditions

(1) Liquidity

As at 30 June 2012, the current ratio of the Group was 1.90 (30 June 2011: 2.36), and its quick ratio was 1.36 (30 June 2011: 1.55). During the Reporting Period, turnover rate for accounts receivable was 14.07 times, representing a decrease of 5.58% as compared with the corresponding period of 2011. Inventory turnover rate was 6.07 times, representing an increase of 12.81% as compared with the corresponding period of 2011.

(2) Financial resources

As at 30 June 2012, the cash and cash equivalents of the Group amounted to RMB782,787,000 (30 June 2011: RMB527,307,000), out of which approximately 99.36% and 0.64% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 30 June 2012, the Group had borrowings of RMB137,667,000 in total, all of which were short-term borrowings (30 June 2011: RMB84,419,000).

(3) Capital structure

As at 30 June 2012, the Group's current liabilities amounted to approximately RMB1,651,385,000 (30 June 2011: RMB988,124,000), representing an increase of 67.12% as compared with the same period of 2011, and its long-term liabilities was approximately RMB84,263,000 (30 June 2011: RMB103,076,000), with a decrease of 18.25% as compared with the same period of 2011. The shareholders' equity attributable to the shareholders of the Company amounted to approximately RMB3,917,228,000 (30 June 2011: RMB3,675,623,000), with an increase of 6.57% as compared with the same period of 2011.

(4) Capital expenditure

The Group expects the capital expenditure for 2012 to amount to approximately RMB184 million, among which, the expenditure in the first half of 2012 amounted to RMB21 million (in the first half of 2011: RMB28 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

(5) Gearing ratio

As at 30 June 2012, the Group's gearing ratio (total liabilities/total assets x 100%) was 30.09% (31 December 2011: 19.71%).

(6) Exposure to fluctuations in exchange rates

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

(7) Main cash resources and applications

As at 30 June 2012, cash and cash equivalents of the Group amounted to approximately RMB782,787,000, with an increase of approximately RMB427,039,000 as compared with the beginning of 2012. The net cash inflow derived from operating activities amounted to approximately RMB522,090,000, with an increase of approximately RMB504,786,000 as compared with the same period of 2011.

(8) Contingent liabilities

As at 30 June 2012, the Group has no significant contingent liabilities.

(9) Charge on the Group's assets

As at 30 June 2012, the Group has no charge on its assets.

(10) Material investment

As at 30 June 2012, the Group did not have any material additional investment.

(11) Material acquisition and disposals

The Group has been planning the Major Assets Reorganization since November 2011 and the Group will accelerate the progress of the Major Assets Reorganization in year 2012, apart from that, the Group did not engage in any material acquisitions or disposals.

III. Employees of the Group

As at 30 June 2012, the number of employees on the payroll register of the Group was 5,488. The total salary payment during the Reporting Period was approximately RMB220 million.

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

IV. Issues and difficulties encountered in operations and plans for the second half of 2012

In 2012, the bright prospect in the development of domestic pharmaceutical market, internationalization of pharmaceutical economy, domestic emphasis on the importance of the developing of biological medicine and traditional Chinese medicine, the aging population in China etc. will create opportunities for the Group's future development. However, ever keener competition in the pharmaceutical market, ever changing competition, continual improvement in the production and centralized circulation of pharmaceutical products, change in pharmaceutical bidding policy of provinces, stronger price control of pharmaceutical products by the government, transformation of channels and end market to respond to the new medical reform, implementation of the new GMP standard, tight supply of some raw materials and continual increase in corporate operational costs will pose challenges to the development of the Group in the future.

In the second half of 2012, the Group will commence the major tasks as follows:

1. To continue reinforcing its works on government affairs, proactively respond to the bidding of basic medicine and non-basic medicine, the price control policy of medicine and vigorously promote the sale growth of the Company's product in medical institutions.

2. To innovate marketing, the Group will put greater efforts in advancing the establishment of the hundred million-yuan product developments and key products developments, accelerate the adjustment in industrial structure, continue to raise the percentage of high gross profit and high value added products in overall operations, cultivate the "cash cow" products with new profit. Meanwhile the Group will vigorously promotes the health industry, speed up and expand the goods distribution and relevant promotion, and develop the market across the country as soon as possible.

3. According to the 2010 Pharmacopoeia Standards and relevant regulations, the Group comprehensively promotes the new GMP transformation in subordinated companies and stimulates the transformation of medical GMP personnel, software and hardware. At the same time, the Group will take the implementation of the new GMP as a new opportunity to improve and optimize the production process, refine the quality control and enhance the product quality.

4. The Group will accelerate the building up of technological innovation system and promote the IIb clinical research of the therapeutic dual-plasmid HBV DNA vaccine and other medical research projects. Meanwhile, the Group will actively participate in the formulation of Chinese medicine standards and accelerated the progress and implementation of strategy in medicine standards.

5. To accelerate the major asset reorganization, strengthen the integration of resources and further leverage upon the synergy effect. Meanwhile, the Group will also reinforce the broadening in the dimension and depth of acquisitions and mergers as well as cooperation of subordinated companies and consolidate the control over internal capital so as to achieve the efficiency maximization and cost minimization.

6. To build up the scientific management, strengthen the risk control, consolidate the result in implanting internal control system and lower the operational risk of the Company.

(ii) For the year ended 31 December 2011

I. Business Scope and Analysis of Operations

1. Business Scope

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

2. Analysis of Operating Results

(1) Operations review

In 2011, with the focus on marketing, the Group has deepened and widened the marketing network mainly through marketing innovation in order to expanded the market. The Group has also devoted greater effort in the bidding and adapted to the changes of medical reform policies, increased the sale channels for the consumers and strengthened education and training on the patients, tightened the control on the production and operation, as well as cost management, actively explored internal resources and improved the transfer of internal financial resources in order to overcome the challenges arising from the increasing operating cost (in particular the impact from the increase in raw materials cost and the tightening of the budget), so as to ensure a stable and continuous growth of its principal operations.

During the Reporting Period, the Group recorded an income from principal operations of approximately RMB5,345,158,000, with a growth of 21.40% as compared with last year. The profit before tax amounted to approximately RMB334,993,000, representing an increase of 4.25% over the corresponding period of last year and net profit attributable to shareholders of the Company amounted to RMB287,531,000, representing an increase of 7.64% over last year.

A breakdown of the operational results of the overall and principal operations of the Group for 2011 is set out as follows:

Item	**2011**	**2010**	**Increase/ (Decrease)**
	(RMB'000) *(Audited)*	*(RMB'000)* *(Audited)*	*(YoY)* *(%)*
Income from principal operations	5,345,158	4,403,098	21.40
Operating profit	308,926	298,016	3.66
Total profit	334,993	321,341	4.25
Net profit attributable to shareholders of the Company	287,531	267,112	7.64

Principal Operations	Income from principal operations: Income from principal operations (RMB'000)	Income from principal operations: Increase/(Decrease) over the same period of last year (%)	Cost of principal operations: Cost of principal operations (RMB'000)	Cost of principal operations: Increase/(Decrease) over the same period of last year (%)	Profit margin of principal operations: Profit margin of principal operations (%)	Profit margin of principal operations: Increase/(Decrease) over the same period of last year (Percentage point)
Overall operations	5,345,158	21.40	4,026,306	26.27	24.67	(2.91)
Include: Manufacturing	2,534,760	15.82	1,402,836	22.90	44.66	(3.19)
Trading	2,810,398	26.91	2,623,470	28.15	6.65	(0.91)
Include: Pharmaceutical trading	2,049,750	20.15	1,871,803	21.26	8.68	(0.84)
Other trading	760,648	49.59	751,667	49.27	1.18	0.21

Profit margin of principal operations = (Income from principal operations – Cost of principal operations) / Income from principal operations

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2011 is set out as follows:

Region	**Income from principal operations** *(RMB'000)*	**Increase/(Decrease) in income from principal operations over the corresponding period of last year** *(%)*	**Percentage in overall income from principal operations** *(%)*
Southern China	3,761,626	22.88	70.37
Eastern China	544,469	13.30	10.19
Northern China	363,120	26.76	6.79
North-Eastern China	104,059	42.03	1.95
South-Western China	240,009	(8.89)	4.49
North-Western China	105,574	13.74	1.98
Exports	226,301	55.67	4.23
Total	**5,345,158**	**21.40**	**100.00**

(2) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the Group has sustained marketing innovation by fully developing academic marketing through a series of academic marketing events such as "translational medicine" (轉化醫學) research and promotion, "Chinese Medicine in China" (中醫中藥中國行), and "Chain Cooperation among the Top 100 Enterprises" (百強連鎖合作) and "Education Cycle" (教育大循環). The Group has realized the growth in sales by enlarging the scope and number of academic training and patient education, and strengthening the marketing and promotion of our brands and products. Secondly, the Group has continued to reinforce its works on government affairs and strengthened the contact and communication with relevant authorities so as to be well-prepared for the bidding and adapting to the changes of medical reform policies. Thirdly, the Group has improved the management on distributors and integration and control on the marketing channels, strengthened the pricing mechanism, and raised the enthusiasm of the distributors and the retailers in order to foster a steady growth in sales volume of the products. Fourthly, the Group has pushed forward the planning and positioning of its products by concentrating its advantageous resources, reshaping the brand image and expanding the market channels. Efforts were made in promoting the billion-yuan product developments, including Zhong Yi Xiao Ke Wan (中一消渴丸), Zhong Yi An Gong Niu Huang Wan (中一安宮牛黃丸), Qi Xing Hua Tuo Zai Zao Wan (奇星華佗再造丸), Han Fang Ling Zhi Bao Zi You (漢方靈芝孢子油) and Cai Zhi Lin's herbal slices (采芝林藥業中藥飲片). Among which, sales revenues from products such as Qi Xing Hua Tuo Zai Zao Wan (奇星華佗再造丸) and Han Fang Ling Zhi Bao Zi You (漢方靈芝孢子油) recorded a year-on-year growth of 43.03%, and 119.75% respectively. Fifthly, the Group has enhanced the management of production cost and strived to reduce the production cost. The Group has buffered the pressure from the soaring price of raw materials through merchandise bidding and quality and price comparison, and enhancing cooperation in herbal planting of strategic category. The Group also reduced production cost by measures such as appropriate scheduling, improving the production process and energy-saving.

During the Reporting Period, the gross profit margin of the manufacturing operations was 44.66%, representing a decrease of 3.19 percentage points as compared with last year. The decrease in the gross profit margin of the manufacturing operations was mainly due to the continued increase in the price of raw material packages and labor costs, which resulted in the rise of production cost.

In 2011, products such as Hua Tuo Zai Zao Wan (華佗再造丸), Xia Sang Ju Ke Li (夏桑菊顆粒), Zhuang Yao Jiang Shen Wan (壯腰健腎丸), Zhi Ke Chuan Bei Pi Pa Lu (治咳川貝枇杷露), Zi Shen Yu Tai Wan (滋腎育胎丸), Wei Nai An Jiao Nang (胃乃安膠囊), Shu Jin Jian Yao Wan (舒筋健腰丸), Xu Han Ting Ke Li (虛汗停顆粒) and Ling Zhi Bao Zi You (靈芝孢子油) recorded great increase in sales revenue as compared with last year.

An analysis of sales of major products for the manufacturing operations in 2011 is as follows:

Types of products	Income from principal operations: Income from principal operations (RMB'000)	Income from principal operations: Increase/(Decrease) over the same period of last year (%)	Cost of principal operations: Cost of principal operations (RMB'000)	Cost of principal operations: Increase/(Decrease) over the same period of last year (%)	Profit margin of principal operations: Profit margin of principal operations (%)	Profit margin of principal operations: Increase/(Decrease) over the same period of last year (Percentage point)
Heat clearing and anti-toxic medicine (清熱解毒藥)	327,288	15.59	188,896	18.35	42.28	(1.35)
Diabetes medicine (糖尿病藥)	518,255	4.79	221,396	16.93	57.28	(4.43)
Cough and phlegm clearing medicine (止咳化痰利肺藥)	336,872	17.93	172,752	21.98	48.72	(1.70)
Arthritis medicine (疏風活血藥)	349,282	34.39	186,467	51.23	46.61	(5.94)
Gastric medicine (胃腸用藥)	99,030	42.69	49,626	44.39	49.89	(0.59)
Other products	904,033	13.58	583,698	18.35	35.43	(2.60)

Profit margin of principal operations = (Income from principal operations – Cost of principal operations)/Income from principal operations

During the Reporting Period, the Group obtained 4 production approvals. An aggregate of 18 applications for invention patents were made during the Reporting Period, and the Group was authorized 16 invention patents during the Reporting Period. In addition, after obtaining the international patents (PCT) for Kun Xian Jiao Nang (昆仙膠囊) of Chen Li Ji in Russia, Australia, Canada, Japan, Korea, the PRC and Hong Kong, the United States also granted its approval for the application for the patent, resulting in patent authorization in eight countries and regions in total. Meanwhile, the Group has also won various technology prizes, of which Zhong Yi and Qi Xing received the honor of "Demonstration Base for the Protection and Production of Traditional Famous Chinese Medicine" (傳統名優中藥品種保護與生產示範基地) from the General Administration of Chinese Traditional Medicine. She Dan Chuan Bei Pi Pa Gao (蛇胆川貝枇杷膏) of Pan Gao Shou was granted the Golden Award of the first batch of heritage in the State's Intangible Cultural Heritage Expo, while Dan Bie Jiao Nang (丹鱉膠囊)was granted the Second Prize from China Association of Chinese Medicine; Zhong Yi was recognized as "Innovative Enterprise in Guangdong Province" by the Guangdong Science and Technology Department. The critical purification of CO^2 technology and the application and industrialisation of the technology in natural medicine, which was developed by Guangzhou Han Fang, was awarded the Guangdong Provincial First Prize in Technological Advancement. The study and industrialisation of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan) (消渴丸), which was developed by Zhong Yi, was also awarded the Guangzhou First Prize in Technological Advancement (published). The 2007 State Biological Medicine High Technology Industry Development Project "Chinese Compound New Medicine Kun Xian Jiao Nang (昆仙膠囊) Industrialisation Project", which is borne by Chen Li Ji, passed the final stage of test and acceptance in the first quarter of 2011.

Following the five subsidiaries of the Company, namely Wang Lao Ji, Jing Xiu Tang, Pan Gao Shou, Xing Qun and Cai Zhi Lin, having been the first group entering in the recognition list of "Traditional Pharmaceutical Brands in China", three other enterprises, namely Zhong Yi, Chen Li Ji and Qi Xing, were the second group included in the recognition list of "Traditional Pharmaceutical Brands in China" during the Year. In addition, the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝), with Zhong Yi as the main party for inheriting the technology, was the third group listed in the State's Intangible Cultural Heritage record in May 2011.

The IIa clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed during the Reporting Period, and the Company commenced the IIb clinical research in March 2011. As at the end of September 2011, a group of 231 participants have been arranged for grouping according to the project requirement. Currently, we continue to do related work on the grouping of participants and re-interview them.

Zhong Yi obtained the first GMP certificate of pre-processing oral treatment in Guangdong province in July 2011.

The six subsidiaries of the Company, namely Zhong Yi, Xing Qun, Chen Li Ji, Qi Xing, Jing Xiu Tang and Pan Gao Shou, and the Company's joint venture Wang Lao Ji were recognized as New/High Enterprises in 2008. According to relevant national policies, validity period for New/High Enterprises is three years, subject to review before expiry. Currently, the seven enterprises as mentioned above have all passed the review of New/High Enterprises, of which the joint venture Wang Lao Ji, applied for the Key New/High Enterprises and was selected to be one of the Key New/High Enterprises of the State's Torch Plan of 2011 on 8 October 2011.

(3) The trading operations

During the Reporting Period, the pharmaceutical trading operations of the Group firstly adjusted its sales strategies, consolidated its customer resources from upstream and downstream and broadened the distribution channels in response to the medical reform policies and market demand. Secondly, the Group has brought the advantages by consolidation resources into full play through continuous improvement of the cooperation with the production enterprises on such issues as basic list of medicine and bidding. Thirdly, the Group has actively explored and facilitated the development of differentiation according to their respective expertises. Cai Zhi Lin, a subsidiary of the Company, exerted its unique advantage of Chinese medicine operation and enhanced the cooperation with the production enterprises to broaden the sales of Chinese medicine, and increase its effort in merger and acquisition to consolidate the Chinese medicine resources for centralised bulk medicine purchase and the development of a Chinese medicine GAP base. Of which, the Gejie farm established with Guangxi Guigang City Zhen Zhen Gejie Technology Company (廣西貴港市真真蛤蚧科技公司) and Zhaoqing Gouji base have already opened up for business during the Reporting Period, while the GAP bases for nine kinds of medicine established in five regions, namely Chongqing, Shandong, Guizhou, Inner Mongolia and Tibet, would soon be registered and opened up for business. In the meantime, through the upgrading of production lines and improvement of technologies for its herbal slices plant, Cai Zhi Lin further expanded its production capacity of herbal slices and developed such business as small packages of herbal slices for hospital, driving a year-on-year growth of 63.7% and 49% in the sales of its own end-products and herbal slices respectively. Import & Export Co., Ltd. also further speeded up the development and expansion of sales business of various business platforms to achieve a rapid growth in the operations. Fourthly, the Group has vigorously identified new customers and expanded the range of products for which the Company acts as agent, so as to expand the product range.

During the Reporting Period, the gross profit margin of the trading operations was 6.65%, representing a decrease of 0.91 percentage point as compared with last year.

As at 31 December 2011, the Group had 52 retail chain pharmacy outlets, including 51 "Cai Zhi Lin" which specialised in traditional Chinese medicines, one pharmacy named Ying Bang.

3. *Details of Operation and Results of the Company's Subordinated Enterprises for the year*

Name of enterprises	Equity direct held by the Company *(%)*	Income from principal operation *(RMB'000)*	Total profit *(RMB'000)*	Net profit *(RMB'000)*
(1) Subsidiaries				
Xing Qun	88.99	259,399	13,608	11,503
Zhong Yi	100.00	748,439	44,248	35,554
Chen Li Ji	100.00	274,673	34,456	28,302
Qi Xing	75.00	400,064	25,806	23,035
Jing Xiu Tang	88.40	250,403	24,210	19,611
Pan Gao Shou	87.77	332,926	22,391	17,934
Guangxi Ying Kang	51.00	44,688	1,248	1,248
Guangzhou Bai Di	98.48	1,590	6,367	6,367
Guangzhou Han Fang	97.04	102,587	801	801
Cai Zhi Lin	100.00	1,784,915	10,519	8,669
Import & Export Co., Ltd.	100.00	1,723,592	7,335	5,289
(2) Branch Company				
Ying Bang Branch Company	–	12,924	1,151	1,151
(3) Joint ventures				
Wang Lao Ji *(note a)*	48.05	1,930,353	170,858	142,338
GP Corp. *(note b)*	50.00	15,798,247	202,320	134,622
Nuo Cheng *(note c)*	50.00	169,574	40,356	34,702

Notes:

(a) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in the manufacture and sales of Chinese Patent Medicine and foodstuffs. In 2011, Wang Lao Ji recorded an income from principal operations of RMB1,930,353,000, representing an increase of 24.41% as compared with last year. Its total profit amounted to RMB170,858,000, representing an increase of 36.18% as compared with last year and its net profit was RMB142,338,000, representing an increase of 35.36% as compared with last year. During the Reporting Period, sales of Wang Lao Ji Run Hou Tang (喉糖) (56g), Wang Lao Ji Herb Tea and Xiao Er Qi Xing Cha Ke Li (小兒七星茶顆粒) of Wang Lao Ji represented an increase as 39.32%, 28.70% and 23.63% as compared with last year respectively.

(b) The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in the wholesale and retail of western pharmaceutical products and medical apparatus. In 2011, GP Corp. has made great effort in the expansion of its principal operations to ensure a stable growth, and increased its investment in and enhanced the effort for mergers and acquisitions within and outside the province for boosting a growth on expansion. During the Year, GP Corp. actively developed e-commerce for pharmaceutical products and established a platform for consumer health care services. The Guang Yao Jian Min Network became the second online pharmacy approved by the State Food and Drug Administration in Southern China.

In 2011, income from principal operations of GP Corp. amounted to RMB15,798,247,000, representing an increase of 19.13% as compared with last year, its total profit was RMB202,320,000, representing an increase of 15.49% as compared with last year and its net profit was RMB134,622,000, representing an increase of 11.54% as compared with last year.

(c) The results of Nuo Cheng were stated in full amount in the above table.

Currently, Nuo Cheng is mainly engaged in the production of Rabies Bacterin. In 2011, Nuo Cheng focused on expanding the production capacity of Rabies Bacterin to meet the market demand. Rabies Bacterin has become a more-than-one billion yuan business.

In 2011, income from principal operations of Nuo Cheng amounted to RMB169,574,000, representing an increase of 223.16% as compared with last year.

Except the above mentioned joint ventures, namely Wang Lao Ji and GP Corp., the Company did not derive any investment income from any investee company equal to 10% or more of the net profit of the Company during the Reporting Period.

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Group.

II. Analysis of Financial Conditions

During 2011, the tightening national monetary policy and the surging financing costs resulted in significant increase in accounts receivable in the Group and plunge in operating cash flows on one hand, and the increase financial costs on the other. In view of the constraints of funding, the Group actively explored internal resources, improved the transfer of internal financial resources, and minimised external loans, all of which saw satisfactory effects.

1. Liquidity

As at 31 December 2011, the current ratio of the Group was 2.65 (31 December 2010: 3.04), and its quick ratio was 1.67 (31 December 2010: 1.99). Accounts receivable turnover rate was 16.08 times, representing an increase of 6.72% as compared with 2010. Inventory turnover rate was 4.99 times, representing an increase of 2.92% as compared with 2010.

2. Financial resources

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB355,749,000 out of which approximately 98.70% and 1.30% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2011, the Group had bank borrowings of RMB144,929,000 in total, all of which were short-term borrowings (31 December 2010: RMB38,868,000).

3. Capital structure

As at 31 December 2011, the Group's current liabilities amounted to RMB871,341,000 (31 December 2010: RMB715,426,000), representing an increase of 21.79% as compared with 2010, and its long-term liabilities was RMB84,753,000 (31 December 2010: RMB120,926,000), with a decrease of 29.91% as compared with 2010. The shareholders' equity attributable to the shareholders of the Company amounted to RMB3,781,652,000 (31 December 2010: RMB3,539,369,000), with an increase of 6.85% as compared with 2010.

4. Capital expenditure

The Group expects the capital expenditure for 2012 to amount to approximately RMB184 million (2011: RMB60 million), which will be mainly applied in the construction of factories and infrastructure, purchases of machines, equipment and proprietary technologies, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

5. Gearing ratio

As at 31 December 2011, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 19.71% with an increase of 1.03 percentage points as compared with 2010 (as at 31 December 2010: 18.68%).

6. Exposure to fluctuations in exchange rates

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

7. Main cash resources and applications

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB355,749,000 with an decrease of RMB340,599,000 as compared with the beginning of 2011. The net cash inflow derived from operating activities amounted to RMB-180,053,000, with a decrease of RMB253,271,000 as compared with 2010, mainly due to the increase in the Group's inventories and accounts receivables for the Reporting Period.

8. Contingent liabilities

As at 31 December 2011, the Group has no significant contingent liabilities.

9. Charge on the Group's assets

As at 31 December 2011, the Group had no charge on its fixed assets.

10. Material investment

Apart from the additional capital contribution in GP Corp., a joint venture of the Company, in proportional to the equity interest held by the Company in GP Corp. in an amount of RMB150,000,000 which was completed in July 2011, the Group did not have any other material additional investment.

The Group did not expect any material additional investment in the coming year.

11. Material acquisition and disposals

The Group has been planning the Major Assets Reorganization since November 2011 and the Group will accelerate the progress of the Major Assets Reorganization in year 2012, apart from that, the Group did not engage in any material acquisitions or disposals.

III. Employees of the Group

As at 31 December 2011, the number of employees on the payroll register of the Group was 5,470 including:

Production and supporting staff	2,284
Sales personnel	1,212
Technical, research and engineering staff	1,171
Finance and statistics staff	186
Other administrative staff	617

133 of the employees were holders of a master degree and 1,473 were holders of a bachelor degree. The number of retirees was 5,278. The total salary payment for the Year was approximately RMB384 million.

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

IV. Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

2011 was a year full of opportunities and challenges. Further implementation of the new medical reform, the plans which pool the effort in developing biological medicine industry from the State and various government departments, and pushing forward of Chinese medicine strategy created opportunities for the Group's future development. However, ever keener competition in the pharmaceutical market, ever changing competition, implementation of the new GMP standard, increasing raw material prices and wage costs, tightening monetary policy and increasing financing costs posed an impact on our operations to a certain extent.

V. Prospects and Plans for 2012

2012 is the second year for the "Twelfth Five-Year Plan". It is also a critical year for the central government to push forward the new medical reform and for the pharmaceutical enterprises to respond to the implementation of the reform. Along with the progress of reform on the domestic pharmaceutical and hygiene system, we foresee a bright prospect in the development of domestic pharmaceutical market. In addition, internationalization of pharmaceutical economy, strong emphasis and support on Chinese medicine and biological medicine from the State and various government departments and the aging population in China will also create opportunities for the Group's future development. However, the ever keener competition in the pharmaceutical market, continual improvement in the centralised circulation of pharmaceutical products, the stronger price control of pharmaceutical products by the government, the implementation of the new GMP standard and the continual price increase of raw materials and corporate costs will pose challenges to our steady growth in the future.

In 2012, the Group will continue to pursue its operation targets, and commence the following work coping with the Company's actual status:

1. To develop based on marketing innovation and continue to focus on the differentiated marketing strategies in brand building, products and academic field to strengthen competitiveness. Firstly, the Group shall continue to work on government affairs, pay special attention to the bidding of basic medicine, actively participate in the expansion of basic list of medicine. The Group shall also prepare for the bidding of basic medicine and non-basic medicine with various resources. Secondly, the Group shall vigorously organize marketing

campaigns for brand building, cultural and academic field, increase its effort in academic marketing for such key products as Xiao Ke Wan (消渴丸) and Hua Tuo Zai Zao Wan (華佗再造丸) . The Group shall prepare for the promotion, marketing and mass selling of key products and efforts will allocate to increase the market shares of the products outside the province. Thirdly, the Group shall push forward our key construction work and optimize the advantageous products, potential products and brand products. Based on the continuous effort to make progress on the a billion-yuan product developments, including Zhong Yi Xiao Ke Wan (中一消渴丸), Qi Xing Hua Tuo Zai Zao Wan (奇星華佗再造丸) , Han Fang Ling Zhi Bao Zi You (漢方靈芝孢子油) , Zhong Yi An Gong Niu Huang Wan (中一安宮牛黃丸) and Cai Zhi Lin's herbal slices (采芝林中藥飲片) in 2011, product developments of She Dan Chuan Bei Pi Pa Gao (蛇胆川貝枇杷膏) and She Dan Chuan Bei Pi Pa Ye (蛇胆川貝枇杷液) of Pan Gao Shou, Zhuang Yao Jian Shen Wan and Bu Pi Yi Chang Wan of Chen Li Ji will also commence, so as to drive the growth in sales of the key products. Fourthly, the Group will actively establish such as the platform for the purchase of Chinese medicine mainly for Cai Zhi Lin and relevant GAP base company, and the platform for the bulk purchase of raw materials mainly for Import & Export Co., Ltd. At the same time, the Group will actively build an e-commerce platform, so as to rapidly increase our market shares of e-commerce retailer of medicine and realize a rapid growth of the emerging sales channel. Fifthly, the Group will make full use of the competitive edges of our existing brand names and the network of pharmaceutical chain stores to accelerate the pace of expansion and develop the diversification of the business model for the establishment of a strong pharmaceutical retail network in Southern China.

2. To accelerate the building up of technological innovation system, rapidly execute and turn the innovative ideas into new technologies and enhance innovation capability. The Group shall firstly accelerate the establishment of the Scaling-up Integrated and Innovative Platform of TCM Extraction and Separation, and speed up the progress of research and development of anti-cancer medicine by Han Fang. Secondly, the Group shall enhance the further development of the famous proprietary medicines such as Qi Xing Hua Tuo Zai Zao Wan (奇星華佗再造丸) and Zhong Yi Xiao Ke Wan (中一消渴丸), and further consolidate the advantage of our famous proprietary medicines. Thirdly, the Group shall continue to conduct the clinical translational medicine (轉化醫學) research and evidence-based medical (循證醫學) research in order to provide supporting evidence for the effectiveness and safety of Chinese medicine. Fourthly, the Group shall enhance communications with Chinese medical hospitals and Chinese Medicine Council within and outside the province, and actively participate in the formulation of Chinese medicine standards. Fifthly, the Group shall vigorously facilitate the biological medicine projects currently under research, such as the therapeutic dual-plasmid HBV DNA vaccine, to enhance the potential for future market development. Sixthly, the Group shall speed up the progress of application of new GMP certification, and strengthen the control of production processes and improve product quality.

3. To accelerate the development of Chinese medicine bases, strengthen the cooperation with various raw material planting bases for Chinese medicine across the country, implement the GAP strategic plan in China, control key products and bulk medicine from the source, and reduce production costs.

4. To strengthen the management of cost, production, product quality, expenses and information, put greater efforts to resources consolidation, to achieve centralized operation and reduce the operating cost.

5. To enhance major asset reorganization involving the Company, speed up the enhancement of cooperation, investment, and merger and acquisition of the subsidiaries and joint ventures of the Company.

6. To reinforce risk control and management, and further improve the internal control system, strengthen the fundamental management, regulate the business operation, promote the internal control management standard and lower operational risks based on the changes in the external operating environment and the Group's practical operation to ensure the sustainable and healthy development of the Company.

(iii) For the year ended 31 December 2010

I. Business Scope and Analysis of Operations

1. Business Scope

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

2. Analysis of Operating Results

(1) Operations review

During the Reporting Period, the Group launched a series of aggressive measures and put more effort to overcome the challenges arising from the upsurging cost of raw materials, the convention of "Asian Games" in Guangzhou and changes in pharmaceutical policies. The Group persisted to concentrate on marketing, development of the brand's strengths, active market expansion, sustained marketing innovation, adjusted policies according to market momentum and optimized product mix. Meanwhile, the Group increased investment on scientific and technological research, commenced technological innovation and strengthened production cost management, resulting in the continual growth of its principal operations.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB4,403,098,000 for the Reporting Period, with a growth of 15.80% as compared with last year. The profit before tax amounted to RMB321,341,000, representing an increase of 38.91% over last year and net profit attributable to shareholders of the Company amounted to RMB267,112,000, representing an increase of 26.60% over last year.

According to HKFRS, the Group recorded a turnover of RMB4,403,098,000 for the Reporting Period, with a growth of 15.80% as compared with last year. Profit before income tax amounted to RMB339,707,000, representing an increase of 44.45% over last year and net profit attributable to shareholders of the Company amounted to RMB279,597,000, representing an increase of 30.11% over last year.

A breakdown of the operational results of the overall and principal operations of the Group for 2010 is set out as follows:

Item	**2010**	**2009**	**Increase/ (Decrease)**
	(RMB'000)	*(RMB'000)*	*(YoY)*
	(Audited)	*(Audited)*	*(%)*
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	4,403,098	3,802,423	15.80
Operating profit	298,016	207,077	43.92
Total profit	321,341	231,331	38.91
Net profit attributable to shareholders of the Company	267,112	210,989	26.60
Prepared in accordance with HKFRS			
Turnover	4,403,098	3,802,423	15.80
Profit before income tax	339,707	235,168	44.45
Net profit attributable to shareholders of the Company	279,597	214,900	30.11

Principal Operations	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations	Increase/ (Decrease) over last year	Cost of principal operations	Increase/ (Decrease) over last year	Profit margin of principal operations	Increase/ (Decrease) over last year
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Prepared in accordance with the PRC Accounting Standards						
Overall operations	4,403,098	15.80	3,188,573	14.23	27.12	1.06
Include: Manufacturing	2,188,600	12.31	1,141,424	5.20	47.02	3.60
Trading	2,214,498	19.47	2,047,149	19.97	7.45	(0.36)
Include: Pharmaceutical trading	1,706,025	12.74	1,543,598	12.74	9.39	0.02
Other trading	508,473	49.39	503,551	49.32	0.95	0.05
Prepared in accordance with HKFRS						
Overall operations	4,403,098	15.80	3,188,573	14.23	27.12	1.06
Include: Manufacturing	2,188,600	12.31	1,141,424	5.20	47.02	3.60
Trading	2,214,498	19.47	2,047,149	19.97	7.45	(0.36)
Include: Pharmaceutical trading	1,706,025	12.74	1,543,598	12.74	9.39	0.02
Other trading	508,473	49.39	503,551	49.32	0.95	0.05

Geographical analysis of sales arising from the operations of the Group for 2010 is set out as follows:

Region	**Income from principal operations**	**Increase/ (Decrease) over last year**	**Percentage in overall operations**
	(RMB'000)	*(%)*	*(%)*
Southern China	3,061,186	19.06	69.52
Eastern China	480,559	(0.21)	10.92
Northern China	286,472	(3.17)	6.51
North-Eastern China	73,264	(1.16)	1.66
South-Western China	263,426	34.14	5.98
North-Western China	92,818	30.38	2.11
Exports	145,373	29.67	3.30
Total	**4,403,098**	**15.80**	**100.00**

(2) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we improved the management on distributors, kept on optimizing and integrating the marketing channels, implemented control on sales channels, strengthened the pricing mechanism, enhanced the activeness of distributors and retailers, leading to the steady growth in product sales. Secondly, we focused on sales innovation, continuously strengthened end market operation, strategically focused on the four end markets, namely hospital, OTC, communities and areas under the New Rural Cooperative Medical System and put efforts on developing and sustaining the markets in focused areas in order to effectively boost the sales driven by end markets. Thirdly, we reinforced works on government affairs, paid close attention to the changes resulted from pharmaceutical reform and actively studied new medical reform policies. Satisfactory results were seen in the areas of basic list of medicines, list of medicines and insurance, medicine pricing and product bidding. Fourthly, we reinforced brand building and strengthened marketing and promotion. Through the launching of researches on "Genetic Chinese Medicine" (基因中藥) and Anti "Super Bacteria" (超級細菌) Pharmaceutical Products, the successful application of the Chen Li Ji for the recognition as the "World's Most Long-standing Pharmaceutical Enterprise" together with such events as the "Asian Games Promotion" and the "Centennial Factory Celebration" (架廠慶) for our traditional pharmaceutical brands in China, we enhanced brand and product mix promotion to increase brand value and gain popularity and reputation for our products, driving the growth in product sales. Fifth, in response to the price increase in most medicine and materials since 2010, the subsidiaries of the Group were well prepared to sooth the pressure thus on cost for the Year through the measures of building reserves for the lacking medicine in advance, enhancing cooperation with medicine merchandisers, merchandise bidding and quality and price comparison over the market.

In 2010, the profit margin of the manufacturing operations of the Group was 47.85%, representing an increase of 3.53 percentage points as compared with the last year. The increase in the profit margin of the manufacturing operations was mainly due to: (1) during the Reporting Period, the Group strengthened the price system maintenance and maintained the steady prices of its products; (2) expansion in production of the Group's products and increase in their sales, which resulted in the decline of production cost of the Group's products.

During the Reporting Period, products such as Xiao Ke Wan (消渴丸) and Hua Tuo Zai Zao Wan (華佗再造丸) achieved steady growth in their sales, while other products such as Xia Sang Ju Ke Li (夏桑菊顆粒) , Mi Lian Chuan Bei Pi Pa Gao, Xu Han Ting Ke Li (虛汗停顆粒) , Hou Zao Niu Huang San, Qi Re Xiao Yan Ning Jiao Nang, Hou Ji Lin Jiao Nang, Zi Shen Yu Tai Wan, She Dan Chun Bei San and Wu Ji Bai Feng Wan recorded great increase as compared with the same period of last year.

An analysis of sales of major products for the manufacturing operations in 2010 is as follows:

	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
Types of products	**Income from principal operations**	**Increase/ (Decrease) over last year**	**Cost of principal operations**	**Increase/ (Decrease) over last year**	**Profit margin of principal operations**	**Increase/ (Decrease) over last year**
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Heat clearing and anti-toxic medicine (清熱解毒藥)	280,827	32.42	158,532	29.76	42.72	1.23
Diabetes medicine (糖尿病藥)	493,493	7.24	188,931	(2.79)	60.89	4.02
Cough and phlegm clearing medicine (止咳化痰利肺藥)	282,505	20.66	139,305	17.51	49.86	1.39
Arthritis medicine (疏風活血藥)	259,953	2.51	123,306	1.52	51.74	0.53
Gastric medicine (胃腸用藥)	69,403	4.95	34,370	(5.18)	49.65	5.37
Other products	802,419	11.03	496,980	0.96	37.24	6.25

During the Reporting Period, the Group vigorously promoted technological innovation by expediting innovative products development and technological upgrade, and thereby, the business growth of the Group continued to be driven up. During the Reporting Period, the Company's application of Scaling-up Technological Platform of TCM Extraction and Separation Key Technologies (中藥提取分離關鍵技術的中試放大技術平台) passed the assessment by experts, and obtained government subsidy for key technological projects. The IIa clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed in the Year, and the Company is actively preparing for the IIb clinical research. Zhong Yi received the honor of "Top 100 Enterprises in Technological Innovation" by Guangdong Science and Technology Department and became the leading enterprise among the emerging strategic industries in Guangzhou City. Zhong Yi also established a new technological innovation management system with the Research and Development Center for Diabetes Medicine of Guangdong Province as its base. It was a substantial achievement in certain projects jointly conducted with China's well-established research institutes regarding the integration of production, learning, research and government. Zhong Yi applied for one invention patent of Xiao Ke Wan's (消渴丸) prescription and manufacturing processes, which was rewarded the National Outstanding Patent Prize, one invention patent of quality standard, five patents of utility model and one design patent in respect of its Xiao Ke Wan (消渴丸) , gradually formulating a comprehensive protection system of intellectual property rights in order to fully protect the core intellectual property right of Xiao Ke Wan (消渴丸) . In addition, the Xin Yi Bi Yan Wan (辛夷鼻炎丸) of Zhong Yi was successfully listed as the national Chinese medicine under protection by the State Food and Drugs Administration for a protection period of 7 years. The Dan Bie Jiao Nang (丹鱉膠囊) of Pan Gao Shou was granted the 2010 Second Prize in Technological

Advancement by China Association of Chinese Medicine. The technological equipment for the critical purification of CO_2 technology and the application and industrialization of the technology in natural medicine, which was developed by Guangzhou Han Fang, was awarded the Guangdong Provincial First Prize in Technology. The award demonstrated the remarkable achievement of technological innovation by "National Engineering Research Center of Chinese Medicine Modernization of Extraction and Separation Process".

The Company's six subsidiaries, namely Zhong Yi, Chen Li Ji, Xing Qun, Jing Xiu Tang, Qi Xing and Pan Gao Shou and its joint venture namely Wang Lao Ji obtained the "Certificate of Advanced Technology Enterprise of Guangdong Province" in 2008, which are effective for three years, and Guangxi Ying Kang obtained the "Certificate of Advanced Technology Enterprise of Guangxi Autonomous Region" in 2009, which are effective for three years. According to relevant regulations, they are entitled to preferential tax policies during the Year. In addition, Guangzhou Han Fang obtained the "Certificate of Advanced Technology Enterprise of Guangdong Province" in September 2010, which is effective for three years.

During the Reporting Period, the Group persisted in launching the safety production and responsibility policy so as to comprehensively improve the management of product quality, protect the environment and promote our sustainable development. The Group also launched the accountability system for production safety management, set up comprehensive rules and policies in order to strengthen the management on production and operation safety. The Group also guaranteed production quality strictly, carried out the work relating to production and management complying with GMP and GSP etc. quality management system, advanced quality licensor management system so as to improved quality management system and production quality management legal compliance. In the meantime, the Group also concerned about environmental protection. It actively complied with the laws and regulations regarding environmental protection, clean production and energy saving, enhanced the efficiency of use of resources and energy, lowered production costs, reduced pollution, achieved emission standard of the "three pollutants" and controlled the total emission of pollutants within the standard set by the relevant government authorities.

(3) The trading operations

During the Reporting Period, as to the pharmaceutical trading operations, firstly we continued to consolidate the cooperation with manufacturers, agents and other third parties and broadened our distribution channels and marketing networks. Secondly, we continued to deepen consolidation of resources, promote business resources integration with great efforts and optimize resources allocation in order to enhance our end-sales service capability. During the Reporting Period, the former Guangzhou Pharmaceutical Import & Export Corporation successfully restructured as a limited company and completed the business integration with Ying Bang Branch Company. Thus, its business development was fully promoted through launching a series of effective measures. Cai Zhi Lin divided its Chinese medicine into 6 major categories since February 2010, establishing "regular category" reserve and "strategic category" reserve and identifying a number of "advantageous categories" for reduction in purchasing cost and quality assurance of Chinese medicine. Thirdly, in response to medical reform policies and market demand, we adjusted our marketing strategy in a time manner, made great efforts in the sales expansion of new businesses and actively introduced other marketable products of insurance through innovative services. Fourthly, we continued to perform well in the dispatch work of medicine to end markets, enhanced the intensive cooperation with the manufacturers and continued to expand our net sales business. Fifthly, we sustained the basic management of credit limit and accounts receivable so as to reduce operating risks.

In 2010, the profit margin of the trading operations was 7.56%, representing a decrease of 0.38 percentage point as compared with last year.

As at 31 December 2010, the Group had 52 retail chain pharmacy outlets, including 51 "Cai Zhi Lin" which specialized in traditional Chinese medicines, one pharmacy named Ying Bang.

3. *Details of Operation and Results of the Company's Subordinated Enterprises for the year*

Name of enterprises	**Equity direct held by the Company** *(%)*	**Income from principal operation** *(RMB'000)*	**Total profit** *(RMB'000)*	**Net profit** *(RMB'000)*
(1) Subsidiaries				
Xing Qun	88.99	220,054	9,760	5,432
Zhong Yi	100.00	683,772	105,285	88,314
Chen Li Ji *(Note a)*	100.00	229,035	24,737	20,797
Qi Xing	75.00	324,222	20,021	14,649
Jing Xiu Tang	88.40	208,130	18,605	15,296
Pan Gao Shou	87.77	273,529	10,598	8,125
Guangxi Ying Kang	51.00	37,239	630	630
Guangzhou Bai Di	98.48	1,388	(6,823)	(6,823)
Guangzhou Han Fang	97.04	85,031	(16,023)	(16,023)
Cai Zhi Lin	100.00	1,599,577	10,598	8,427
Pharmaceutical Import & Export Co., Ltd. *(Note a)*	100.00	685,233	2,246	1,569
(2) Branch Company				
Ying Bang Branch Company	–	649,401	5,343	5,343
(3) Joint ventures				
Wang Lao Ji *(Note b)*	48.05	1,551,546	125,461	105,155
GP Corp. *(Note c)*	50.00	13,261,417	175,181	120,697
Nuo Cheng *(Note d)*	50.00	52,473	3,331	7,798

Notes:

(a) Upon the restructuring of the former Guangzhou Pharmaceutical Import & Export Corporation and Guangzhou Chen Li Ji Pharmaceutical Factory were restructured as a limited company in 2010, they were renamed as "Guangzhou Pharmaceutical Import & Export Co., Ltd." and "Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd." in March and July 2010, respectively.

(b) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in the manufacture and sales of Chinese Patent Medicine and foodstuffs. In 2010, Wang Lao Ji achieved an income from principal operations of RMB1,551,546,000, representing an increase of 4.44% as compared with last year. Its total profit amounted to RMB125,461,000, representing a decrease of 33.26% as compared with last year and its net profit was RMB105,155,000, representing a decrease of 35.88% as compared with last year. The decrease in the profit of Wang Lao Ji for 2010 was mainly due to the great increase of raw material costs, which resulted in the significant rise in unit cost of its products.

(c) The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in wholesale and retail of western medicine and medical apparatus. In 2010, income from principal operations of GP Corp. amounted to RMB13,261,417,000, representing an increase of 17.25% as compared with last year. Its total profit was RMB175,181,000, representing an increase of 10.00% as compared with last year and its net profit was RMB120,697,000, representing an increase of 8.54% as compared with last year.

(d) The results of Nuo Cheng were stated in full amount in the above table.

Except the above mentioned joint ventures, namely Wang Lao Ji and GP Corp., the Company did not derive any investment income from any investee company equal to 10% or more of the net profit of the Company during the Reporting Period.

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Group.

II. Analysis of Financial Conditions

1. Liquidity

As at 31 December 2010, the current ratio of the Group was 3.05 (31 December 2009: 2.72), and its quick ratio was 1.99 (31 December 2009: 1.93). Accounts receivable turnover rate was 15.07 times, representing an increase of 36.79% as compared with 2009. Inventory turnover rate was 4.85 times, representing an increase of 3.63% as compared with 2009.

2. Financial resources

As at 31 December 2010, cash and cash equivalents of the Group amounted to RMB696,347,000, out of which approximately 99.79% and 0.21% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2010, the Group had bank borrowings of RMB38,868,000 in total, all of which were short-term borrowings (31 December 2009: RMB63,370,000).

3. *Capital structure*

As at 31 December 2010, the Group's current liabilities amounted to RMB714,127,000 (31 December 2009: RMB712,021,000), representing an increase of 0.30% as compared with 2009, and its long-term liabilities was RMB120,926,000 (31 December 2009: RMB108,899,000), with an increase of 11.04% as compared with 2009. The shareholders' equity attributable to the shareholders of the Company amounted to RMB3,539,369,000 (31 December 2009: RMB3,304,186,000), with an increase of 7.12% as compared with 2009.

4. *Capital expenditure*

The Group expects the capital expenditure for 2011 to amount to approximately RMB163 million (2010: RMB80 million), which will be mainly applied in the construction of factories and infrastructure, purchases of machines, equipment and proprietary technologies, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

5. *Gearing ratio*

As at 31 December 2010, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 18.65% with a decrease of 0.79 percentage point as compared with 2009 (as at 31 December 2009: 19.44%).

6. *Exposure to fluctuations in exchange rates*

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

7. *Main cash resources and applications*

As at 31 December 2010, cash and cash equivalents of the Group amounted to RMB696,347,000, with an increase of RMB28,962,000 as compared with the beginning of 2010. The net cash inflow derived from operating activities amounted to RMB73,169,000, with a decrease of RMB366,224,000 as compared with 2009.

8. *Contingent liabilities*

As at 31 December 2010, the Group has no significant contingent liabilities.

9. *Charge on the Group's assets*

As at 31 December 2010, the Group had no charge on its assets.

10. Material investment

During the year 2010, the Group did not have any material additional investment. In order to cope with the rapid business development of GP Corp., a joint venture of the Company, the Group has been planning to contribute additional capital to GP Corp. in the coming year. Other than that, the Group did not expect any material investment in the coming year.

11. Material acquisition and disposals

During the year 2010, the Group did not engage in any material acquisitions or disposals.

III. Employees of the Group

As at 31 December 2010, the number of employees on the payroll register of the Group was 5,467, including:

Production and supporting staff	2,345
Sales personnel	1,211
Technical, research and engineering staff	908
Finance and statistics staff	204
Other administrative staff	799

109 of the employees were holders of a master degree and 1,348 were holders of a bachelor degree. The number of retirees was 5,124. The total salary payment for the Year was approximately RMB371 million.

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

IV. Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

2010 is a year filled with uncertainties. The gradual implementation of new medical reform and the continual introduction of other systems in relation to pharmaceutical policies further expanded the domestic pharmaceutical market and created opportunities for its development. Nevertheless, the short-term inflation pressure, further tightening of monetary policy, continued price increase of raw materials and labor cost and the price control of pharmaceutical products by the government had imposed certain impact on the Group's operations.

(iv) For the year ended 31 December 2009

I. Business Scope and Analysis of Operations

1. Business scope

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

2. Analysis of Operating Results

(1) Operations review

In early 2009, the Group's operation faced certain challenges due to negative impacts of the further spread of the international financial crisis and the implementation of the national macroeconomic policy. Furthermore, the PRC government proceeded the reforms on medical systems and new medical policies which in turn, had material impact on the development of the pharmaceutical industry. Despite these internal and external adversities, the Group concentrated on marketing and distribution based on the market changes, expedited the adjustments on marketing and distribution strategies with distribution channels streamlined, inventory turnover accelerated and a boosted growth of product sales. In addition, the Company successfully enhanced the operation quality at reduced operational risk through the strengthened fundamental management and tremendously upgraded internal audit and control. With the adjustment and efforts made within more than a year, the production and operation were improved with operation quality substantially enhanced.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB3,802,423,000 for the Reporting Period, with a growth of 10.20% as compared with last year. The profit before tax amounted to RMB231,331,000, representing an increase of 14.42% over last year and net profit amounted to RMB210,989,000, representing an increase of 15.61% over last year.

According to HKFRS, the Group recorded a turnover of RMB3,802,423,000 for the Reporting Period, with a growth of 10.20% as compared with last year. Profit before income tax amounted to RMB235,168,000, representing an increase of 12.76% over last year and profit attributable to shareholders of the Company amounted to RMB214,900,000, representing an increase of 18.19% over last year.

In 2008, the Company had a one-off investment income, which included the equity interest premium income from additional capital contribution into GP Corp. by Alliance BMP Limited and the income arising from transfer of the equity interests in GP Corp. by the subsidiaries of the Company amounting to RMB 60,996,000. The Company did not have similar investment income for the Reporting Period. During the Year, the Group's net profit increased by 73.65% as compared with the previous year according to the PRC Accounting Standards and the profit attributable to shareholders of the Company increased by 77.25% as compared with the previous year according to HKFRS, excluding the effect of the aforesaid one-off investment income.

A breakdown of the operational results of the overall and principal operations of the Group for 2009 is set out as follows:

Item	**2009** *(RMB'000)* *(Audited)*	**2008** *(RMB'000)* *(Audited)*	**Increase/ (Decrease)** *(YoY)* *(%)*
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	3,802,423	3,450,586	10.20
Operation profit	207,077	176,043	17.63
Total profit	231,331	202,179	14.42
Net profit attributable to shareholders of the Company	210,989	182,496	15.61
Prepared in accordance with HKFRS			
Turnover	3,802,423	3,450,586	10.20
Profit before income tax	235,168	208,552	12.76
Profit attributable to shareholders of the Company	214,900	181,829	18.19

Analysis of the Group's principal activities of 2009 is set out as follows:

Principal Operations	Income from principal operations: Income from principal operations	Income from principal operations: Increase/ (decrease) over last year	Cost of principal operations: Cost of principal operations	Cost of principal operations: Increase/ (decrease) over last year	Profit margin of principal operations: Profit margin of principal operations	Profit margin of principal operations: Increase/ (decrease) over last year
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Prepared in accordance with the PRC Accounting Standards						
Overall operations	3,802,423	10.20	2,791,437	14.09	26.07	(2.54)
Include: Manufacturing	1,948,779	6.19	1,085,028	11.53	43.43	(2.70)
Trading	1,853,644	14.75	1,706,409	15.78	7.81	(0.89)
Include: Pharmaceutical trading	1,513,283	5.95	1,369,179	6.36	9.37	(0.44)
Other trading	340,361	81.96	337,230	80.81	0.90	0.63
Prepared in accordance with HKFRS						
Overall operations	3,802,423	10.20	2,791,437	14.09	26.07	(2.54)
Include: Manufacturing	1,948,779	6.19	1,085,028	11.53	43.43	(2.70)
Trading	1,853,644	14.75	1,706,409	15.78	7.81	(0.89)
Include: Pharmaceutical trading	1,513,283	5.95	1,369,179	6.36	9.37	(0.44)
Other trading	340,361	81.96	337,230	80.81	0.90	0.63

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2009 is set out as follows:

Region	Manufacturing: Income from principal operations	Manufacturing: Increase/ (Decrease) over last year	Manufacturing: Percentage of manufacturing in principal operations	Trading: Income from principal operations	Trading: Increase/ (Decrease) over last year	Trading: Percentage of trading in principal operations	Total: Income from principal operations	Total: Increase/ (Decrease) over last year	Total: Percentage in principal operations
	(RMB'000)	*(%)*	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(RMB'000)*	*(%)*	*(%)*
Southern China	1,139,946	0.94	58.50	1,431,239	18.72	77.21	2,571,185	10.12	67.62
Eastern China	283,256	14.01	14.54	198,320	10.32	10.70	481,576	12.46	12.66
Northern China	281,859	32.74	14.46	14,003	(73.05)	0.76	295,862	11.94	7.78
North-Eastern China	69,154	(15.45)	3.55	4,969	(49.98)	0.27	74,123	(19.19)	1.95
South-Western China	102,292	(4.55)	5.25	94,090	38.99	5.08	196,382	12.30	5.16
North-Western China	68,414	22.68	3.50	2,774	(45.41)	0.14	71,188	17.00	1.88
Exports	3,858	939.47	0.20	108,249	13.56	5.84	112,107	17.15	2.95
Total	**1,948,779**	**6.19**	**100.00**	**1,853,644**	**14.75**	**100.00**	**3,802,423**	**10.20**	**100.00**

During the Reporting Period, the overall profit margin of the Group was 26.59%, representing a decrease of 2.51 percentage points as compared with 29.10% of the previous year, among which, the profit margin of the manufacturing operations was 44.32%, representing a decrease of 2.67 percentage points as compared with the previous year. The decrease in the profit margin of the manufacturing operations was mainly due to: (1) the increase of energy and raw material costs during the Reporting Period; (2) the changes in the Group's product sales structure products since the previous year and the decrease in proportion of highly-profitable products' sales revenue over the total sales revenue. The profit margin of the trading operations was 7.94%, representing a decrease of 0.82 percentage point as compared with the previous year.

For the year 2009, the Group's cash flow was greatly improved as compared with the previous year, mainly because the Group actively streamlined the sales channels during the Year which accelerated the return on capital, contributing to a net cash flow from operating activities amounted to RMB439 million, representing an increase of RMB433 million or a growth of 7,099.06% as compared with the previous year.

(2) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we improved the marketing organization structure, strengthened the management of the marketing team and performance assessment, and enhanced the operating performance and efficiency of the sales and marketing staff. Secondly, we increased sales and distribution with great efforts, reinforced the control on sales channels, further develop a comprehensive distribution system. Thirdly, we encouraged more end retail sales innovation by expanding end markets with focused efforts and pursuing the aim of increasing the net sales volume of end products, and further increased the penetration of our products into hospitals and the net sales volume of the hospital end market and the retail end market. Fourthly, we actively developed new potential products while maintaining the quality of our major products so as to develop new points of sales growth and to achieve sustainable development of the Company. Fifthly, we seized the opportunities arising from the change of government policies and the industry evolvement with its market-oriented strategy, commenced the work focusing on the national basic list of medicines, list of medicines and insurance, community medical system, the New Rural Cooperative Medical System and product bidding. Currently, more than 50 products of the subsidiaries and joint ventures of the Company have been added to the national basic list of medicines, among which, Xiao Ke Wan (消渴丸) and Hua Tuo Zai Zao Wan (華佗再造丸) are exclusive Chinese patent medicines for the treatment of diabetes as well as cardio-and cerebral vascular diseases. More than 150 products were registered under the "Pharmaceutical Catalogues for National Basic Medical Insurance, Employment Injury Insurance and Maternity Insurance" of 2009. Sixthly, we continued to deepen the cooperation with the manufacturing enterprises and the trading enterprises of the Company in Guangdong Province, Shanghai and Zhejiang Province and strengthened the end penetration work in the hospitals, the New Rural Cooperative Medical System and community medical organizations for the related regional markets.

During the Reporting Period, sales of Xiao Ke Wan (消渴丸) and Hua Tuo Zai Zao (華佗造丸) Wan and other key products have gradually resumed, showing a steady growth momentum. The sales of Zhuang Yao Jian Shen Wan (壯腰健腎丸), Xu Han Ting Ke Li (虛汗停顆粒), Ru He San Jie Pian (乳核散結片), San Qi Hua Zi Wan (三七化痔丸), Qian Lie Tong Pian (前列通片), Wei Nei An Jiao Nang (胃乃安膠囊) and Zi Shen Yu Tai Wan (滋腎育胎丸) recorded great increase as compared with last year.

During the Reporting Period, the Group continued to promote technological innovation by increasing investment on scientific and technological research and developing innovative products and technological upgrade. In 2009, the Group made application for 16 invention patents and was granted 17 invention patents. Zhong Yi acquired the clinical approval for its Jin Fo Zhi Tong Ke Li (金佛止痛顆粒) and Metformin Hydrochloride Tablets (鹽酸二甲雙胍片), while its No.8 new Chinese medicine, Zi Di Ning Xue Ke Li (紫地寧西顆粒) was granted production approval. Further, the clinical research work of the Company's therapeutic dual-plasmid HBV DNA vaccine (治療性雙質粒HBV-DNA疫苗) was successfully launched as planned. "A sort of medicine component for the treatment of diabetes together with its recipe" (一種治療糖尿病的藥物組合物及其製備方法) of Zhong Yi was granted the Patent Award by Guangdong Province. No. 5 Chinese medicine, Mu Xiang Tai Di Wan (木香胃泰滴丸), was granted an invention patent. The "active extract of Du Yi Wei together with its recipe and uses" (獨一味的活性提取物和它的製備方法及用途) of Guangzhou Chen Li Ji Pharmaceutical Factory ("Chen Li Ji") was granted a national invention patent. The Die Da Wan Hua You Spray (跌打萬花油噴霧劑) of Jing Xiu Tang together with its recipe was granted a national invention patent. During the Reporting Period, the Group focused on the technological innovation internally; and meanwhile it strived for procuring project subsidies from the government authorities at all levels. Overall in 2009, the Group was granted 20 project subsidies from the government authorities of various levels, including 3 significant scientific and technological projects of "Major Breakthrough in New Medicine" and a scientific and technological support project granted by the Ministry of Science and Technology, the "Advanced Technology Industry Project" by the National Development and Reform Commission, the Project with Major Breakthrough in Key Sectors in Guangdong and Hong Kong of 2009 by Guangdong Science and Technology Department and 4 Comprehensive Strategic Cooperation Projects by the Guangdong Provincial Chinese Academy of Sciences, and 11 regional or Guangzhou-linked projects.

The Company and its subsidiaries, which namely Zhong Yi, Chen Li Ji, Xing Qun, Jing Xiu Tang, Qi Xing and Pan Gao Shou and its joint venture namely Wang Lao Ji have obtained the "Certificate of Advanced Technology Enterprise" jointly awarded by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office State Administration of Taxation and Guangdong Provincial Local Taxation Bureau. The certificates were issued in 2008 and are effective for three years. According to the rules, they are entitled to preferential tax policies during the Year.

During the Reporting Period, the Group persisted in launching the safety production and responsibility policy so as to comprehensively improve the management of product quality, protect the environment and promote our sustainable development. The Group also launched the accountability system for production safety management, set up comprehensive rules and policies in order to strengthen the management on production and operation safety. In the meantime, the Group also concerned about environmental protection. It actively complied with the laws and regulations regarding environmental protection, clean production and energy saving, enhanced the efficiency of use of resources and energy, lowered production costs and reduced pollution, achieved emission standard of the "three pollutants" and controlled the total emission of pollutants within the standard set by the relevant government authorities. To comply with the relevant government's requirements on reducing the emission of nitrogen and saltpeter and forbidding the sales and uses of highly environmentally-hazardous fuel regions, 5 enterprises under the Company carried out redevelopment projects on their boilers in 2009 in order to reduce pollution, perform the social responsibility of environment protection to achieve sustainable development.

An analysis of sales of major products for the manufacturing operations in 2009 is as follows:

	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
Types of products	**Income from principal operations**	**Increase/ (decrease) over last year**	**Cost of principal operations**	**Increase/ decrease over last year**	**Profit margin of principal operations**	**Increase/ decrease over last year**
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*	*(Percentage point)*
Heat clearing and anti-toxic medicine (清熱解毒藥)	212,072	(4.33)	122,171	(0.68)	41.50	(2.15)
Diabetes medicine (糖尿病藥)	455,791	5.08	192,695	25.18	56.83	(6.82)
Cough and phlegm clearing medicine (止咳化痰利肺藥)	229,975	(8.19)	115,186	(5.05)	49.02	(1.69)
Arthritis medicine (疏風活血藥)	253,586	15.73	121,456	10.98	51.21	2.02
Gastric medicine (胃腸用藥)	66,127	14.42	36,249	14.08	44.29	0.13
Other products (其他產品)	731,228	12.08	497,270	14.75	31.10	(1.61)

(3) The trading operations

During the Reporting Period, as to the trading operations, firstly we expanded our innovative services, consolidated the cooperation with manufacturers, distributors and agents, and improved our coverage on the New Rural Cooperative Medical System, the community and non-target hospitals. In the meantime, we developed our regional strategic competitive edge so as to maintain our current strategic position in Guangdong market. Secondly, we deepened consolidation of resources, enhanced cooperation with the Company's subordinate manufacturing enterprises on the basis of mutual benefits by sharing advantaged resources and supporting each other to achieve mutual development with synergy effect. Thirdly, we captured the opportunities arising from medical reform, continued to perform well in the despatch work of medicine for medical institutions focused as hospitals, the community and the New Rural Cooperative Medical System, and continued to expand our net sales business. During the Reporting Period, Cai Zhi Lin proactively expanded its client base, operation modes and hospital sales business. Cai Zhi Lin became the agent for 25 additional medicines in 2009, of which 3 having appointed us as the sole agent.

As at 31 December 2009, the Group had 67 retail chain pharmacy outlets, including 66 "Cai Zhi Lin" which specialized in traditional Chinese medicines, one pharmacy named Ying Bang.

3. *Details of Operation and Results of the Company's Subordinated Enterprises for the year*

Name of enterprise	**Percentage of direct holding of shares by the Company** *(%)*	**Revenue from principal operation** *(RMB'000)*	**Total profit** *(RMB'000)*	**Net profit** *(RMB'000)*
(1) Subsidiaries				
Xing Qun	88.99	149,403	(52,261)	(45,779)
Zhong Yi	100.00	620,228	86,851	76,838
Chen Li Ji	100.00	226,066	22,783	19,532
Qi Xing	75.00	270,115	9,080	7,176
Jing Xiu Tang	88.40	192,455	10,205	8,488
Pan Gao Shou	87.77	237,101	2,106	3,338
Guangxi Ying Kang	51.00	32,499	(93)	(93)
Guangzhou Bai Di	97.26	1,505	(8,395)	(8,395)
Guangzhou Han Fang	97.04	75,443	(14,983)	(14,983)
Cai Zhi Lin	100.00	1,379,234	10,004	8,171
Pharmaceutical Import & Export Corporation	100.00	269,343	(1,198)	(998)
(2) Branches				
Ying Bang Branch Company	–	742,394	5,332	5,332
(3) Joint ventures				
Wang Lao Ji *(note i)*	48.05	1,485,529	187,983	164,009
Guangzhou Pharmaceuticals Corporation ("GP Corp.") *(note ii)*	50.00	11,310,827	159,258	111,199
Nuo Cheng *(note iii)*	50.00	42,016	2,048	2,048

Notes:

(i) The result of Wang Lao Ji was stated in full amount in the above table.

In 2009, Wang Lao Ji achieved a sales revenue of RMB1,485,529,000, representing an increase of 15.21% as compared with the previous year; total profit amounted to RMB187,983,000, representing a decrease of 4.77% as compared with the previous year; net profit was RMB164,009,000, representing a decrease of 4.97% as compared with the previous year. During the Report Period, sales of Wang Lao Ji Liang Cha (王老吉涼茶), Xiao Er Qi Xing Cha (小兒七星茶沖劑), Tan Ke Jin Pian (痰咳淨片) and Bao Ji Kou Fu Ye (保濟口服液) enjoyed significant increases as compared with the previous year.

(ii) The results of GP Corp. was stated in full amount in the above table.

During the Reporting Period, as to GP Corp, firstly it further strengthened its sales business, leading to a two-digit increase in sales performance as compared with the previous year. Secondly, it proactively expanded the market, consolidated its operations of potential products, and maintained the relative stability of key products and key client groups to record a higher sales of key products than the previous year. Thirdly, it steadily improved the despatch work of community medicine, strived for expanding the base of despatched clients and products, developed innovative operation modes for chain outlets, and enhanced the growth of retail business. With the efforts made throughout the Year, GP Corp sustained a continuous and steady growth in 2009 from the high benchmark of the previous year. Its sales revenue was recorded as RMB11,310,827,000, representing an increase of 14.78% as compared with the previous year. Its gross profit amounted to RMB159,258,000, representing an increase of 26.72% as compared with the previous year, while its net profit amounted to RMB111,199,000, representing an increase of 26.46% as compared with the previous year.

(iii) The results of Nuo Cheng were stated in full amount in the above table.

Nuo Cheng's product, Rabies Bacterin, went on sale during the Year, the sales revenue of which for the Year exceeded RMB40,000,000.

During the Report Period, the Company did not engage in any other operation business which has a material impact on the net profit.

None of the Group's invested companies contributed to the Group any investment income which equals to 10% or more of the Group's net profit.

II. Analysis of Financial Conditions

1. Liquidity

As at 31 December 2009, the current ratio of the Group was 2.72 (31 December 2008: 2.51), and its quick ratio was 1.93 (31 December 2008: 1.67). Accounts receivable turnover rate was 11.02 times, representing an increase of 8.45% as compared with that of 2008. Inventory turnover rate was 4.68 times, representing an increase of 21.48% as compared with 2008.

2. Financial resources

As at 31 December 2009, cash and cash equivalents of the Group amounted to RMB667,385,000 out of which approximately 99.19% and 0.81% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2009, the Group had bank borrowings of RMB63,370,000 in total, all of which were short-term borrowings (31 December 2008: RMB273,275,000).

3. *Capital structure*

As at 31 December 2009, the Group's current liabilities amounted to RMB712,021,000 (31 December 2008: RMB751,411,000), representing a decrease of 5.24% over that of 2008, and its long-term liabilities was RMB108,899,000 (31 December 2008: RMB154,582,000), with a decrease of 29.55% as compared with 2008. The shareholders' funds amounted to RMB3,304,186,000 (31 December 2008: RMB3,124,842,000), with an increase of 5.74% as compared with 2008.

4. *Capital expenditure*

The Group expects the capital expenditure for 2010 to amount to approximately RMB124 million (2009: RMB67 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

5. *Gearing ratio*

As at 31 December 2009, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 19.44% with a decrease of 2.49 percentage points as compared with 2008 (as at 31 December 2008: 21.93%).

6. *Exposure to fluctuations in exchange rates*

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

7. *Main cash resources and applications*

As at 31 December 2009, cash and cash equivalents of the Group amounted to RMB667,385,000 with an increase of RMB301,527,000 as compared with 2008. The net cash inflow derived from operating activities amounted to RMB439,393,000, with an increase of RMB433,290,000 as compared with 2008.

8. *Contingent liabilities*

As at 31 December 2009, the Group has no significant contingent liabilities.

9. *Charge on the Group's assets*

As at 31 December 2009, the Group had no charge on its assets.

10. Material investment

During the year 2009, the Group did not have any material additional investment. The Group also did not expect any material additional investment in the coming year.

11. Material acquisition and disposals

During the year 2009, the Group did not engage in any material acquisitions or disposals.

III. Employees of the Group

As at 31 December 2009, the number of employees on the payroll register of the Group was 5,563, including:

Production and supporting staff	2,415
Sales personnel	1,164
Technical, research and engineering staff	956
Finance and statistics staff	189
Other administrative staff	839

103 of the employees were holders of a master degree and 1,227 were holders of a bachelor degree. The number of retirees was 4,924. The total salary payment for the Year was approximately RMB319 million.

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

IV. Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

2009 was a year of reformation. Under the gradual implementation of the new reform on medical system and its related policies and systems, the domestic pharmaceutical market was further expanded with more business opportunities created for development of the pharmaceutical market. However, factors such as the general amendment on the regulatory provisions, of, among others, GMP and GSP by the PRC government, the consolidation project of the government on medicine circulation and safety, the more stringent demands on environmental protection, the uncertainties brought by gradual implementation of the medical reforms, keener competition in the retail market of pharmaceutical products, the price adjustment of such products and the increasing prices of energy and raw materials had certain impact on the Group's operations.

(B) MANAGEMENT DISCUSSION AND ANALYSIS OF BYS

(i) For the six months ended 30 June 2012

(1) Management discussion and analysis of BYS for the first half of 2012

In the first half of 2012, according to the operating plan and work arrangement put forward at the beginning of the year, BYS seized the market opportunities and embraced the challenges of the changes in policies, fluctuation in cost and fierce market competition. On the one hand, BYS proactively pushed forward the smooth proceeding of the Major Assets Reorganization; on the other hand, BYS maintained the good running of production and operating activities of BYS, and diverted the effect of the external pressure on the BYS's operations, achieving good operating results. During the Reporting Period, BYS realized income from operations of RMB2,387.20 million, representing an increase of 17.34% over the same period of last year; the net profit attributable to the owners of the parent company amounted to RMB217.99 million, representing a growth of 36.65% as compared to the same period of last year.

During the Reporting Period, the Major Assets Reorganization had significant progress. After four months of hard work, BYS Shares resumed trading on 28 March 2012 and the Preliminary Proposal of the Major Assets Reorganization was disclosed, from which GPC will be the platform to realize the listing of the pharmaceutical assets of GPHL as a whole by way of absorption and merger of BYS through share swap and asset acquisition through issue of shares. On 15 June 2012, BYS held the second board meeting with respect to the reorganization, in which reorganization proposal (draft) was considered and approved. Currently, BYS is proactively forging ahead with the process of reorganization. Pursuant to the required procedures, general shareholders' meeting will be held on 19 September 2012 to consider and vote on the reorganization proposal.

During the Reporting Period, BYS actively integrated its internal and external resources, and continuously enhanced its operating efficiency. Leveraging on the resources integration platform of herbal raw material, bulk raw materials, supplementary materials and packing materials for medicines built by GPHL, BYS reduced its procurement cost; accelerated the industry and commerce integration of Pharmaceutical Technology Development Company, Baiyunshan General Factory and Baiyunshan Guanghua Company, facilitated the sharing of marketing resources and enhanced its ability to control the market; authorized the subordinated enterprises of GPC to use "Baiyuanshan" trademark and affix "Baiyunshan" in the name of the enterprise to continuously expanding the influence and recognition of "Baiyunshan" brand.

During the Reporting Period, BYS made a prudent and excellent marketing work. Facing the complex industry situation, such as increased difficulty in winning the bid for essential medicines, reduction in the general price level in medicines and the rectification of unreasonable use of antibiotics medicines by the Government, BYS adjusted its product mix, put more effort in the expansion of key products, refined its marketing strategy of products through differentiating sales model combination and targeted customers and focused on speeding up the development of its "cash cow" products, ensuring the expansion of the scale and overall profit level of BYS. On the basis of the China famous trademark "Baiyunshan", "Kangzhiba" (抗之霸) trademark of BYS was recognized as a China famous trademark, thereby further enhancing the market competitiveness and influence of the BYS products.

During the Reporting Period, BYS stepped up efforts in the technological modification and science and technology innovation. First was to put more effort in technological modification to adapt to new edition (2010 edition) GMP certification requirements. The subordinated enterprises established GMP leadership group and working body, formulated detailed and reasonable work plan for the implementation of new edition of GMP, and conducted hardware modification and software upgrade against the new requirements. The subordinated enterprises have started a number of technological modification works, among which, a powder-needle workshop of Baiyunshan Tianxin passed new edition of GMP certification. Second was to strengthen science and technology innovation. Due to its outstanding performance in technological innovation, Baiyunshan General Factory was awarded "Patent Implementation Efficiency Prize in Guangzhou", Baiyunshan Tianxin was recognized as "The Fourth Batch of Innovative Enterprises in Guangzhou" and the project of "Demonstration base for the industrialization of Radix Isatidis, quality raw materials medicine of Chinese patent medicine" "for Baiyunshan Hutchison Whampoa Chinese Medicine was included in the State's second batch of industrial technology research and development capital and high-tech industry development project investment program of 2012, and obtained technological research and development grant of central government of RMB7 million.

During the Reporting Period, BYS strengthened the internal scientific management. First was to reasonably coordinate the production and GMP modification, ensuring the market supply of the products; second was that BYS commenced the implementation of the internal control basic standards, engaged professional institution to advise on the building of internal control system of BYS, determined the business flow of the internal control relating to financial reporting based on the industry characteristics, business, operation model and risk factors and intended to promote the achievements of internal control building for the pilot enterprise to other enterprises, thus pushing forward the comprehensive construction of the internal control system of BYS; third was to strengthen the risk management, drove the subordinated enterprises to gradually establish risk management system; fourth was to strengthen the management of suppliers, conduct on-site quality audit for major packing materials for medicines suppliers, and further strengthen monitoring of suppliers to reasonably control procurement cost; fifth was to reinforce the safety production management, further carry out the activities of Production Safety Year to prevent the occurrence of the safety accidents.

1. Details of Operation and Results of Major Subsidiaries and Investee Companies of BYS

Name of enterprises	Registered Capital	% of investment	Main operation	Total assets	Income from main operation	Change in Income from main operation as compared with same period of last year	Net profits	Change in net profit as compared with same period of last year
	(RMB million)			*(RMB'000)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司) ("BYS Tian Xin") (「白雲山天心」)	45.693	82.49	Manufacturing, processing and sale of chemical pharmaceutical and preparations, traditional Chinese patent medicines, raw materials pharmaceutical, health food, etc.	380,287.6	444,017.4	15.36%	33,569.9	42.38%
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (廣州白雲山光華製藥股份有限公司) ("BYS Guang Hua") (「白雲山光華」)	55.285	84.48	Manufacture of chemical medicine raw materials, preparation, traditional Chinese patent medicines, veterinary medicine, cosmetics, etc.	286,563.3	272,597.7	21.84%	21,282.4	27.10%
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司) ("BYS Ming Xing") (「白雲山明興」)	26.494	100	Manufacturing, processing chemical raw materials, chemical preparations, traditional Chinese patent medicines, health food, etc.	261,449.7	264,362.8	17.62%	24,335.6	19.17%
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. (廣州白雲山和記黃埔中藥有限公司) ("BYS Hutchison Whampoa") (「白雲山和記黃埔」)	200.00	50	All kinds of medicines, health products, food and herbal medicines production, processing, research and development, sale of products of BYS (except for the prohibited category of foreign investment industries)	1,022,904.4	724,773.0	12.70%	68,318.1	13.22%
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司) ("Baxter Qiao Guang") (「百特僑光」)	177.50	50	Production of large volume injection, the sale of products of BYS and provide related after-sales service; research, development of pharmaceuticals	205,462.7	97,068.9	20.50%	1,233.7	Change from loss making to profit generating (same period of last year – loss of 2,538.4)

2. Principal Operations of BYS

(1) Principal operations by businesses or products

Unit: RMB

Principal operations by businesses

By businesses	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with same period of last year	Change in cost of operations as compared with same period of last year	Change in gross profit margin as compared with same period of last year *(percentage point)*
(1) Chemical pharmaceutical ingredients manufacturing	274,402,744.40	225,498,630.43	17.82%	9.69%	-1.52%	Increase 9.35%
(2) Chemical dosage manufacturing	1,413,923,242.87	831,460,264.19	41.19%	14.62%	12.84%	Increase 0.92%
(3) Chinese medicine and Chinese patent medicine processing	598,838,037.13	384,189,560.81	35.84%	31.46%	21.11%	Increase 5.48%
(4) Pharmaceutical products trading	4,665,901.29	4,685,992.50	-0.43%	7.24%	3.99%	Increase 3.14%
(5) Other pharmaceutical manufacturing	68,969,859.42	42,950,301.32	37.73%	-1.25%	-0.85%	Decrease 0.25%

Principal operations by products

By products	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with same period of last year	Change in cost of operations as compared with same period of last year	Change in gross profit margin as compared with same period of last year *(percentage point)*
Product 1	119,324,869.18	59,031,405.00	50.53%	-5.3%	-16.69%	Increase 6.77%
Product 2	86,282,632.14	83,836,789.39	2.83%	25.69%	23.22%	Increase 1.94%
Product 3	216,753,755.69	111,119,802.79	48.73%	21.54%	23.51%	Decrease 0.82%
Product 4	282,722,965.04	118,669,966.47	58.03%	59.81%	34.42%	Increase 7.93%
Product 5	131,055,423.17	40,179,831.50	69.34%	48.04%	52.64%	Increase -0.92%
Product 6	117,328,101.75	74,404,831.14	36.58%	61.15%	64.31%	Decrease 1.22%
Product 7	50,861,554.57	53,384,687.49	-4.96%	-27.81%	-29.02%	Increase 1.79%
Product 8	52,068,208.89	46,369,566.48	10.94%	-13.67%	-21.47%	Increase 8.85%
Product 9	70,250,935.29	34,958,251.21	50.24%	0.56%	-7.01%	Increase 4.05%
Other products	1,234,151,339.39	866,829,617.78	29.76%	12.03%	12.54%	Decrease 0.32%

(2) Principal operations by regions

Unit: RMB'000

Regions	Operational income	Change in operational income as compared with same period of last year
Southern China	959,490,641.85	8.79%
Eastern China	392,297,004.37	45.75%
Northern China	243,010,966.24	0.47%
Northeast China	80,288,353.74	24.82%
Southwest China	253,821,850.31	19.82%
Northwest China	91,957,557.58	158.57%
Central China	339,933,411.02	10.10%

(3) Analysis of the changes in principal operations

During the Reporting Period, an operating income of RMB2,387.20 million was realized, which was increased by RMB352.83 million as compared with RMB2,034.37 million for the corresponding period in last year, representing an increase of 17.34%. Among which, the main operating revenue amounted to RMB2,360.80 million, which was increased by RMB347.34 million as compared with RMB2,013.46 million for the corresponding period in last year, representing an increase of 17.25%. Other operating revenue amounted to RMB26.40 million, which increased by RMB5.49 million as compared with RMB20.91 million for the corresponding period in last year, representing an increase of 26.22%.

1. The main factor for the changes in revenue of principal operations: During the Reporting Period, the changes in the sale volume, sale price and product mix contributed to the increase in the main operating revenue during the period.

2. The main factor for the changes in revenue of other operations: During the Reporting Period, an increase of sales in materials caused a growth in revenue of other operations as compared with the corresponding period in last year.

(4) Analysis of change in total profits

During the Reporting Period, total profits was RMB271.12 million, representing an increase of 35.73% over the same period of last year. Some of the major factors affecting the change in total profits are:

a. Factors such as increase in sale volumes, sale price fluctuation, decrease in unit cost of sale, change in product mix led to an increase in profits as compared with the same period of last year.

b. Sales tax and surcharge was RMB25.00 million, representing an increase of 37.03% as compared with the same period of last year, which was mainly due to the increase in income from principal operations as compared with the same period of last year which led to an increase in the city construction tax and education surcharge payable as compared with the same period of last year.

c. Expenses during the Reporting Period were RMB634.31 million, representing an increase of 24.52% as compared with the same period of last year, mainly due to an increase of 30.48% in selling and distribution expenses as compared to the same period of last year, which was due to the company putting more efforts to expand the sales of key products caused an increase in items, such as salaries, advertisement fee and sales business expenses as compared to the same period of last year. General and administrative expenses increased by 19.48% as compared with the same period of last year, which was mainly due to the increase in research and development expenses as compared with the same period of last year.

d. Non-operating income was RMB7.39 million, representing an increase of 101.21% as compared with the same period of last year, which was mainly due to an increase of government grants received as compared with the same period of last year.

e. Non-operating expense was RMB5.89 million, representing an increase of 606.08% as compared with the same period of last year, which was mainly due to the donation increased as compared with the same period of last year and the relevant registration fees of the property transferred by the affiliated companies was RMB1.50 million.

3. Analysis of the Change in Major Indicators

(1) Total assets were RMB3,533.92 million at the end of Reporting Period, representing an increase of 12.28% as compared with the beginning of the year. Among the assets, current assets amounted to RMB1,962.27 million, representing an increase of 21.66% as compared with the beginning of the year; non-current assets amounted to RMB1,571.65 million, representing an increase of 2.42% as compared with the beginning of the year. Changes in assets were mainly due to the following reasons:

a. Cash and cash equivalents of RMB421.94 million, increased by 57.36% as compared with the beginning of the year, mainly due to more cash outflow from operating activities of subsidiaries of BYS than the cash outflow during the Reporting Period;

b. Notes receivable of RMB531.30 million, increased by 64.46% as compared with the beginning of the year, mainly due to the increase of banker's acceptance bills from sale of products received by subsidiaries of BYS as compared with the beginning of the year caused an increase in outstanding bank acceptances bills held at the end of the period;

c. Prepayments of RMB51.78 million, increased by 31.56% as compared with the beginning of the year, mainly due to the growth of the major operations of the subsidiaries of BYS and the increase of prepayment made by subsidiaries of BYS to suppliers in accordance with the requirements of purchase agreement, as compared with the beginning of the year;

d. At the end of the Reporting Period, other receivable of RMB35.59 million, increased by 55.53% as compared to the beginning of the year, mainly due to: the additional outstanding receivables of the BYS firm license fee as at the end of Reporting Period and there was no such receivables in the corresponding period in last year; the staff borrowing business balance as at the end of Reporting Period increased as compared with the beginning of the year;

e. Other current assets of RMB480,000, decreased by 36.24% as compared with the beginning of the year, mainly due to the decrease of deferred expenses such as property insurance expenses, as compared with the beginning of the year at the end of the Reporting Period;

f. Construction in progress of RMB62.19 million, increased by 51.85% as compared with the beginning of the year, mainly due to the increase of the construction in progress cost, as compared with the beginning of the year resulting from the uncompleted projects, including GMP modification project of the affiliated enterprise of BYS at the end of the Reporting Period;

g. Deferred income tax assets of RMB48.28 million, increased by 58.49% as compared with the beginning of the year, mainly due to the increase in deductible time difference at the end of Reporting Period.

(2) Total liabilities were RMB1,928.47 million at the end of Reporting Period, increased by 10.85% as compared with the beginning of the year. Among the liabilities, current liabilities amounted to RMB1,732.28 million, increased by 10.22% as compared with the beginning of the year; non-current liabilities amounted to RMB196.19 million, increased by 16.66% as compared with the beginning of the year. Changes in liabilities were mainly due to the following reasons:

a. Notes payable of RMB410,000, which decreased by 99.26% as compared with the beginning of the year, mainly due to the decrease in the raw material amount settled with banker's acceptance bills as compared with the beginning of the year;

b. Accounts payable of RMB409.30 million, which increased by 36.08% as compared with the beginning of the year, mainly due to the increase in the outstanding raw material amount as compared with the beginning of the year at the end of the Reporting Period;

c. Wages payable to staff of RMB69.27 million, which increased by 55.41% as compared with the beginning of the year, mainly due to the increase in the wage-related expenses accrued provided according to the annual wage and salary plan as compared to the beginning of the year at the end of the Reporting Period;

d. Taxes payable of RMB82.82 million, increased by 161.02% as compared with the beginning of the year, mainly due to the increase in the income from principal operations and profit during the Reporting Period as compared with the same period of last year, which led to an increase of value-added tax, urban maintenance and construction tax and education surcharge as compared with the beginning of the year, the increase of the total profit and the deductible time difference at the end of the Reporting Period led to an increase of corporate income tax payable as compared with the beginning of the year;

e. Other current liabilities of RMB92.07 million, increased by 447.92% as compared with the beginning of the year, mainly due to the increase in costs, including the advertisement fee which occurred but has not been paid and the research and development fee provided as compared with the beginning of the year;

f. Provisions of RMB72.09 million, increased by 63.89% as compared with the beginning of the year, mainly due to the increase of the revenue in the major operation of the Company's subsidiaries led to the increase in the outstanding sales rebates payable provided pursuant to the annual distribution agreement as compared with the beginning of the year.

(3) At the end of the Reporting Period, shareholders' equity (including minority interest) totaling RMB1,605.44 million, increased by 14.06% as compared with the beginning of the year, mainly due to:

Undistributed profits of RMB815.08 million, increased by 30.86% as compared with the beginning of the year, mainly because that BYS realized profits for the Reporting Period, therefore retained profits increased accordingly.

(4) Cash flow composition

The balance of cash and cash equivalents of BYS was RMB421.81 million at the end of the Reporting Period, among which, net cash flows generated from operating activities of RMB270.53 million, representing an increase of 78.23% as compared with the same period of last year; net cash flows generated from investing activities of -RMB26.19 million; and net cash flows generated from financing activities of -RMB79.01 million. Details of cash flows are:

a. Details of net cash flows generated from operating activities

Cash generated from sale of products increased by RMB352.02 million as compared with the same period of the previous year, resulting in cash inflow from operating activities increased by RMB348.17 million as compared with the same period of the previous year. However, payment of cash used in purchasing products increased by RMB125.63 million as compared with the same period of the previous year, cash used in the payment of wages to staff increased by RMB42.61 million as compared with the same period of the previous year and cash used in the payment of various taxes increased by RMB60.67 million as compared with the same period of the previous year, resulting in cash outflow from operating activities increased by RMB229.42 million as compared with the same period of the previous year.

b. Details of net cash flows generated from investing activities

Cash inflow from investing activities during the Reporting Period increased by RMB22.24 million as compared with same period of the previous year, mainly due to the receipt of cash dividend of RMB20.00 million distributed by the jointly controlled entity Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd; Cash outflow from investing activities increased by RMB13.83 million as compared with same period of the previous year, mainly due to the cash payment for fixed assets acquisition and construction increased by RMB13.53 million as compared with same period of the previous year.

c. Details of net cash flows generated from financing activities

Cash inflow from financing activities during the Reporting Period increased by RMB77.40 million as compared with same period of the previous year, mainly due to the cash received from borrowings increased by RMB77.40 million as compared with same period of the previous year; Cash outflow from financing activities decreased by RMB41.05 million as compared with same period of the previous year, mainly due to the cash paid for bank loan repayment decreased by RMB65.90 million as compared with same period of the previous year, cash paid in dividends distribution and interests repayment increased by RMB24.85 million as compared with same period of the previous year.

4. Pledged Assets

BYS pledged its production facility for solid dosage located at 78 Yunxiang Road, Baiyun District, Guangzhou with gross floor area of 9,955.9876 sq.m., its production facility for oral liquids and soft capsules located at 82 Yunxiang Road, Baiyun District with gross floor area of 2,938.61 sq.m and its building located at 2 Yunxiang Road, Baiyun District with gross floor area of 74,484.91 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a loan of maximum amount of RMB118 million. At the end of the period, the actual borrowing amounted to RMB35.00 million.

BYS Tian Xin, a subsidiary of BYS, deposited as mortgage an office building located at self-numbering 6, East 808 Binjiang Road to Miao Qian Zhi Street Branch, Guangzhou, ICBC for acceptance notes or loans of RMB30 million. As at 30 June 2012, the balance of facility available amounted to RMB0.00 million.

5. Liquidity

As at 30 June 2012, the current ratio of BYS was 1.13 (30 June 2011: 0.95), and its quick ratio was 0.76 (30 June 2011: 0.54). Accounts receivable turnover rate was 11.16 times, representing an increased by 4.59% as compared with 2011. Inventory turnover rate was 2.21 times, representing an increase by 16.93% as compared with 2011.

6. Financial Resources

As at 30 June 2012, balance of cash and cash equivalents of BYS amounted to RMB421.81 million.

As at 30 June 2012, BYS had bank borrowings of RMB782.10 million in total, which were short-term borrowings (31 December 2011: RMB805.80 million).

7. Capital Structure

As at 30 June 2012, the current liabilities of BYS amounted to RMB1,732.28 million (30 June 2011: RMB1,643.01 million) and represented an increase of 5.43% from 30 June 2011, while the non-current liabilities amounted to RMB196.19 million (30 June 2011: RMB166.92 million) which represented an increase of 17.54% from 30 June 2011. Equity attributable to shareholders of BYS was RMB1,535.71 million (30 June 2011: RMB1,242.61 million), representing an increase of 23.59% from 30 June 2011.

8. Gearing Ratio

As at 30 June 2012, BYS's gearing ratio (calculated according to the formula: total liabilities of RMB1,928.47 million/total assets of RMB3,533.92 million) was 54.57% (31 December 2011: 55.28%) with a decrease of 0.71% as compared with the beginning of the period.

9. Risk of Changes in Exchange Rate and Relevant Hedging Arrangements

The majority of the income, expenses, assets and liabilities of BYS are denominated or settled in RMB. Therefore BYS had no significant exchange rate risks.

10. Contingent Liabilities

As at 30 June 2012, there was no significant contingent liabilities of BYS.

11. Details of Internal Control System Relating to Fair Value Measurement

In formulating the accounting policies of BYS, the Board and management of BYS can prudently and appropriately select the fair value model measurement in accordance with the requirements of the Accounting Standards for Business Enterprises, chose to adopt the fair value model measurement for the investment properties only on condition that the real estate market is relatively mature and can satisfy the conditions for the adoption of fair value model and formed a resolution on the basis of thorough discussion.

For the changes in fair value of investment properties, BYS commissioned the intermediary to make assessment on the balance sheet date. The finance departments and assets management departments of BYS and subordinated enterprises organize the assessment, hold a meeting for the appraised value, demonstrate the appropriateness of the fair value approach and the relevant valuation technique, analyze and confirm the results of the assessment and report to the management and the Audit Committee.

In light of the impact of the changes in fair value of the appropriateness of fair value valuation approach and measurement technique, BYS will further improve the relevant risks management and internal control system to increase the prudence in applying the fair value.

Items measured at fair value

Currency Unit: RMB

Items	Opening balance	Gains/(losses) on change in fair value for the period	Cumulative fair value changes recognized in equity	Impairment losses accrued for the period	Closing balance
Financial Assets					
Include:					
1. Financial assets recognized at fair value with changes taken into profit and loss of the current accounting period	–	–	–	–	–
Include: Derivative financial assets	–	–	–	–	–
2. Available-for-sale financial assets	277,988.54	0.00	194,637.56	–	281,066.86
Financial assets sub-total	277,988.54	0.00	194,637.56	–	281,066.86
Financial liabilities					
Investment property	343,754,730.00	5,266,230.00	189,351,675.54	–	279,804,070.00
Productive biological assets	–	–	–	–	–
Others	–	–	–	–	–
Total	344,032,718.54	5,266,230.00	189,546,313.10	0.00	280,085,136.86

12. Details of Number, Remuneration, Remuneration Policies and Bonus of Employees

As at 30 June 2012, the number of employees on the payroll register of BYS was 5,337.

Among which,

Production staff	2,799
Finance personnel	97
Administrative staff	991
Sales personnel	730
Technical staff	720

1,074 of the employees in BYS were holders of a bachelor's degree or above. Besides, the number of retirees was 4,715. The total salary payment for the first half of the year was approximately RMB273 million.

The remuneration of the employees of BYS included salaries, bonuses, subsidies, and relevant social insurance, housing provident fund and other fringe benefits. BYS, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

13. Future Plan of Significant Investment or Acquisition of Capital Assets and Expected Financing in the Coming Year Therefor

In the second half of 2012, BYS will invest as required in technical improvement of plants or production facilities. As at the end of the Reporting Period, there was no specific plan of investment or financing.

14. Risk Factors That May Negatively Affect the Realization of the Future Development Strategy and Operating Target of BYS

(1) The new medical reform and the launch of a series of ancillary policies resulted in bigger changes in the landscape of pharmaceutical market and increased uncertainties in the operation of enterprises; determination of prices for basic medicines through bidding, reduction of the maximum retail prices for medicines and the formal implementation of grade management of antibiotics medicines will bring certain pressure on relevant pharmaceutical enterprise.

(2) The implementation of new edition of GMP and Chinese Pharmacopoeia (2010 edition) raised higher requirements for the quality work of enterprises, the investment in technological modification will inevitably increase and the increase in labour cost also increases the operating cost of the enterprise.

(3) The statutory full implementation of "Discharge Standard of Water Pollutants for Pharmaceutical Industry" imposed mounting pressure on the pharmaceutical manufacturers.

(4) Huge investment and long payback cycle for the research and development and technological innovation for medicines increased the uncertainties of investment returns for research and development.

15. Work Plan for the Second Half of 2012

In the second half of 2012, BYS will continue to advance the GMP modification, develop "cash cow" products, Major Assets Reorganization, brand building and strengthening scientific management and other works, to ensure the steady and faster development of BYS.

(1) BYS will further advance the Major Assets Reorganization. BYS will put more effort to accelerate the process of the reorganization. Meanwhile, leveraging on the opportunity of the listing of the principal pharmaceutical operation of GPHL, BYS will further demonstrate the synergies by strengthening resources integration and spur the good and fast development of BYS.

(2) BYS will implement legend products project. BYS will advance the marketing of products with competitive strengths, less affected by policies and greatly supported by the policies; BYS will step up efforts to spur the construction of key products project, make advantageous products bigger, make stronger products with potential and make better branded products.

(3) BYS will strengthen the scientific and technological innovation. BYS will speed up the adjustment of industry structure, continuously increase the proportion of patent medicines and high value-added products in our operations, and drive the change in product mix from mainly relying on low value-added finished medicines products to high value-added and innovative products driven; we will further strengthen its communication and cooperation with famous research institutes, actively prepare and managed to be successful in "replicating products quickly" by leveraging on various forms, such as joint development among the manufacture, learning and research; BYS will conduct secondary development for famous brand products, and carry out the secondary development for the famous brand Chinese patent medicines taking full account of the needs of the customers and market characteristics. Through the effective research and development, BYS will seek to make breakthrough in the function mechanism, formulation and technique as well as specification and types of preparations to further enhance the market advantage for the famous brand products.

(4) BYS will fully advance the new edition GMP modification. According to the overall plan for the implementation of work developed, the industrial enterprises will fully advance the modification of personnel, software and hardware to meet the new requirements with clear division of labour and specific responsibility for each person for concrete advancement, effective work and orderly carrying out, to ensure passing the new edition GMP certification before the deadline. Meanwhile, leveraging on the opportunity of the implementation of new edition of GMP, BYS will improve and optimize production technique and process, facilitate the technological advancement, improve product quality, reduce energy consumption and strengthen the comprehensive use of resources and safeguard the safe production.

(5) BYS will continue to strengthen the scientific management. First is to refine quality management. Leveraging on the opportunity of the implementation of new edition of GMP, enterprises will further strengthen the quality management, continuously enhance the employees' "Quality First" awareness, and refine the whole process of quality control from incoming raw materials, processing and manufacturing, product packing, logistics and distribution and after-sales service; second is to refine the risks control and management. BYS will further refine the construction of comprehensive risks management system to realize the standardized, standard and regular management of risks control, to ensure the risk control system to be implemented and effective; third is to refine cost management. BYS will analyze and predict the market dynamics and price trend for raw materials on a timely basis, grasp market information accurately and

timely and swiftly adjusted procurement strategy to make low price procurement with high quality and full quantity. BYS will implement responsibility budget to ensure the expenditures have been under control.

(ii) For the year ended 31 December 2011

I. REVIEW OF OPERATING RESULTS OF BYS DURING THE REPORTING PERIOD

In 2011, the pharmaceutical industry was gradually undergoing a new medical reform, essential pharmaceutical bidding policies have been introduced in different areas, and there was an increase in the difficulties for successful bidding of essential drug. The overall level of drug prices continued to be adjusted downwards. All of the costs of raw materials of Chinese herbal medicines, labour costs and the interest rates of financing increased. The PRC government's rectification of the irrational use of antimicrobial pharmaceutical intensified. Competitions between pharmaceutical companies exacerbated and competition for market share became more intense. Facing the severe situation of "two down one up"(二降一升) (i.e., essential drug bidding prices decreased, chance of successful bidding decreased, and costs such as raw material costs, labour costs, financing interest rates increased), BYS followed the working plans as formulated at the beginning of the year, by paying serious attention and studying the change brought about by the supporting policies of new medical reform and macroeconomic policies on operating environment. Through implementation of measures such as adjustment of product mix, expansion of the scale of sales, reduction of costs, and control of expenses, BYS realized a rapid growth in revenue and profits. During the Reporting Period, BYS realized income from operations of RMB3,799.1331 million, representing an increase of 14.54% over the last year; realized total profits of RMB328.2921 million, representing an increase of 27.7% over the last year; realized net profits of RMB280.2157 million, representing an increase of 27.92% over the last year. Among which, the net profit attributable to the owners of the parent company amounted to RMB261.0856 million, representing a year on year growth of 27.52%.

In 2011, BYS actively responded to the essential pharmaceutical bidding policy and market competition. By adjusting the marketing strategy and carrying out the activities of the "academic marketing year" (學術營銷年), BYS's sales volume has been further expanded. Firstly, BYS strengthened target management, carried out "double target achievement" (雙達標) activities, and conducted monthly assessment on revenue and profit targets for affiliated enterprises. Affiliated enterprises segregated the targets and allocated them to various levels, and took measures like improving incentive mechanism to ensure achievement of the targets. Secondly, BYS carried out academic marketing through various academic activities, which effectively promoted the sales of the products. For example, the joint venture Baiyunshan Hutchison Whampoa set up a designated academic department, and organized 12 large scale academic conferences, 500 science promotional conferences, over 1,000 trainings for retail staffs, and over 1,000 community activities during the year, and over 1,000 experts who are influential in the industry participated. This effectively deepened the understanding of related parties and consumers about the corporation and its products, and drove retail sales of the products. Thirdly, BYS adjusted the product mix. It increased efforts in the development of key product markets, and promoted the sales of key products and special products. Through focusing strategy, key products like cephathiamidine raw materials and preparation of Baiyunshan General Factory and Baiyunshan Chemical Factory, Naoxinqing tablets (腦心清片), which is the exclusive product of BYS Hutchison Whampoa, Qing Kai Ling series (清開靈系列) of BYS Ming Xing, clindamycin phosphate (克林霉素磷酸酯) of BYS Tian Xin, Xiaochaihu particles (小柴胡顆粒) and Naoluotong Capsules (腦絡通膠囊) of BYS Guang Hua, and Paracetamol, Caffeine and Aspirin Powder and 701 paste series of Hejigong all realized a rapid growth. Fourthly, BYS strengthened its effort on drug bidding. Baiyunshan General Factory, BYS Tian Xin, BYS Ming Xing etc. took advantage of the trend of national essential pharmaceutical catalog product policy, seriously addressed and actively participated in the bidding of pharmaceutical in all regions, strengthened and developed bidding management rules of all regions for the country, established and improved the bidding price information archive of the whole country. At the same time BYS worked on accelerating the establishment of essential pharmaceutical catalog of products in the prefecture-level city dealer network, and looking for co-operation partners with regional distribution capabilities, striving to win bid at a reasonable product price, and expansion of scale rapidly. Fifthly, BYS actively expanded terminal network. Each enterprise used a basic development model which combined "advertisement + terminal development + channel management" in order to strengthen the development of terminal clients and products development work, optimized client structures, vigorously expanded the chain of direct supply business, and promoted sales amount from quality client under agreements. Sixthly, BYS worked hard to comply with certain relevant government affairs, including commodity price, bidding price, health insurance, etc. Through these efforts, the sales volume of BYS further improved. There were 12 products (series) with sales volume over RMB100 million (among them 9 from BYS and its controlling subsidiaries; 3 from joint ventures, which were Fu Fang Dan Cen Pian (複方丹參片) (RMB357.51 million) and Banlangen (RMB336.71 million) of BYS Hutchison Whampoa and Medium-chain and Long-chain Triglycerides Lipid Emulsion Injection (脂肪乳注射液) (RMB204.94 million) of Baxter Qiao Guang.

In 2011, BYS increased the brand promotion, consolidated the resources of GPHL and affiliated enterprises, and established a brand image of "Guangzhou Pharmaceutical Baiyunshan: love around the world". With the advantages of technology and brand reputation, BYS and its controlling subsidiaries, its branch companies, joint ventures BYS Tian Xin, BYS Guang Hua, BYS Ming Xing, Baiyunshan Hejigong, BYS Hutchison Whampoa etc. to become "Guangzhou City famous brand strategy focus on fostering and supporting the development of its own brands". "GAP" and "fingerprint" (指紋圖譜) trademark of Baiyunshan Hutchison, and "701" trademark of BYS became well known trademarks in Guangdong Province and Guangzhou city. BYS Ming Xing and BYS Guang Hua were recognized as "China Time-honored Brand" enterprises.

In 2011, BYS coordinated the arrangements of capacity planning which will meet long-term and short-term market demand, and independently raised funds for the implementation of projects such as the industrialization upgrading of innovative pharmaceutical cephathiamidine powder (頭孢硫脒粉) for injection and other cephalosporin powder (頭孢粉) for injection preparation of Baiyunshan General Factory, the construction project for the off-site capacity expansion of the Fourth Manufacturing Department and workshop technology reform for cephalosporins solid preparation of BYS Tian Xin. At the same time BYS actively promoted the work of "Two move out and Three move on" (退二進三), and "Three Old Reform" (三舊改造), and strived to build a good foundation for BYS's long term development.

In 2011, BYS accelerated the building up of technology quality system and raised its own innovation capability. BYS continued to improve product quality, implement the new version of GMP, GSP and implement the revision of Chinese Pharmacopoeia in 2010. With the five-grade quality system as its basis, BYS speeded up the construction of technological quality system. BYS's joint venture BYS Hutchison Whampoa was awarded "2011 National Torch Plan Key High-tech Enterprise", led in the establishment of the first "Translational Medical Research Centre" among pharmaceutical enterprises in PRC. Its project "Rapid and sustainable development of the innovation system of Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine" was awarded Second Prize for Scientific and Technological Progress in Guangdong Province. The project for research on stomatitis clear anti-spore herpes virus (口炎清抗孢疹病毒) and Type One innovative drug BYS03 for chronic obstructive pulmonary disease (COPD) in co-operation with Zhong Nanshan, an academician of the Chinese Academy of Engineering, became the first "industry, academic and research bases project" to enter into the State Key Laboratory of Respiratory Diseases. The project "Development and industrialization of a new cephalosporin preparation – cefprozil dispersible tablets" of Baiyunshan General Factory was awarded Third Prize for Scientific and Technological Progress of Guangdong Province. During the Reporting Period, BYS researched 17 new pharmaceutical in total. There were 8 pharmaceutical which obtained clinical approval documents and applied for production approval documents; 4 products obtained approval for production; and 89 scientific research projects were carried out. Various projects of BYS passed the inspection, including "Green enzymatic technology industrialisation and application of a new cephalosporin intermediates (「新型頭孢菌素中間體綠色酶法技術產業化及應用」)", "Cefathiamidine me-too innovative pharmaceutical – research and development of cephalosporin triazine amidine" (「頭孢硫脒me-too創新藥一頭孢嗪脒的研發」), "Oseltamivir phosphate capsules industrialisation testing research" (磷酸奧司他韋及膠囊中試產業化研究), "Pre-clinical Research of Dieda Analgesic Cataplasm" (跌打鎮痛巴布劑) etc.

In 2011, BYS paid close attention to cost control of enterprise. Through the promotion of cost management strategy called "Squeezing water from dry towel" (乾毛巾擦出水) of BYS Tian Xin and the "6S" creative management of BYS Hutchison Whampoa, a strong aspiration has been created to strengthen cost management to respond to and absorb the decline in gross margin across BYS. Three expense ratios of BYS recorded a decrease of 2.5% over the last year.

In 2011, BYS reinforced risk control management, on the basis of last year's risk control review, and carried out comprehensive reform for the weaker sections. Baiyunshan General Factory, as a pilot, has established a basic framework for comprehensive risk control system. BYS renewed work such as party building, strengthened anti-corruption measures, and strived hard to establish a harmonious corporation. Because of the outstanding work, the party committee of BYS Hutchison Whampoa was honoured with the titles of "National Advanced Grass-Roots Party Organizations" (全國先進基層黨組織) and "Red Flag Grass-Roots Party Organizations in Guangdong Province" (廣東省紅旗基層黨組織). BYS actively performed social responsibilities, carried out a series of activities like "Expired pharmaceutical recovery from families" (家庭過期藥品回收), and extended the "1 yuan deduction for recycling of waste pharmaceutical packaging"（廢舊藥品包裝回收抵1元）activity, and actively participated in "Happiness Guangdong, healthy counterparts"（幸福廣東、健康同行）, which was jointly held by CPC Guangdong Provincial Party Committee Organization Department, Guangdong Provincial Party Committee of the Communist Youth League, Provincial Health Department, Provincial Food and Drug Administration, Provincial Office of Poverty Alleviation, Provincial Young Volunteers Association and GPHL, etc. BYS helped the poor by donating drug kits to them. It also assisted Meizhou Nanxi Village to engage in grass jelly industry poverty alleviation projects, and assisted villagers of Guangzhou Conghua Dadang Village through engaging in cultivation to alleviate the poverty.

In 2011, the comprehensive competitiveness of BYS was further strengthened. Affiliated companies showed a good trend of balanced development. However, BYS still faced the continuing effects from uncertain factors such as rising costs, decreasing drug prices and new medical reform. Because of these reasons which are beyond the control of BYS, the speed of BYS's capacity enhancement and upgrading may not achieve the expected goals. The problem of inadequate production capacity still exists; the input of corporate scientific research needs to be further strengthened; and the speed for converting scientific and technological achievements into productive forces still needs to be increased.

(1) Operating income

1. The composition of income from principal operations

BYS engages in pharmaceutical manufacturing industry, see below the table for specific operation details:

Principal operations by businesses or products

Unit: RMB'000

Principal operations by businesses

By businesses	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
(1) Chemical pharmaceutical ingredients manufacturing	441,974.3	385,795.1	12.71%	1.19%	-2.10%	Increase 2.93%
(2) Chemical dosage manufacturing	2,202,881.9	1,373,735.3	37.64%	14.03%	18.21%	Decrease 2.21%
(3) Chinese medicine and Chinese patent medicine processing	932,156.8	592,950.2	36.39%	13.62%	8.02%	Increase 3.30%
(4) Other pharmaceutical manufacturing	6,712.3	6,877.6	-2.46%	9.16%	10.12%	Decrease 0.89%
(5) Pharmaceutical products trading	174,854.9	137,220.2	21.52%	207.58%	460.31%	Decrease 35.40%

Principal operations by products

By products	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
Amoxicillin (阿莫西林)	206,793.2	115,584.0	44.11%	-7.13%	0.76%	Decrease 4.37%
Qing Kai Ling (清開靈)	357,394.0	180,505.4	49.49%	30.63%	31.90%	Decrease 0.49%
Yili Keteling (一力咳特靈)	152,081.9	145,701.0	4.20%	-26.81%	-22.80%	Decrease 4.98%

Principal operations by products

By products	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
Cephathiamidine for injection (注射用頭孢硫脒列系)	354,277.0	176,516.7	50.18%	33.69%	28.09%	Increase 2.18%
Cefixime tablets (頭孢克肟)	180,565.3	50,889.6	71.82%	22.95%	19.07%	Increase 0.92%
Ceftriaxone Sodium Raw Material (頭孢曲松鈉原料)	109,954.7	120,173.6	-9.29%	-13.68%	-6.99%	Decrease 7.85%
Cefuroxime Sodium (頭孢呋辛鈉)	109,713.7	104,707.7	4.56%	8.91%	7.77%	Increase 1.01%
Paracetamol, Caffeine and Aspirin Powder (阿咖酚散)	140,667.3	73,642.8	47.65%	43.69%	31.17%	Increase 5.00%
Xiaochaihu particles (小柴胡顆粒)	128,893.6	82,379.4	36.09%	43.85%	59.04%	Decrease 6.11%

Note: Gross profits from pharmaceutical products trading of BYS decreased 35.40% as compared with same period of last year, due to the lower gross profit margin of some new products of the controlling subsidiary, Baiyunshan Technology during year 2011, leading to the overall decrease in gross profit margin over last year.

Principal operations by regions

Unit: RMB'000

Regions	Operational income	Change in operational income as compared with same period of last year
Southern China	1,658,333.3	8.27%
Eastern China	574,631.1	42.31%
Northern China	372,604.2	-4.67%
Northeast China	144,090.8	26.51%
Southwest China	409,532.3	43.26%
Northwest China	109,586.9	119.76%
Central China	489,801.6	2.89%

2. Reason for the changes in operating income

During the year, the operating income of RMB3,799.13 million was realized, which increased by RMB482.27 million as compared with RMB3,316.86 million over last year and representing an increase of 14.54%. Among which, the main operating revenue amounted to RMB3,758.58 million, which increased by RMB506.55 million as compared with RMB3,252.03 million of last year and representing an increase of 15.58%. Other operating revenue amounted to RMB40.55 million, which decreased by RMB24.28 million as compared with RMB64.83 million of last year and representing a decrease of 37.45%.

(1) The main reason for the changes in main operating revenue: The changes in the sale volume and product mix during the year contributed to the increase in the main operating revenue while the changes in the selling price caused decrease in the main operating revenue. As a result, the main operating revenue of BYS grew during the year.

(2) The main reason for the changes in other operating revenue: During the previous year, the real estate of He Ji Gong Pharmaceutical Factory located at Yuexiu North Road, Yuexiu District, Guangzhou was expropriated by the Construction and Municipality Bureau in Yuexiu District of Guangzhou and was compensated according to the appraised market value of such real estate plus subsidy and relocation subsidy. The total compensation amounted to RMB22.67 million which caused an increase of RMB22.67 million in other operating revenue. There is no such compensation revenue in this year and led to the decrease in other business revenue as compared with last year.

(2) Assets

Total assets were RMB3,147.36 million at the end of Reporting Period, representing an increase of 3.01% as compared with the beginning of the year. Among the assets, current assets amounted to RMB1,612.87 million, representing an increase of 5.48% as compared with the beginning of the year; non-current assets amounted to RMB1,534.49 million, representing an increase of 0.54% as compared with the beginning of the year.

1. Items which have a greater change as compared with the beginning of the year:

(1) Cash and cash equivalents of RMB268.13 million, decreased by RMB72.72 million as compared with the beginning of the year, representing a decrease of 21.33%, mainly due to the repayment of bank loans by BYS during the Reporting Period;

(2) Notes receivable of RMB323.06 million, increased by RMB123.69 million as compared with the beginning of the year, representing an increase of 62.04%, mainly due to the increase of banker's acceptance bills from sale of products received by subsidiaries as compared with the beginning of the year during the Reporting Period;

(3) Prepayments of RMB39.36 million, increased by RMB20.40 million as compared with the beginning of the year, representing an increase of 107.60%, mainly due to the increase of prepayment made by subsidiaries to suppliers in accordance with the requirements of purchase agreement, as compared with the beginning of the year during the Reporting Period;

(4) Dividends receivable of RMB20.00 million, increased by RMB20.00 million as compared with the beginning of the year, mainly due to the dividends receivable for 2010 from the joint venture Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. during the Reporting Period;

(5) Development expenses of RMB3.02 million, decreased by RMB1.70 million as compared with the beginning of the year, representing a decrease of 36.02%, mainly due to the obtaining of patent rights for research and development project, and their transfer to intangible assets;

(6) Long-term deferred expenses of RMB1.86 million, increased by RMB0.43 million as compared with the beginning of the year, representing an increase of 30.18%, mainly due to some new long-term deferred expenses during the Reporting Period, leading to the increase in outstanding long-term deferred expenses as compared with the beginning of the year.

2. *Assets measured at fair value*

Currency Unit: RMB

Items	Opening balance	Gains/(losses) on change in fair value for the period	Cumulative fair value changes recognized in equity	Impairment losses accrued for the period	Closing balance
Financial Assets:					
Include:					
1. Financial assets recognized at fair value with changes taken into profit and loss of the current accounting period	–	–	–	–	–
Include:					
Derivative financial assets	–	–	–	–	–
2. Available-for-sale financial assets	308,419.88	0.00	191,559.24	–	277,988.54
Financial assets sub-total	308,419.88	0.00	191,559.24	0.00	277,988.54
Financial liabilities					
Investment property	344,454,670.00	-699,940.00	263,231,432.18	–	343,754,730.00
Productive biological assets	–	–	–	–	–
Others	–	–	–	–	–
Total	344,763,089.88	-699,940.00	263,422,991.42	0.00	344,032,718.54

(3) Liabilities

Total liabilities were RMB1,739.78 million at the end of Reporting Period, decreased by RMB150.61 million as compared with the beginning of the year, representing a decrease of 7.97%. Among the liabilities, current liabilities amounted to RMB1,571.61 million, decreased by RMB166.80 million as compared with the beginning of the year, representing a decrease of 9.59%; non-current liabilities amounted to RMB168.17 million, increased by RMB16.19 million as compared with the beginning of the year, representing an increase of 10.65%. Changes in liabilities were mainly due to the following reasons:

(1) Short-term borrowings of RMB805.80 million, decreased by RMB217.20 million as compared with the beginning of the year, representing a decrease of 21.23%, mainly due to parent company allocated fund for bank loan repayment through fund coordination management;

(2) Taxes payable of RMB31.73 million, increased by RMB15.89 million as compared with the beginning of the year, representing an increase of 100.29%, mainly due to the increase in the income from principal operations during the Reporting Period as compared with the same period of last year, which led to value-added

tax, city construction tax, education surcharge and corporate income tax payable at the end of the Reporting Period increased as compared with the beginning of the year;

(3) Interests payable of RMB1.45 million, increased by RMB0.37 million as compared with the beginning of the year, representing an increase of 34.39%, mainly due to the decrease in bank borrowings of BYS during the Reporting Period which led to decrease in interests payable. However, as bank loan's interest rates increased as compared with the beginning of the year, interests payable at the end of the Reporting Period were still more than that at the beginning of the year;

(4) Dividends payable of RMB17.16 million, increased by RMB5.03 million as compared with the beginning of the year, representing an increase of 41.53%, mainly due to the dividends payable to minority shareholders were still not paid at the end of Reporting Period;

(5) Other non-current liabilities of RMB40.77 million, increased by RMB9.11 million as compared with the beginning of the year, representing an increase of 28.79%, mainly due to government subsidy taken into profit and loss of the period for subsequent period and recognized by the subsidiary increased as compared with last year.

(4) Shareholders' equity

At the end of the Reporting Period, shareholders' equity (including minority interest) totaling RMB1,407.58 million, increased by RMB242.66 million as compared with last year, representing an increase of 20.83%, mainly due to:

(1) Surplus reserve of RMB142.62 million, increased by RMB24.48 million as compared with the beginning of the year, representing an increase of 20.72%, mainly due to the transfer of 10% earnings to the statutory surplus reserve for the year according to the requirement of the articles of association of BYS in relation to profit distribution;

(2) Undistributed profits of RMB622.88 million, increased by RMB213.16 million as compared with the beginning of the year, representing an increase of 52.02%, mainly due to that BYS realized profits for the Reporting Period, therefore profits retained in corporation increased accordingly.

(5) Analysis and illustration of changes in total profits and enterprise income tax as compared with the last year

1. Analysis of change in total profits as compared with the last year

Total profits for the year was RMB328.29 million, which increased by RMB71.20 million from RMB257.09 million of last year, representing an increase of 27.70%. Some of the major factors affecting the change in total profits are:

Operational factors leading to the increase in profits of the year as compared with the previous year, including:

(1) factors such as increase in sale volumes, decrease in unit cost of sale, change in product mix led to an increase in profits as compared with the previous year. Change in selling prices, sales tax and surcharge led to a decrease in profits as compared with the previous year;

(2) expenses during the Reporting Period was RMB990.14 million, increased by RMB52.11 million as compared with the previous year, representing an increase of 5.55%, mainly due to the increase of RMB58.70 million in general and administrative expenses as compared with the previous year, representing an increase of 15.74% as research and development expenses increased by RMB55.87 million as compared with the previous year;

(3) gain on change in fair value was -RMB0.7 million, which decreased by RMB3.71 million as compared with the previous year, representing a decrease of 123.27%, mainly due to subsequent measurement of investment property using the fair value model during the year, and fair value at balance sheet date decreased slightly, resulting in this year's gain on change in fair value decreased by RMB3.71 million as compared with the previous year;

(4) asset impairment loss decreased as compared with the previous year, resulting in an increase in profits of RMB4.15 million;

(5) income from investment increased as compared with the previous year, resulting in an increase in profits of RMB14.00 million, mainly due to:

  (1) Income from joint venture investment recognized using equity method during the year was RMB53.94 million, increased by RMB17.76 million as compared with the previous year. Among which, recognized investment income from Baiyunshan Hutchison Whampao was RMB51.56 million, increased by RMB5.98 million as compared with the previous year; recognized investment income from Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. of RMB2.38 million, comparing with the loss of RMB9.40 million in the same period of the previous year, resulting in an increase of RMB11.78 million in profits;

(2) Transfer of equity interests in associated company, Guangzhou Pharmaceutical Football Club Limited, recognizing investment gain from transfer of equity interests of RMB3.77 million during the previous year. There was no income gained from such transfer during the year;

(6) Disposal of property of Baiyunshan Hejigong Pharmaceutical Factory during the previous year, resulting in an increase of RMB14.86 million in profits. There was no such income during the year.

Non-operating income and expense during the year resulted in a decrease of RMB4.35 million in profits, among which, non-operating income of RMB24.52 million, which increased RMB0.65 million as compared with the same period of the previous year; non-operating expense of RMB10.29 million, which increased by RMB5 million as compared with the same period of the previous year, mainly due to loss from fixed-asset retirement, welfare donation and increase in rework expense.

2. Illustration of change in enterprise income tax

Income tax expense for the year was RMB48.08 million, which increased by RMB10.05 million as compared with the same period of the previous year. Among the income tax expense, current income tax expense increased by RMB9.54 million as compared with the same period of the previous year mainly due to the increase in total profit during the year as compared with the same period of the previous year, resulting in an increase in the amount of tax by RMB10.68 million calculated according to statutory tax rate. Deferred income tax expense increased by RMB0.51 million as compared with the same period of the previous year, mainly due to change in deferred income tax assets and liabilities during the year.

(6) Cash Flow Composition

The balance of cash and cash equivalents of BYS was RMB256.48 million at the end of the Reporting Period, among which, net cash flows generated from operating activities of RMB273.91 million, representing a decrease of 16.29% compared with the previous year; net cash flows generated from investing activities of -RMB41.69 million; and net cash flows generated from financing activities of -RMB302.01 million. Details of cash flows are:

1. Details of net cash flows generated from operating activities

Cash generated from sale of products increased as compared with the same period of the previous year, resulting in cash inflow from operating activities increased by RMB374.39 million. However, payment of cash used in purchasing products increased as compared with the same period of the previous year, resulting in cash outflow from operating activities increased by RMB427.69 million, and as a result net cash flow from operating activities decreased by RMB53.30 million as compared with the previous year.

2. Details of net cash flows generated from investing activities

Net cash recovered from disposal of assets during the year was RMB5.51 million, which decreased by RMB25.63 million as compared with RMB31.13 million of the previous year, mainly due to the receipt of compensation amount of RMB22.68 million in relation to requisition of property of Baiyunshan Hejigong Pharmaceutical Factory by Guangzhou Yuexiu District Construction and Municipal Bureau in the previous year. The property was located in Yuexiu North Road of Yuexiu District, Guangzhou. There was no such disposal income during the year. Cash generated from investment income decreased by RMB7.51 million as compared with the previous year, mainly due to cash received from transfer of equity interests of Guangzhou Pharmaceutical Football Club Limited during the previous year. There was no such income during the year. As cash payment for fixed-assets acquisition and construction decreased as compared with the same period of the previous year, which caused the decrease of RMB17.57 million in the cash outflow from investing activities as compared with previous year and resulting in net cash flow from investing activities decreased by RMB4.48 million as compared with the previous year.

3. Details of net cash flows generated from financing activities

Due to bank loan repayment of RMB217.20 million, dividends distribution and interests repayment of RMB84.81 million during the year, resulting in the outflow of cash from financing activities being higher than the inflow by RMB302.01 million, and hence a decrease in net cash flow from financing activities of RMB30.33 million as compared with the previous year.

(7) Details of Operation and Results of the Major subsidiaries and joint ventures of BYS

Name of enterprises	**Registered Capital** *(RMB million)*	**% of investment**	**Main operation**	**Total assets** *(RMB million)*	**Income from main operation** *(RMB million)*	**Net profits** *(RMB million)*
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司) ("BYS Tian Xin") (「白雲山天心」)	45.693	82.49	Manufacturing, processing and sale of chemical pharmaceutical and preparations, traditional Chinese patent medicines, raw materials pharmaceutical, health food, etc.	370.7437	615.4534	32.2575

Name of enterprises	Registered Capital *(RMB million)*	% of investment	Main operation	Total assets *(RMB million)*	Income from main operation *(RMB million)*	Net profits *(RMB million)*
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.（廣州白雲山光華製藥股份有限公司）("BYS Guang Hua")（「白雲山光華」）	55.285	84.48	Manufacture of chemical medicine raw materials, preparation, traditional Chinese patent medicines, veterinary medicine, cosmetics, etc.	231.6243	397.8232	28.6500
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.（廣州白雲山明興製藥有限公司）("BYS Ming Xing")（「白雲山明興」）	26.494	100	Manufacturing, processing chemical raw materials, chemical preparations, traditional Chinese patent medicines, health food, etc.	246.5864	436.1191	32.4675
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.（廣州白雲山和記黃埔中藥有限公司）("BYS Hutchison Whampoa")（「白雲山和記黃埔」）	200.00	50	All kinds of medicines, health products, food and herbal medicines production, processing, research and development, sale of products of BYS (except for the prohibited category of foreign investment industries)	886.4247	1,106.3712	103.1174
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.（廣州百特僑光醫療用品有限公司）("Baxter Qiao Guang")（「百特僑光」）	177.50	50	Production of large volume injection, the sale of products of BYS and provide related after-sales service; research, development of pharmaceuticals	185.8948	210.5375	4.7575

(8) Major suppliers and customers

During the year, sales to the 5 largest customers amounted to RMB669.3895 million, representing 17.81% of the total sales of BYS for the year. Purchases of BYS from the 5 largest suppliers amounted to RMB524.97 million, representing 21.03% of the total purchases of BYS.

(9) Details of number, remuneration, remuneration policies and bonus of employees

As at 31 December 2011, the number of employees on the payroll register of BYS was 5,481.

Among which,	
Production staff	2,771
Finance personnel	101
Administrative staff	517
Sales personnel	729
Technical staff	688
Other staff	675

1,056 of the employees in BYS were holders of a bachelor's degree or above. Besides, the number of retirees was 4,607. The total salary payment for the year was approximately RMB462 million.

The remuneration of the employees of BYS included salaries, bonuses, subsidies, and relevant social insurance, housing provident fund and other fringe benefits. BYS, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

(10) Pledged assets

BYS pledged its production facility for solid dosage located at 78 Yunxiang Road, Baiyun District, Guangzhou with gross floor area of 9,955.9876 sq.m., its production facility for oral liquids and soft capsules located at 82 Yunxiang Road, Baiyun District with gross floor area of 2,938.61 sq.m and its building located at 2 Yunxiang Road, Baiyun District with gross floor area of 74,484.91 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a loan of maximum amount of RMB118 million. At the end of the period, the actual borrowing amounted to RMB115 million.

BYS Tian Xin, a subsidiary of BYS, deposited as mortgage an office building located at self-numbering 6, 808 East Binjiang Road to Miao Qian Zhi Street Branch, Guangzhou, ICBC for acceptance notes or loans of RMB20 million. As at 31 December 2011, the actual acceptance notes drawn amounted to RMB7.6956 million and the balance of facility available amounted to RMB6.8 million.

(11) Liquidity

As at 31 December 2011, the current ratio of BYS was 1.03 (31 December 2010: 0.88), and its quick ratio was 0.58 (31 December 2010: 0.46). Accounts receivable turnover rate was 19.81 times, representing an increase of 6.16% as compared with 2010. Inventory turnover rate was 3.47 times, representing a decrease of 2.53%.

(12) Financial resources

As at 31 December 2011, cash and cash equivalents of BYS amounted to RMB256.48 million.

As at 31 December 2011, BYS had bank borrowings of RMB805.80 million in total, which were short-term borrowings (31 December 2010: RMB1,023.00 million).

(13) Capital structure

As at 31 December 2011, the current liabilities of BYS amounted to RMB1,571.61 million (31 December 2010: RMB1,738.41 million) and represented a decrease of 9.59%, while the non-current liabilities amounted to RMB168.17 million (31 December 2010: RMB151.98 million) which represented an increase of 10.65% from 2010. Equity attributable to shareholders of BYS was RMB1,344.05 million (31 December 2010: RMB1,106.53 million), representing an increase of 21.47% from 2010.

(14) Gearing ratio

As at 31 December 2011, BYS's gearing ratio (calculated according to the formula: total liabilities of RMB1,739.78 million/total assets of RMB3,147.36 million) was 55.28% (31 December 2010: 61.87%) with a decrease of 6.59 percentage points as compared with 2010.

(15) Risk of changes in exchange rate and relevant hedging arrangements

The majority of the income, expenses, assets and liabilities of BYS are denominated or settled in RMB. Therefore BYS has no significant risk of changes in exchange rate.

(16) Contingent liabilities

As at 31 December 2011, there is no significant contingent liabilities of BYS.

(17) Future plan of significant investment or acquisition of capital assets and expected financing in the coming year

In 2012, BYS will invest as required in technical improvement of plants or production facilities. As at the end of the Reporting Period, there is no specific plan of investment or financing.

II. FUTURE PROSPECTS OF BYS

(1) Development trend of the industry in which BYS engages in and market competition

In 2012, the pharmaceutical industry in mainland China is facing a more complicated domestic and global economic and policy environment. Driving factors such as people's increasing healthcare awareness, consumption upgrade, aging population, increasing number of patients with chronic diseases and ability to pay medical insurance continue to increase, etc. are propelling the pharmaceutical market to grow rapidly. According to the overall requirement of deepening medical health system reform, the main line of pharmaceutical industry in China will be structure adjustment, innovation reinforcement, promotion of research and development of new product and new technology, promotion of merger and acquisition, cultivation of large enterprise group, acceleration of technology reform, enhancement of the quality of enterprise and international competitiveness, so that the industry structure would become rationalized, with obvious change in the mode of development and an obvious raise in comprehensive strength, gradually realizing the change of pharmaceutical industry from big to strong.

Along with the essential drug system to be implemented in larger scope, growth of essential drug market will be maintained at a faster pace, which will benefit medicine producers and distributors who have large scale and strength. The concentration of each sub-sector will increase further. The gradual introduction and implementation of medical supporting measures such as essential pharmaceutical system would bring about major change in pharmaceutical market structure, profitability and mode of marketing. Implementation of new GMP would make the competition in the pharmaceutical market more and more intense, and enterprises which have advantages in scale, brand, sources, core technology and management would win gradually. As the increase in production and operation costs of enterprises and the decrease in price of medicines have become a norm, pharmaceutical companies face pressures in their operation from two sides.

(2) Operation plans in the coming year

In 2012, facing the overall expansion of pharmaceutical market and gradual introduction of specific measures of new medical reform, medicine prices decrease and costs increase, BYS will make use of the Major Assets Reorganization of GPHL as its opportunity to fully utilize the 11X strategy of GPHL, promote resources consolidation and cooperation, build up Baiyunshan brand with strong influence, promote adjustment of marketing strategy and model, seriously implement key strategies such as scientific management and risk control, and innovative development. It will also aim at becoming a leading enterprise in a strategic emerging industry through transformation and elevation. Through implementing "big" products and establishing a big platform to promote substantial development, BYS will pursue a stable and rapid growth in operating income and profits and enhancement in its comprehensive strength. Accordingly, effort will be put in the following areas:

Firstly, BYS will coordinate with GPHL in realizing the Major Assets Reorganization to promote resources integration and unified operation, bring out clustering advantage, raise the effectiveness of resources utilization, realize effective breakthrough in industrial upgrade, and raise the overall competitiveness of BYS.

Secondly, it will strengthen marketing. Carefully taking into account the change brought about by the changes in domestic and global economic conditions and macroeconomic policies such as new medical reform supporting projects, and their impact on its operation, BYS will adjust its operation strategy in a timely manner. It will also further consolidate the success achieved by the marketing strategy of 2011 and flexibly respond to the market changes bring about by the new medical policies.

Thirdly, it will strengthen the brand effect of BYS. It will forge an influential brand of "Baiyunshan" as an icon of the overall southern pharmaceutical industry. It will insist on the "Three high and three best" (「三高三優」) principle, i.e. "high input, high standard, high effectiveness" and "best quality, best services, best images", and raise brand awareness and reputation, and unleash radiation and driving effect of the brand to promote product sale and development of BYS.

Fourthly, it will continue the reform work of "Two move out and three move on" (「退二進三」) and "Three old reforms" (「三舊改造」). In line with the planning and construction of Guangzhou Pharmaceutical's biomedical city, BYS will fully utilize policies to vitalize its assets, and properly carry out the park planning for the "Two move out and three move on" enterprises and related work.

Fifthly, it will strengthen technology innovative work. BYS will integrate its research and development resources with that of the society to accelerate the establishment of a technology innovative platform. It will speed up the promotion work of major specific projects, implement upgrade and reform for hundred-million-yuan products, and enhance its innovative capability along with the implementation of key projects.

Sixthly, it will drive industrial upgrade. It will seek making strides in development through promoting the restructuring and development of industrial chain, production bases, product mix and cooperation with third parties.

Seventhly, it will strengthen its professional team. Through gathering high-ends talents by recruitment, giving full play to the role of vanguard and exemplary role model, creating a good environment in terms of respecting for knowledge and respecting for talents; and reinforcing comprehensive staff training in order to raise the overall quality of staff and enhance the sense of belongings of staff.

Eighthly, it will enforce scientific management. Through enforcement of cost management, production management, product quality management, cost management, logistic management, property management, risk management, safety and environmental management, information management, government affairs and party building work, BYS will realize effective breakthrough in scientific management.

(3) Capital Arrangement

In 2012, BYS will allocate capital for aspects such market development, research and development innovation, technology reform and increasing production capacity. Capital will be mainly provided by self-funding.

(4) Risk Management Measures

In order to secure the position of the products of BYS in the market and reduce operation risks, BYS will implement a series of measures such as resources integration, strengthen the "Baiyunshan" brand, adjust product sale structure, carry out refined marketing management, strengthen research and development, enhance risk prevention, strengthen scientific management, etc.

(iii) For the year ended 31 December 2010

I. REVIEW OF OPERATING RESULTS OF BYS DURING THE REPORTING PERIOD

In 2010, the domestic and global economic condition was complicated and volatile. BYS started to cope with the international financial crisis since 2008 and accommodated to the impacts from post international financial crisis in 2009. The inflationary pressure gradually pressed on BYS while the trend of recovery was not yet stable. For pharmaceutical enterprises, with the strengthened regulatory force applied on the industry, the requirement for the software and hardware of the operation of enterprises increased continuously, the impact and anticipated uncertainty of the continuous launching of new medical reform policies on the enterprises, increased the difficulty of enterprises in their operation. While the costs such as Chinese herbs, chemical raw material, raw packaging materials and energy and labour force increased drastically and there was a surge of reorganization and acquisition of pharmaceutical enterprises, which made the competition even fiercer. Facing the new situation and changes, on the basis that the strategic adjustments adopted to accommodate the international financial crisis had achieved significant result and the quality of operation of enterprise had significant improvements, BYS made an effort in innovative marketing, reinforced the development of scientific research, consolidated the management of the enterprise pursuant to the "five efforts" (「五個着力」) proposed at the beginning of the year and different requirements in production, marketing and scientific research, which continued to improve the operation of BYS comprehensively. BYS realized income from operations of RMB3,316.86 million during the year, representing a year-on-year growth of 18.67% compared with the previous year; realized total profits of RMB257.09 million, representing a year-on-year growth of 118.58% over the last year; the net profit attributable to the owners of BYS amounted to RMB204.74 million, representing a year-on-year growth of 89.98%.

In 2010, BYS coped with the new medical reform proactively and pursued the sophistication of marketing which caused the boom in the production and sales of the products of BYS and a balanced development in affiliated enterprises. Firstly, it implemented key product project by adjusting the product mix, formulating tailor-made marketing proposal for hit products and the featured products of the year and increasing the percentage of the market share of the key products such as Kou Yan Qing（口炎清）of BYS Hutchison Whampoa, and Xiaochaihu（小柴胡）of BYS Guang Hua etc. BYS and its controlling subsidiaries had a total of 7 products (series) which had sales of over RMB100 million in 2010. The products of the joint-venture which had sales of over RMB100 million were Fu Fang Dan Cen Pian（複方丹參片）(RMB399 million) and Banlangen granules（板藍根顆粒）(RMB360 million) of BYS Hutchison Whampoa and Medium/Long-chain Triglycerides Lipid Emulsion Injection（中/長鏈脂肪乳注射液）of Baxter Qiao Guang (RMB162 million). Secondly, improved market solidification for affiliated enterprises which experienced strategic adjustment, for example, the marketing positioning of Baiyunshan Hejigong Pharmaceutical Factory was "the year of upgrade and reform" (升級再造年), and "upgrade and reform" were implemented on the marketing system which further streamlined the system, optimized the marketing channels and procedures, implemented advertising transformation and fostered the establishment of team and daily management. With strategies like having an insight in the market and timely adoption of effective strategy, adopting to the generic drug market in Guangdong, maintaining a rapid growth in markets outside the province, nurturing the terminal network and consumers, proactive development in the bidding and tender and clinical academic promotion, reinforcement in the overall coordination in operation and basic management, BYS Ming Xing achieved a historical breakthrough in its operating results. Thirdly, the competent enterprises adopted targeted strategy in order to maintain and upgrade from the original market position. For instance, BYS Hutchison Whampoa, a joint-venture, launched an operating ideology of "planned marketing" in which the marketing management mode of "three dont's and three diligences"（「三不」、「三勤」）was proposed. Meanwhile, by seeking quality agents and stimulating the clinical supply, forming the strong hospital network, it pioneered in establishing a team in the promotion department for hospitals to develop sales channel with community hospitals. To deal with the adverse condition resulting from the tender policy of external medicine, "single product, single specification" policy implemented by hospitals for their medication and the "price-oriented theory", the Guangzhou Baiyunshan Pharmaceutical General Factory implemented the strategy compensating the price cut through the changes in the proportion of regulated sales in the market, put more effort in the work of government affairs, tracked the new medical reform and made adjustments in sales strategy according to the policies and incredible result was achieved. BYS Tian Xin continued to enhance the management of the market within the province and created product differentiation by initial imitation and product process patent, etc. to strive for winning the bid of key products. Meanwhile, by measures like gradually promotion of secondary distribution and brand reinforcement, it expanded to markets outside the province gradually.

In 2010, focusing on the idea that "production serves the market" (生產為市場服務), BYS implemented sophisticated production. In order to resolve the bottle neck of the production capacity, BYS invested in a number of production lines to expand the production capacity. When the Asian Games was held in Guangzhou, BYS reasonably arranged the production schedule and prepared well for stocks in advance in order to meet the demand for products in the market during the Asian Games. The affiliated enterprises successfully passed the GMP recertification as scheduled which ensured the normal operation of production. In 2010, BYS strengthened the cost management and achieved efficiency through costs. To cope with the pressure of increasing cost, the enterprise encouraged the reform of processing technology, implemented the cost assessment and yield assessment, judged the commodity price movements by professional insight and grasped the purchase timing flexibly, launched the price comparison procedures in the procurement of raw materials, and implemented the strategic extension of industrial chain. The GAP base projects of Panax Notoginseng (三七) of Wenshan, Yunnan and radix isatidis（板藍根）in Daqing of BYS Hutchison Whampoa commenced officially, which brought positive impacts on the raw material supply and cost control of the Chinese medicine products of BYS.

In 2010, BYS put in more investment in technology in which gratifying result was achieved in technological innovation. During the Reporting Period, there were research projects for 22 new pharmaceutical, with 9 pharmaceutical obtained clinical approvals and were applying for the production approval while 3 pharmaceutical were granted with production approval. In 2010, BYS, its controlling subsidiaries and joint ventures had 19 products recognized as proprietary innovative products of Guangdong Province and 17 products recognized as proprietary innovative products of Guangzhou. BYS was recognized as the third batch of innovative enterprise of Guangdong Province by Guangdong Provincial Department of Science and Technology. The two projects, "Baiyunshan Hutchison Whampoa Science and Technology Park for Health Industry" (白雲山和黃健康產業科技園) and "the recognition of industrial upgrade and internationalization in anti-infective chemical medicine by proprietary innovation" (以自主創新帶動抗感染類化學藥的產業升級及國際化認證) were selected as the top 500 projects in the modernized industry of Guangdong Province. "The research in key technology of safety and industrialization of Qing Kai Ling Preparation" (清開靈製劑安全性關鍵技術研究與產業化) was chosen to be the "Major pharmaceutical innovation and manufacture" of the state programs of science and technology – technological transformation of the pharmaceutical of major category, "Research on the critical planting technique of gardenia, the raw material herb of Qing Kai Ling and related preparations" (清開靈原料藥材梔子關鍵種植技術研究及相關製劑研究), the sub-topic of "the strategic alliance of the technological innovation of well-known Chinese medicine" was selected as "Major pharmaceutical innovation and manufacture of the state programs of science and technology – the construction of hatching base of innovative medicine of enterprises and strategic alliance of research in technological innovation. Family of cardiovascular and cerebrovascular products (心腦血管產品群) (including the products like Fu Fang Dan Cen Pian (複方丹參片), Naoxinqing tablets (腦心清片), Dan Hong Hua Yu Kou Fu Ye (丹紅化瘀口服液), Jiao Gu Lan Zong Dai Pian (絞股藍總甙片) and Xiao Shuan Tong Luo Pian (消栓通絡片) etc.) were listed as the R&D products with the combination of research of market production and the supporting programme of demonstrative base. On the path of proprietary innovation, BYS proactively explored the technological frontier and developed the groundbreaking research. "cephalosporins sulfur Mi" (頭孢噻脒), the new medicine of Class 1 which was proprietarily researched and developed by BYS was granted with patent right by the U.S., the whole genome of Salvia miltiorrhiza (丹參) which is the first genetic framework in the world was completed successfully by using the high flux sequencing technology of the second generation, and laid a foundation for the in-depth development of academic research. BYS also participated in the research of anti-superbug medicine jointly commenced by scientific research institutes such as GPHL and South China Center for Innovative Pharmaceuticals etc.

In 2010, BYS further strengthened the internal control and risk control management. BYS straightened out and revised the internal control system and emphasized the particular examination and rectification on the risks in procurement and payment of affiliated enterprises. Besides, BYS organized its internal strength and appointed professional organization to conduct a comprehensive risk inspection and research over the internal control of BYS and affiliated enterprises and started the comprehensive rectification on existing problems. In 2010, BYS reinforced various management of the enterprise. Through the coordinated financial management of internal fund, the bank loan of RMB194.00 million was repaid, the finance cost was reduced by RMB11.65 million compared with 2009. The information work was strengthened; the relevant tasks such as the revision of the management system of computers and network, transformation of OA system and ERP system were completed.

In 2010, BYS performed its social responsibility as usual. Firstly, it continued with launch of 3-dimensional upgrade of mechanism of the recycle of household expired medicine (with free replacement). Secondly, it took "production of effective medicine" and "serving the human's health" as its mission, strengthened the quality control on pharmaceutical, launched the quality control mechanism of 5 levels, implemented the system of quality authorized person while remarkable results was achieved by QC group. Thirdly, energy saving and reduction in emission were further advanced, the construction of comprehensive project of power saving and transformation of energy-saving boilers were promoted so as to advance the low carbon production. Due to the outstanding contribution in advancing the low-carbon and environmentally friendly development, the stock of BYS was selected to be a constituent stock of "CNINFO Low-carbon 50 Index" (南方 • 低碳50指數) on 20 September. Fourthly, BYS undertook the corporate social responsibility for Asian Games and Asian Para Games and proactively participated in the volunteer activities of Asian Games. The leaders of BYS were chosen to be the torchbearer of the Asian Games and Asian Para Games, and BYS participated in the joint operation of the struggle of 50 days for "gearing up for Asian Games" with the theme of "Healthy Asian Games under the pharmaceutical escort" (「健康亞運、醫藥護航」 – 廣州市衛生系統 "迎亞運" 奮戰50天聯合行動)) by the health and hygiene system of the Guangzhou municipality. Fifthly, BYS participated in the disaster relief and emergency assistance and contributed to the community in which BYS donated money and medicine to the disaster area of the drought in southwestern China and the earthquake in Yushu, Qinghai. Sixthly, the work of offering annuity to staff by the affiliated enterprises was commenced according to the target achievement in operation, the welfare of employees was improved, providing a re-learning and training platform to the employees.

In 2010, the operation quality of BYS improved significantly while the affiliated enterprises showed a state of balanced development. However, the level of development and overall strength of each of the enterprises are uneven, Baxter Qiao Guang, the joint venture remained at a state of incurring loss; and the capability in resisting risks and uncertainties like coping with the increase in cost and drop in selling prices and new medical reform policy has to be strengthened. As compared with the advanced enterprises in the industry, our profitability is required to be further enhanced.

(1) Operating Income

1. The composition of income from principal operations

BYS engages in pharmaceutical manufacturing industry, see below the table for specific operation details:

Principal operations by business or product

Unit: RMB'000

Principal operations by businesses or products

By businesses	Income from operations	Cost of operations	Gross profit margin *(%)*	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
(1) Active pharmaceutical ingredients manufacturing	436,783.5	394,052.6	9.78%	26.74%	30.63%	Decrease 2.69%
(2) Chemical dosage manufacturing	1,931,842.2	1,162,084.3	39.85%	22.67%	15.09%	Increase 3.97%
(3) Chinese medicine and Chinese patent medicine processing	820,403.5	548,922.4	33.09%	6.48%	17.72%	Decrease 6.39%
(4) Other pharmaceutical manufacturing	6,149.3	6,245.8	-1.57%	-12.17%	-31.42%	Increase 28.51%
(5) Pharmaceutical products trading	56,849.5	24,490.0	56.92%	5.29%	9.46%	Decrease 1.64%
Total	3,252,028.0	2,135,795.1	34.32%	18.22%	18.06%	Increase 0.09%

Principal operations by product

By products	Income from operations	Cost of operations	Gross profit margin *(%)*	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
Amoxicillin（阿莫西林）	222,659.1	114,714.6	48.48%	-3.41%	-6.01%	Increase 1.43%
Qing Kai Ling（清開靈）	273,597.6	136,845.2	49.98%	25.72%	34.64%	Decrease 3.32%
Yili Keteling（一力咳特靈）	207,787.6	188,721.5	9.18%	5.49%	9.76%	Decrease 3.53%
Cephathiamidine for injection（注射用頭孢硫脒）	264,991.5	137,810.1	47.99%	29.23%	37.18%	Decrease 3.02%
Cefixime tablets（頭孢克肟）	146,859.1	42,739.9	70.90%	23.27%	20.45%	Increase 0.69%
Ceftriaxone Sodium Raw Material Medicine（頭孢曲松鈉原料藥）	127,378.3	129,209.3	-1.44%	54.41%	59.96%	Decrease 3.52%
Cefuroxime Sodium（頭孢呋辛鈉）	100,735.8	97,161.3	3.55%	13.71%	16.86%	Decrease 2.60%

Principal operations by regions

Unit: RMB'000

Regions	Operating income	Change in operating income as compared with last year
Southern China	1,531,715.7	15.95%
Eastern China	403,788.1	30.20%
Northern China	390,837.4	39.35%
Northeastern China	113,900.6	11.15%
Southwestern China	285,858.1	34.39%
Northwestern China	49,866.2	23.38%
Central China	476,061.9	-1.58%
Total	3,252,028.0	18.22%

2. Reason for the changes in operating income

During the year, operating income of RMB3,316.86 million was realized, which increased by RMB521.76 million as compared with RMB2,795.11 million last year and representing an increase of 18.67%. Among which, the main operating revenue amounted to RMB3,252.03 million, which increased by RMB501.15 million as compared with RMB2,750.88 million of last year and representing an increase of 18.22%. Other operating revenue amounted to RMB64.83 million, which increased by RMB20.60 million as compared with RMB44.23 million of last year and representing a increase of 46.57%.

1. The main factor for the changes in main operating revenue: The factors including changes in the sales volume, selling price and product mix contributed to the year-on-year growth of the main operating revenue of BYS during the year.

2. The main factor for the changes in other operating revenue: the real estate of He Ji Gong Pharmaceutical Factory located at Yuexiu North Road, Yuexiu District, Guangzhou (with a site area of 307.44 sq.m. and gross floor area of 1,097.13 sq.m.) was expropriated by the Construction and Municipality Bureau in Yuexiu District of Guangzhou and was compensated according to the appraised market value of such real estate plus subsidy and relocation subsidy. The total compensation amounted to RMB22.67 million which resulted in an increase of RMB22.67 million in other business revenue.

(2) Assets

Total assets were RMB3,055.31 million at the end of Reporting Period, representing an increase of 3.74% as compared with the beginning of the year. Among the assets, current assets amounted to RMB1,529.08 million, representing an increase of 4.54% as compared with the beginning of the year; non-current assets amounted to RMB1,526.23 million, representing an increase of 2.96% as compared with the beginning of the year.

1. Items which have greater change as compared with the beginning of the year:

(1) Notes receivable of RMB199.37 million, which decreased by RMB199.35 million as compared with the beginning of the year and representing a decrease of 50.00%. It is mainly because banker's acceptance bills were endorsed and used for payments of goods by the affiliated enterprises during the Reporting Period, which led to decrease in the outstanding banker's acceptance bills held as compared with the corresponding period in last year;

(2) Other receivables of RMB25.92 million, which decreased by RMB32.74 million as compared with the beginning of the year and representing a decrease of 55.81%. It is mainly due to the impact of the recovery of the shareholder's loan of RMB32.50 million from BYS Hutchison Whampoa.

(3) Inventory of RMB736.96 million, which increased by RMB274.04 million as compared with the beginning of the year and representing an increase of 59.02%. It is mainly because of the increase in reserve of raw materials and finished products by BYS for the production and sales arrangement in the first quarter of 2011 based on 2011 sales plan, which caused an increase in the inventory of raw materials and finished products at the end of the Reporting Period as compared with the beginning of the year.

(4) Available-for-sale financial assets of RMB0.31 million, which decreased by RMB0.15 million as compared with the beginning of the year and representing a decrease of 32.61%. It is mainly due to the impact of lower fair value of the shares of Bank of Communications held by the controlled subsidiary than its balance on book during the Reporting Period;

(5) Construction in progress of RMB44.91 million, which increased by RMB33.57 million and representing an increase of 295.93%, mainly because the payment of construction projects like the progress fee paid for the construction of the newly started GMP modification project of the affiliated enterprise.

(6) Long-term deferred expenses of RMB1.43 million, which decreased by RMB0.79 million and representing a decrease of 35.66%, which is mainly due to the decrease in the unamortized long-term deferred expenses unamortized as at the end of the Reporting Period as compared with the beginning of the year.

2. Assets measured at fair value

Currency Unit: RMB

Items	Opening balance	Gains/(losses) on change in fair value for the period	Cumulative fair value changes recognized in equity	Impairment losses accrued for the period	Closing balance
Financial Assets:					
Include:					
1. Financial assets recognized at fair value with changes taken into profit and loss of the current accounting period	–	–	–	–	–
Include:					
Derivative financial assets	–	–	–	–	–
2. Available-for-sale financial assets	457,589.00		221,990.58	–	308,419.88
Financial assets sub-total	457,589.00	0.00	221,990.58	0.00	308,419.88
Financial liabilities					
Investment property	335,604,640.00	7,357,480.00	263,931,372.18	–	344,454,670.00
Productive biological assets	–	–	–	–	–
Others	–	–	–	–	–
Total	336,062,229.00	7,357,480.00	264,153,362.76	0.00	344,763,089.88

(3) Liabilities

Total liabilities were RMB1,890.39 million at the end of Reporting Period, which decreased RMB86.50 million as compared with the beginning of the year, representing a decrease of 4.38%. Among the liabilities, current liabilities amounted to RMB1,738.41 million, representing a decrease of 5.24% as compared with the beginning of the year; non-current liabilities amounted to RMB151.98 million, representing an increase of 6.81% as compared with the beginning of the year. The change in liabilities were mainly due to the following reasons:

(1) Short-term borrowings of RMB1,023.00 million, which decreased by RMB194.00 million as compared with the beginning of the year and representing a decrease of 15.94%. It is mainly because of the impact that the parent company allotted fund to repay the bank loan through coordinated management of fund.

(2) Notes payable of RMB61.06 million, which increased by RMB32.54 million as compared with the beginning of the year and representing an increase of 114.08%. It is mainly due to the impact of the increase in the raw material amount settled with banker's acceptance bills by its subsidiary, BYS Tian Xin, during the year as compared with the beginning of the year;

(3) Advances from customers of RMB226.37 million, which increased by RMB59.57 million and representing an increase of 35.71%. It is mainly due to impact of the increase in advanced payment received from customers of subsidiaries as at the end of Reporting Period as compared with the beginning of the year.

(4) Wages payable to staff of RMB44.97 million, which increased by RMB13.66 million as compared with the beginning of the year and representing an increase of 43.62%. It is mainly because unpaid incentive payments to staff according to the wage payment plan increased as compared to the beginning of the year and the provision of enterprise annuity has not been deposited;

(5) Tax payable of RMB15.84 million, which decreased by RMB14.41 million as compared with the beginning of the year and representing a decrease of 47.63%. It is mainly because of the impact of the decrease in value-added tax payable as at the end of the Reporting Period as compared with the beginning of the year.

(4) Shareholders' equity

At the end of the Reporting Period, shareholders' equity (including minority interests) totaled RMB1,164.92 million, which increased RMB196.76 million as compared with last year, representing an increase of 20.32% mainly due to the increase in undistributed profit.

(5) Analysis and illustration of changes in total profits and enterprise income tax as compared with the last year

During the year, total profits realized amounted to RMB257.09 million, increased by RMB139.47 million from RMB117.62 million of the previous year, representing an increase of 118.58%. The major factors affecting change in total profits are:

(1) Impacts of the operational factor. Profit increased by RMB153.79 million due to operational factors during the year, mainly including:

① the growth in sales revenue resulting in an increase in profit of RMB205.98 million;

② the rise in cost resulting in a decrease in profit of RMB29.98 million;

③ the expenses during the Reporting Period of RMB937.97 million, which increased by RMB65.87 million as compared with the same period of last year, representing an increase of 7.55%, resulting in a decrease in profit of RMB65.87 million; among which, selling and distribution expenses amounted to RMB512.82 million, which increased by RMB42.01 million as compared with the same period of last year, representing an increase of 8.92%. This is mainly because the advertising expenses increased by RMB39.82 million as compared with last year, representing an increase of 36.76%; the general and administrative expense of RMB373.01 million, an increase of RMB35.57 million as compared with the same period of last year, representing an increase of 10.54%. It is mainly due to that R&D expenses increased by RMB13.26 million as compared with the same period of last year, representing an increase of 27.21%. The financial expenses amounted to RMB52.21 million, which decreased by RMB11.65 million as compared with the same period of last year and representing a decrease of 18.25%.

④ decrease in asset impairment loss as compared with the same period of last year, resulting in an increase in profit of RMB14.20 million;

⑤ increase in income from investment as compared with the same period of previous year, resulting in an increase in profit of RMB9.1 million;

⑥ The compensation for the requisition of the property of Hejigong Pharmaceutical Factory resulting in the increase in profit of other businesses of RMB14.86 million.

(2) Impacts of non-operating factors. The non-operating revenue resulting in a decrease in the profit of RMB14.32 million during the year, among which, the non-operating revenue amounted to RMB23.87 million which decreased RMB16.12 million as compared with the same period of last year; the non-operating expenses amounted to RMB5.29 million which decreased by

RMB1.80 million as compared with the same period of last year. The decrease in the non-operating revenue was mainly due to the revenue such as the compensation of RMB24.39 million for the requisition of the land of BYS (Fangcun District) for the remediation of the Shahe Chong project last year and there was no such revenue in the current year.

2. The impact of the changes in income tax on the net profit

The income tax of this year increased by RMB41.58 million as compared with the last year, resulting in the decrease in the net profit of RMB41.58 million. This is mainly because BYS and BYS Guang Hua enjoyed a favourable preferential tax policy of 15% enterprise income tax for hi-tech enterprises last year. As it is necessary to re-measure the deferred income tax assets and deferred income tax liabilities recognized before 2008 at the tax rate of 15%, this resulted in a decrease in the deferred income tax expense of RMB28.59 million as well as an increase in the net profit of RMB28.59 million. BYS had no such factor for the year and the income tax payable increased as there is a drastic increase in the total profit for the year.

(6) Cash flow composition

The balance of cash and cash equivalents of BYS as at the end of Reporting Period was RMB326.26 million, including net cash flows generated from operating activities of RMB327.21 million, representing an increase of 9.02% year on year. Net cash flows generated from investing activities was -RMB46.17 million. Net cash flows generated from financing activities was -RMB271.68 million.

Cash generated from sale of products increased during the year as compared with the same period of last year, resulting in net cash flows from operating activities increased by RMB27.07 million. Since the payment in cash for the purchase and construction of fixed assets had a drastic increase as compared with last year, and as a result the cash outflows in investment activities was RMB46.17 million greater than the cash inflows. Due to bank loan repayment of RMB194.00 million, distribution of dividend and interest payment of RMB77.68 million during the year, the cash outflows in financing activities was RMB271.68 million greater than cash inflows.

(7) Details of operation and results of the major subsidiaries and joint ventures of BYS

Name of enterprises	Registered Capital *(RMB million)*	% of investment	Main operation	Total Assets *(RMB million)*	Income from main operation *(RMB million)*	Net profits *(RMB million)*
BYS Tian Xin	45.693	82.49	Manufacturing processing and sales of chemical pharmaceutical and preparations, traditional Chinese patent medicines, raw materials pharmaceutical, healthcare food etc	419.6181	514.3328	25.2595
BYS Guang Hua	55.285	84.48	Manufacturing of chemical medicine raw materials, preparation, traditional Chinese patent medicines, veterinary medicine, cosmetics, etc.	212.5805	315.5350	11.1091
BYS Ming Xing	26.494	100	Manufacturing processing chemical raw materials, chemical preparations, traditional Chinese patent medicines, healthcare food, etc.	209.0781	338.6353	24.3962
BYS Hutchison Whampoa	200.00	50	All kinds of medicines, healthcare products, food and herbal medicines production, processing, research and development, sales of BYS products (except for the prohibited category of Foreign Investment Industries)	772.0551	1,024.2833	89.3989
Baxter Qiao Guang	177.50	50	Production of large volume injection, the sales of our products and provision of related post-sales service; research and development of pharmaceuticals	174.0037	196.4349	-18.7502

(8) Major customers and suppliers

During the year, total sales amount of products to the 5 largest customers amounted to RMB559.1851 million, representing 17.19% of the total sales amount of BYS during the year. Purchase of raw materials from the 5 largest suppliers amounted to RMB550.3573 million, representing 25.63% of the total purchase amount of BYS during the year.

(9) Details of number, remuneration, remuneration policies and bonus of employees

As at 31 December 2010, the number of employees on the payroll register of BYS was 5,694.

Among which,	
Production staff	2,937
Finance personnel	97
Administrative staff	517
Sales personnel	722
Technical staff	720
Other staff	701

975 of the employees in BYS were holders of a bachelor's degree or above. Besides, the number of retirees was 4,402. The total salary payment for the year was approximately RMB350 million.

The remuneration of the employees of BYS included salaries, bonuses, subsidies, and relevant social insurance, housing provident fund and other fringe benefits. BYS, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

(10) Pledged assets

BYS pledged its property located at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou with gross floor area of 29,843.03 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a loan of maximum amount of RMB174 million. At the end of the period, the actual borrowing amounted to RMB0.00.

BYS pledged its production facility for solid dosage located at 78 Yunxiang Road, Baiyun District, Guangzhou with gross floor area of 9,955.9876 sq.m., its production facility for oral liquids and soft capsules located at 82 Yunxiang Road, Baiyun District with gross floor area of 2,938.61 sq.m and its building located at 2 Yunxiang Road, Baiyun District with gross floor area of 74,484.91 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a maximum loan of RMB118 million. At the end of the period, the actual borrowing amounted to RMB95 million.

BYS Tian Xin, a subsidiary of BYS, deposited as mortgage an office building located at self-numbering 6, 808 East Binjiang Road to Miao Qian Zhi Street Branch, Guangzhou, ICBC for acceptance notes of RMB20 million. As at 31 December 2010, the actual acceptance notes drawn amounted to RMB4 million.

(11) Liquidity

As at 31 December 2010, the current ratio of BYS was 0.88 (31 December 2009: 0.80), and its quick ratio was 0.46 (31 December 2009: 0.54). Accounts receivable turnover rate was 18.66 times, representing an increase of 38.02% as compared with 2009. Inventory turnover rate was 3.56 times, representing a decrease of 7.53%.

(12) Financial resources

As at 31 December 2010, cash and cash equivalents of BYS amounted to RMB326.26 million.

As at 31 December 2010, BYS had bank borrowings of RMB1,023.00 million in total, which were short-term borrowings (31 December 2009: RMB1,217.00 million).

(13) Capital structure

As at 31 December 2010, the current liabilities of BYS amounted to RMB1,738.41 million (31 December 2009: RMB1,834.60 million) and represented a decrease of 5.24% from 2009, while the non-current liabilities amounted to RMB151.98 million (31 December 2009: RMB142.29 million) which represented an increase of 6.81% from 2009. Equity attributable to shareholders of BYS was RMB1,106.53 million (31 December 2009: RMB912.53 million), representing an increase of 21.26% from 2009.

(14) Gearing ratio

As at 31 December 2010, BYS's gearing ratio (calculated according to the formula: total liabilities of RMB1,890.39 million/total assets of RMB3,055.31 million) was 61.87% (31 December 2009: 67.13%) with a decrease of 5.26 percentage points as compared with 2009.

(15) Risk of changes in exchange rate and relevant hedging arrangements

The majority of the income, expenses, assets and liabilities of BYS are denominated or settled in RMB. Therefore BYS has no significant risk of changes in exchange rate.

(16) Contingent liabilities

As at 31 December 2010, there is no significant contingent liabilities of BYS.

(iv) For the year ended 31 December 2009

I. REVIEW OF OPERATING RESULTS OF BYS DURING THE REPORTING PERIOD

In 2009, the domestic and foreign economic situation gradually stabilized and improved, but the foundation for recovery was still not solid, the implementation of medical reform policies and documents such as "Opinions on Implementation of the National Essential Medicine System" (《國家基本藥物制度實施意見》), "National List of Essential Medicines" (《國家基本藥物目錄》), National retail prices of essential medicines, "National List of Essential Medical Insurance, Work Injury Insurance and Maternity Insurance" (2009 edition) (《國家基本醫療保險、工傷保險和生育保險藥品目錄》) which had a material impact on the medical industry were launched. According to the statistics, there were a total of 131 categories of medicine of BYS, its affiliated controlling subsidiaries and its joint ventures being listed on the National List of Essential Medicines, with 60 listed in the category of medicine in production and a total of 421 were listed on the list of medical insurances (2009 edition) mentioned above.

Facing the new situation and changes, BYS paid attention proactively, adjusted the strategies in coping with the market, closely focused on the working ideas proposed at the beginning of the year, fully commenced and implemented each of the key tasks, externally expanded the market and strengthened the control internally, grasped the opportunity and raised the adjustment and advanced the rapid development of the economy of enterprises. In the year of 2009, BYS realized income of RMB2,795.11 million from operations during the year, representing a year-on-year growth of 6.04%; realized total profits of RMB117.62 million, representing a year-on-year growth of 1.42%; the net profit attributable to the owners of BYS amounted to RMB107.77 million, representing a year-on-year growth of 41.04%.

In 2009, BYS adjusted according to the situation, seized the opportunity, innovated the marketing idea, and grasped the market opportunity brought by the outbreak of Influenza A in which BYS timely adopted effective operation strategies, and continued to enlarge the markets outside the Guangdong province and further consolidated the market inside the Guangdong province. The sale of products was booming comprehensively. BYS and its controlling subsidiaries had a total of 6 product series which achieved sales of over RMB100 million in 2009. The sales of Ban Nan Gen Ke Li (板藍根顆粒) series produced by BYS Hutchison Whampoa, the affiliated joint venture was RMB411 million, representing a year-on-year growth of 39.65%, the sales revenue of Fu Fang Dan Cen Pian (複方丹參片) amounted to RMB296 million, representing a year-on-year growth of 1.47%. BYS established the sales and marketing centre to integrate the sales and marketing of certain enterprises and BYS Guang Hua and Baiyunshan Hejigong Pharmaceutical Factory were gradually recovered.

In 2009, there was a positive momentum of balanced development in affiliated enterprises. Strong enterprises like Guangzhou Baiyunshan Pharmaceutical General Factory and BYS Tian Xin etc. seized the opportunity on the basis of a high base and took advantage of it, adopted effective measures such as the differentiation of products and price maintenance, establishment of bidding and investment promotion system, strengthened the terminal promotion mechanism, reinforcement of academic support and expansion of the OTC team. They continued to focus on the sale of major products while proactively developed the sale of new products so as to seek the new point of growth and continue to maintain the momentum of strong growth. The enterprises adjusted themselves to seize the opportunity, integrated the marketing resources, with the division of marketing areas of sophistication, made an effort in digesting and clearing up the inventory, did everything possible to speed up the circulation of payment of goods. The marketing situation is getting better and better. Through adjustment and integration, the operation quality of BYS Ming Xing, BYS Guang Hua and the Guangzhou Baiyunshan Hejigong Pharmaceutical Factory was enhanced significantly and the economic efficiency improved significantly.

In 2009, BYS commenced the technological innovation proactively, the scientific research projects progressed smoothly. During the Reporting Period, there were 22 research projects on new pharmaceuticals, with 1 drug obtained the clinical approval while 8 pharmaceuticals which already obtained the clinical approval were applying for production approval and 4 pharmaceuticals were granted with production approval. Multiple achievement was attained in the research and formulation of triazine sodium isethionate (孢嗪脒鈉)), the innovative drug with proprietary intellectual property right. BYS and BYS Guang Hua, its subsidiary were included in the first batch of hi-tech enterprises in the Guangdong Province in 2009.

In 2009, BYS continued to implement a solid management foundation, improved and enhanced the management level practically and effectively. During the Reporting Period, BYS further reinforced the performance assessment system, improved the management system of personnel, advanced the standard of sophisticated management, deepened and promoted the informationized management in which the management in the module of finance, cost, sale, procurement, production and manufacture, inventory, inventory accounting, quality and human resources were realized on the ERP system to different degrees with improved details and sustained improvements.

In 2009, the operation quality of BYS improved significantly. However, individual subsidiaries remained loss-making. Due to increase in labour cost and cost of raw materials, in particular the substantial increase in the cost of certain raw materials, constituted a threat to the competitiveness and the profit realization of products of BYS. Meanwhile, compared with the average level in the industry, the profitability of BYS required to be further enhanced.

(1) Operating Income

1. The composition of income from principal operations

BYS engages in pharmaceutical manufacturing industry, see below the table for specific operation details:

Principal operations by businesses or products

Unit: RMB'000

Principal operations by businesses

By businesses	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
(1) Active pharmaceutical ingredients manufacturing	344,636.1	301,657.8	12.47%	6.17%	3.83%	Increase 1.98%
(2) Chemical dosage manufacturing	1,574,798.3	1,009,724.7	35.88%	3.03%	3.23%	Decrease 0.13%
(3) Chinese medicine and Chinese patent medicine processing	770,445.4	466,283.0	39.48%	22.53%	11.41%	Increase 6.04%
(4) Other pharmaceutical manufacturing	7,001.7	9,107.5	-30.08%	-80.92%	-71.76%	Decrease 42.21%
(5) Pharmaceutical products trading	53,995.6	22,374.0	58.56%	-18.04%	-43.22%	Increase 18.38%
Total	2,750,877.0	1,809,146.9	34.23%	6.44%	2.86%	Increase 2.29%

Principal operations by products

By products	Income from operations	Cost of operations	Gross profit margin	Change in income from operations as compared with last year	Change in cost of operations as compared with last year	Change in gross profit margin as compared with last year *(percentage point)*
Amoxicillin (阿莫西林)	230,514.0	122,052.4	47.05%	3.71%	-14.33%	Increase 11.15%
Qing Kai Ling (清開靈)	217,631.3	101,638.6	53.30%	22.27%	20.83%	Increase 0.56%
Yili Keteling (一力咳特靈)	196,982.0	171,940.3	12.71%	12.02%	17.72%	Decrease 4.23%
Cephathiamidine for Injection (注射用頭孢硫脒系列)	205,046.9	100,455.9	51.01%	30.49%	29.98%	Increase 0.19%
Cefixime Tablets (頭孢克肟)	119,132.1	35,484.7	70.21%	14.45%	-5.95%	Increase 6.46%
Ceftriaxone Sodium Raw Material Medicine (頭孢曲松鈉原料藥系列)	101,810.5	102,360.2	-0.54%	-36.62%	-32.90%	Decrease 5.21%

Principal operations by regions

Unit: RMB'000

Regions	Operational income	Increase/decrease in operational income as compared with last year
Southern China	1,320,984.6	5.68%
Eastern China	310,137.6	15.03%
Northern China	280,470.5	-15.24%
Northeastern China	102,471.9	7.37%
Southwestern China	212,713.9	-12.20%
Northwestern China	40,417.1	4.34%
Central China	483,681.2	35.28%
Total	2,750,877.0	6.44%

2. Reason for the changes in operating income

During the year, the operating income of RMB2,795.11 million was realized, which increased by RMB159.24 million as compared with RMB2,635.87 for last year and representing an increase of 6.04%. Among which, the main operating income amounted to RMB2,750.88 million, which increased by RMB166.43 million as compared with RMB2,584.45 million for last year and representing an increase of 6.44%. Other operating income amounted to RMB44.23 million, which decreased by RMB7.19 million as compared with RMB51.42 million for last year and representing a decrease of 13.98%.

The main factor for the changes in main operating income The changes in the sale volume led to an increase in the main operating income while the changes in selling price led to a decrease in the main operating income. As a result, the main operating income of BYS increased during the year.

(2) Assets

Total assets at the end of the Reporting Period was RMB2,945.05 million, representing an increase of 4.65% as compared with the beginning of the year. Among the assets, current assets amounted to RMB1,462.67 million, accounting for 49.67% of the total assets and representing an increase of 13.56% as compared with the beginning of the year; non-current assets amounted to RMB1,482.39 million, accounting for 50.33% of the total assets and representing an increase of 2.88% as compared with the beginning of the year.

1. Items which have a greater change as compared with the beginning of the year:

(1) Cash and cash equivalents of RMB325.45 million, which increased by RMB162.97 million as compared with the beginning of the year, representing an increase of 100.31%. It is mainly due to the significant decrease in receivables of subsidiaries and increase in recovery of the payment of goods as compared with the beginning of the year during the Reporting Period;

(2) Notes receivable of RMB398.72 million, which increased by RMB175.88 million as compared with the beginning of the year, representing an increase of 78.93%. It is mainly because the payment of goods were mostly settled by banker's acceptance bills during the year in order to shorten the turnover period of account receivables and ensure the security of capital;

(3) Other receivables of RMB58.65 million, which decreased by RMB74.37 million as compared with the beginning of the year, representing a decrease of 55.91%. It is mainly due to the impact of the recovery of the shareholder loan of RMB40.00 million from BYS Hutchison Whampoa and the receipt of the compensation of RMB23.38 million for the requisition of the land of BYS (Baiyun District) for the remediation of Shahe Chong.

(4) Construction in progress of RMB11.34 million, which decreased by RMB10.51 million as compared with the beginning of the year, representing a decrease of 48.09%. It is mainly because of the transfer of the transformation of the technology to fixed assets for accounting after its completion.

2. *Assets measured at fair value*

Unit: RMB

Item	Opening balance	Gains/(losses) on change in fair value for the period	Cumulative fair value changes recognized in equity	Impairment losses accrued for the period	Closing balance
Financial Assets:					
include:					
1. Financial assets recognized at fair value and differences are taken into profit and loss of the current accounting period	–	–	–	–	–
include:					
Derivative financial assets	–	–	–	–	–
2. Available-for-sale financial assets	231,975.60	–	404,194.20	–	457,589.00
Financial assets sub-total	231,975.60	–	404,194.20	–	457,589.00
Financial liabilities					
Investment property	331,221,375.01	1,875,845.51	255,928,724.90	–	335,604,640.00
Productive biological assets	–	–	–	–	–
Others	–	–	–	–	–
Total	331,453,350.61	1,875,845.51	256,332,919.10	–	336,062,229.00

(3) Liabilities

Liabilities in the consolidated balance sheet of 2009 were RMB1,976.89 million, representing an increase of 0.95% as compared with the beginning of the year, among which current liabilities amounted to RMB1,834.60 which represent an increase of 2.57%, and the items with greater change were the increase of RMB75.63 million in advance payment from customers. It is mainly because the subsidiaries implemented the "payment in advance before delivery" in its sale of some products as at the end of the Reporting Period. Non-current liabilities amounted to RMB142.29 million, representing a decrease of 16.14% as compared with the beginning of the year. There was a greater change in the decrease of RMB38.70 million of the deferred income tax liabilities. It is mainly because BYS and its subordinated subsidiary BYS Guang Hua enjoyed the policy of preferential enterprise income tax rate of 15% for Hi-tech Enterprise, thus it is necessary to re-measure the deferred income tax liabilities recognized resulting from investment properties before 2008.

(4) Shareholders' equity

At the end of the Reporting Period, shareholders' equity (including minority interests) totaled RMB968.17 million, which increased RMB112.15 million representing an increase of 13.10% from last year, which is mainly due to the increase in undistributed profit.

(5) Analysis and illustration of changes in total profits and enterprise income tax as compared with the last year

During the year, the realized total profits amounted to RMB117.62 million, representing a year-on-year growth of 1.42%. The major factors affecting change in total profits are:

(1) The gross margin of major businesses has a year-on-year increase of 2.29% which resulted in the corresponding increase in profit;

(2) Expenses during the Reporting Period has a year-on-year increase of 9.97% and resulted in a decrease of RMB79.07 million in the profit, among which the selling and distribution expenses amounted to RMB470.81 million, representing a year-on-year increase of 17.85%. The general and administrative expenses amounted to RMB337.44 million, representing a year-on-year increase of 13.15%, the financial expenses of RMB63.86 million, representing a year-on-year decrease of 33.01% and the decrease in the interest rate of bank loan resulted in a year-on-year decrease of RMB30.09 million in interest expenses.

(3) The year-on-year decrease in income from change in fair value resulted in a decrease of RMB6 million in profit;

(4) The year-on-year decrease in income from investment resulted in a decrease of RMB4.99 million in profit. It is mainly due to the year-on-year decrease in the recognized income from long term equity investment of associates and joint-ventures according to the equity method.

The investment income of associates and joint ventures recognized in the year was RMB30.85 million, the amount for the same period in last year was RMB32.07 million, representing a year-on-year decrease of RMB1.22 million, of which: (a) the investment income of RMB49.16 million of BYS Hutchison Whampoa was recognized, representing a year-on-year increase of RMB1.99 million; (b) the investment income of -RMB19.66 million of Baxter Qiao Guang was recognized; the amount of the same period in last year was -RMB9.99 million, representing a year-on-year increase of RMB9.67 million in the loss from investment. The main reason is: since Baxter Qiao Guang commenced its operation from 1 July 2007, it has remained loss-making. After the re-recognition of tax losses, the tax losses expired before the generation of sufficient taxable income. Accordingly, it is necessary to reverse the deferred income tax assets which were recognized in the previous years as the tax losses carried forward to future years originally according to the requirements of tax laws. It resulted in the increase of RMB10.20 million in the expenses for the deferred income tax according to the calculation of equity ratio while it also resulted in a decrease of RMB10.20 million of net profit. Excluding the above factors, it resulted in a loss of investment of RMB9.46 million of Baxter Qiao Guang during the year, which decreased by RMB0.53 million as compared with the same period in last year; (c) the investment income of RMB1.35 million of Guangzhou Pharmaceutical Football Club (廣州醫藥足球俱樂部) was recognized while the amount for the same period of last year was -RMB5.11 million, representing a year-on-year increase of RMB6.46 million;

The income from long-term equity investment recognized according to the equity method in current year resulted in a year-on-year decrease of RMB3.77 million in profit.

(5) Decrease in other non-operating income resulted in a year-on-year decrease of RMB10.09 million in profit.

2. Impact of changes in income tax on net profit

(1) During the year, BYS and its subsidiary BYS Guang Hua enjoyed preferential enterprise income tax rate of 15% for High/New Technology Enterprise, which resulted in a decrease of RMB11.62 million in current income tax and an increase of RMB11.62 million in net profit.

(2) As BYS and its subsidiary BYS Guang Hua enjoyed the preferential enterprise income tax rate of 15% for High/New Technology Enterprise, deferred income tax assets and deferred income tax liabilities recognized in years before 2008 had to be re-measured on tax rate of 15%, which resulted in a decrease of RMB28.59 million in deferred income tax expenses for the year and an increase of RMB28.59 million in net profit.

(3) In 2008, Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd. was absorbed by and merged with Guangzhou Baiyunshan Pharmaceutical General Factory and was consolidated into the tax paying entity Baiyunshan Technology Innovation Centre* (白雲山科技創新中心), which offset a loss of RMB14.95 million, resulted in a decrease in current income tax expenses of RMB3.74 million for 2008, while there was no such item in the year and net profit decreased by RMB3.74 million.

(6) Cash Flow Composition

The net increase in cash and cash equivalents of BYS at the end of the Reporting Period amounted to RMB316.89 million, of which a net cash flow of RMB300.14 million was generated from operating activities, increased by 259.31% compared with the same period last year, a net cash flow of RMB32.83 million was generated from investing activities, decreased by 15.69% over the same period last year, and a net cash flow of -RMB166.81 million was generated from financing activities.

Cash flow of BYS in the year was sufficient. As cash received by BYS relating to other operating activities increased from last year, net cash flow of operating activities increased by RMB216.61 million compared with last year. For cash flow of investing activities, affected by factors such as compensation of RMB23.38 million due to expropriation of land owned by BYS (Baiyun District) in a restoration project of Shahe Chong and compensation of RMB22.00 million due to expropriation of land owned by BYS (Fangcun District) in the restoration project of Shahe Chong received in the Reporting Period, return of relevant transferring fee of RMB43.28 million from GPHL to BYS due to termination of sale of Company in the previous year and cash from investment income for the year decreased over last year, as at the end of the Reporting Period, net cash flow of investing activities decreased by RMB6.11 million over the same period last year. For cash flow of financing activities, due to repayment of RMB96.10 million for bank borrowings and RMB70.71 million for interest payments, cash outflow was RMB166.81 million larger than cash inflow.

(7) Details of Operation and Results of Major controlling subsidiaries and joint ventures of BYS

Name of enterprise	Registered capital	% of investment	Main business	Total assets	Income from main businesses	Net profit
	(RMB million)	*(%)*		*(RMB million)*	*(RMB million)*	*(RMB million)*
BYS Tian Xin	45.693	82.49	Manufacturing processing and sales of chemical pharmaceutical and preparations, traditional Chinese patent medicines, raw materials pharmaceutical, healthcare food etc	330.8145	445.1988	26.8559
BYS Guang Hua	55.285	84.48	Manufacturing of chemical medicine raw materials, preparation, traditional Chinese patent medicines, veterinary medicine, cosmetics, etc.	223.9043	263.9606	8.0019
BYS Ming Xing	26.494	100	Manufacturing processing chemical raw materials, chemical preparations, traditional Chinese patent medicines, healthcare food, etc.	207.6004	278.1087	24.1615
BYS Hutchison Whampoa	200.00	50	All kinds of medicines, healthcare products, food and herbal medicines production, processing, research and development, sales of BYS products (except for the prohibited category of Foreign Investment Industries)	754.0485	929.7939	96.5603
Baxter Qiao Guang	177.50	50	Production of large volume injection, the sales of our products and provision of related post-sales service; research and development of pharmaceuticals	169.0169	167.9797	-39.3304

(8) Major suppliers and customers

The total sales of products to the top five customers of BYS in the year amounted to RMB446.8189 million, representing 16.24% to the total sales of BYS for the year. The total purchase of raw material from the top five suppliers of BYS amounted to RMB420.4860, representing 27.92% to the total purchase of BYS for the year.

(9) Details of number, remuneration, remuneration policies and bonus of employees

As at 31 December 2009, the number of employees on the payroll register of BYS was 5,170.

Among which,	
Production staff	2,567
Finance personnel	94
Administrative staff	557
Sales personnel	676
Technical staff	521
Other staff	755

861 of the employees in BYS were holders of a bachelor's degree or above. Besides, the number of retirees was 4,213. The total salary payment for the year was approximately RMB300 million.

The remuneration of the employees of BYS included salaries, bonuses, subsidies, and relevant social insurance, housing provident fund and other fringe benefits. BYS, in compliance with the relevant PRC rules and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

(10) Pledged assets

BYS pledged its property located at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou with gross floor area of 29,843.03 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a loan of maximum amount of RMB174 million. At the end of the period, the actual borrowing amounted to RMB115 million.

BYS pledged its production facility for solid dosage located at 78 Yunxiang Road, Baiyun District, Guangzhou with gross floor area of 9,955.9876 sq.m., its production facility for oral liquids and soft capsules located at 82 Yun Xiang Road, Baiyun District with gross floor area of 2,938.61 sq.m and its building located at 2 Yun Xiang Road, Baiyun District with gross floor area of 74,484.91 sq.m. to Dezhengzhong Branch, Guangzhou, ICBC to secure a maximum loan of RMB118 million. At the end of the period, the actual borrowing amounted to RMB19 million.

BYS Tian Xin, a subsidiary of BYS, deposited as mortgage an office building located at self-numbering 6, 808 East Binjiang Road to Miao Qian Zhi Street Branch, Guangzhou, ICBC for a borrowing of RMB10 million. As at 31 December 2009, the subsidiary fully repaid such borrowing.

(11) Liquidity

As at 31 December 2009, the current ratio of BYS was 0.80 (31 December 2008: 0.72), and its quick ratio was 0.54 (31 December 2008: 0.45). Accounts receivable turnover rate was 13.52 times, representing an increase of 13.71% as compared with 2008. Inventory turnover rate was 3.85 times, representing an increase of 2.39%.

(12) Financial resources

As at 31 December 2009, cash and cash equivalents of BYS amounted to RMB316.89 million.

As at 31 December 2009, BYS had bank borrowings of RMB1,217.00 million in total, which were short-term borrowings (31 December 2008: RMB1,313.10 million).

(13) Capital structure

As at 31 December 2009, the current liabilities of BYS amounted to RMB1,834.60 million (31 December 2008: RMB1,788.62 million) and represented an increase of 2.57% from 2008, while the non-current liabilities amounted to RMB142.29 million (31 December 2008: RMB169.67 million) which represented a decrease of 16.14% from 2008. Equity attributable to shareholders of BYS was RMB912.53 million (31 December 2008: RMB804.97 million), representing an increase of 13.36% from 2008.

(14) Gearing ratio

As at 31 December 2009, BYS's gearing ratio (calculated according to the formula: total liabilities of RMB1,976.89 million/total assets of RMB2,945.05 million) was 67.13% (31 December 2008: 69.58%) with a decrease of 2.45 percentage points as compared with 2008.

(15) Risk of changes in exchange rate and relevant hedging arrangements

The majority of the income, expenses, assets and liabilities of BYS are denominated or settled in RMB. Therefore BYS has no significant risk of changes in exchange rate.

(16) Contingent liabilities

As at 31 December 2009, there is no significant contingent liabilities of BYS.

(C) MANAGEMENT DISCUSSION AND ANALYSIS OF PO LIAN

(i) For the six months ended 30 June 2012

I. Principal Business and Analysis of Operations

(1) Principal Business Scope

Po Lian is principally engaged in the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products. Major products include Cefdinir Capsules (頭孢地尼膠囊), Hoe Hin White Flower Embrocation (和興白花油), Josamycin (交沙霉素), Adenosine Triphosphatase (三磷酸腺苷), equipment and analytical apparatus and Xia Sang Ju Ke Li (夏桑菊顆粒).

(2) Analysis of Operating Results

I. Operations review

During the first half of 2012, Po Lian focused closely on the "Transition beyond 136 Project" (轉型超越136工程) and "40 Billion Project" (400億工程) of GPHL, coordinated the resources for the domestic and foreign operations development of GPHL, proactively explored the potential of existing operations and sought for the growth aspect in new operations, leveraging upon the opportunity arising from the platform of the imported apparatus by GPHL, accelerated the operations in detection instruments and equipment import of high standard, scale and efficiency. Meanwhile, there was a slowdown in the growth of principal operations of Po Lian for the first half of the year due to a number of adverse factors, including fluctuation in exchange rate, drop in certain major non-recurring transactions, the delay of goods delivered by suppliers, the rise in the import costs of products and the adjustment in the domestic sale structure, etc.

In the first half of 2012, Po Lian recorded revenue from principal operations of RMB25.9046 million, representing a decrease of 49.17% as compared with that in the same period of last year. Total profit amounted to RMB0.5927 million, representing a decrease of 55.80% as compared with that in the same period of last year and net profit was RMB0.4949 million, representing a decrease of 55.79% as compared with that in the same period of last year.

The following table illustrates the sales of the major products of Po Lian in the first half of 2012:

Major products	Sales revenue in first half of 2012 *(RMB'0,000)*	Sales revenue in first half of 2011 *(RMB'0,000)*	Increase/ Decrease as compared with that in the last year
Cefdinir Capsules（頭孢地尼膠囊）	831.71	2,708.69	-69.29%
Josamycin（交沙霉素）	441.75	299.88	47.31%
Adenosine Triphosphatase（三磷酸腺苷）	113.50	91.42	24.15%
White Flower Embrocation（白花油）	453.58	544.60	-16.71%
Ceftriaxone Sodium	75.54	–	
Imported apparatus	488.78	937.24	-47.85%
Herbal tea granules	137.66	87.94	56.54%

In the first half of 2012, the number of imported Cefdinir（頭孢地尼）was 400,000 packs, generated revenue of RMB8,317,100. Due to the adjustment in the production plan of the suppliers, Po Lian purchased 79% of its total demand of Cefdinir（頭孢地尼）for year 2011 in the first half of 2011 while for the first half of 2012, the original importing plan of 400,000 packs Cefdinir（頭孢地尼）at the end of June 2012 was delayed due to delay of goods delivered by suppliers. This in turn affected the operating results of Po Lian in the first half of the year.

In respect of the atomic absorption spectrophotometers and other conventional equipment and analytical apparatus for use in testing the ingredients of capsules, Po Lian actively assisted relevant corporations and equipment suppliers in communications in the first half of 2012, so that most corporations have confirmed their purchase intention. This laid a foundation for purchase in the second half of 2012.

Due to a number of factors such as increase in price of Xing Qun's products, increase in sales of Hong Kong Ruian Company and sales volume of Liang You in the first half of 2012, the business of herbal tea granules achieved sales amount of RMB1,376,600 in the first half of 2012.

II. Analysis of Financial Conditions

(1) Assets

As at 30 June 2012, the assets of Po Lian amounted to RMB56.9983 million in aggregate and represented an increase of 15.75% as compared with the beginning of the year, among which, current assets amounted to RMB46.4639 million, represented an increase of 20.26% as compared with the beginning of the year, while non-current assets amounted to RMB10.5345 million, represented a decrease of 0.68% as compared to the beginning of the year.

(2) Liquidity

As at 30 June 2012, the current ratio of Po Lian was 2.14 (30 June 2011: 1.29), and its quick ratio was 2.14 (30 June 2011: 1.29). Accounts receivable turnover rate for the period was 1.10 times, representing a decrease of 2.20 times as compared with same period in 2011. Inventory turnover rate was 0 times.

(3) Financial resources

As at 30 June 2012, cash and cash equivalents of Po Lian amounted to RMB9.9039 million.

As at 30 June 2012, Po Lian had no bank borrowings.

(4) Capital Structure

As at 30 June 2012, the liabilities of Po Lian amounted to RMB22.0455 million (30 June 2011: RMB59.3099 million), among which, current liabilities amounted to RMB21.7585 million (30 June 2011: RMB58.1534 million), represented a decrease of 62.58%; non-current liabilities amounted to RMB0.2870 million, represented a decrease of 75.19%.

(5) Gearing ratio

As at 30 June 2012, gearing ratio (calculated according to the formula: total liabilities/total assets) of Po Lian was 38.68% with a decrease of 25.45 percentage points as compared with same period in 2011.

(6) Exposure to fluctuations in exchange rates

To prevent or shift its exchange rate risks, Po Lian monitored over the movement in foreign exchange market and set up corresponding cut-loss point and adopted forward exchange transaction and cross-border RMB trade settlement, Po Lian did not have significant risks in exposure to fluctuations in exchange rates.

(7) Pledged assets

As at 30 June 2012, Po Lian pledged 6 of its owned properties and bank deposits of 429,518 in Euro, RMB2,602,825 and RMB2,809,550 to Bank of China (Hong Kong) Limited for a comprehensive credit line amounted to HK$100 million as working capital.

(8) Significant investment held and expected performance and prospect of such investment during the fiscal year

As at 30 June 2012, Po Lian had no significant investment.

(9) Details of material acquisition and disposal relating to subsidiaries and associates

Not applicable.

(10) Details of future plans of material investments or acquisition of capital assets, and expected source of funding for the above plan in the coming year

It is expected that Po Lian has no significant investment in 2012.

(11) Details of contingent liabilities

As at 30 June 2012, Po Lian had no significant contingent liabilities.

(III) Prospects for business development

In the second half of 2012, while with an aim of doing better in the import and export business of existing products, Po Lian is committed to develop and introduce international innovative technology, communicate and cooperate with internationally renowned corporations, establish a global platform for GPHL, continue to procure the cooperation projects with large scale renowned corporations.

(IV) Employees of Po Lian

As at 30 June 2012, the number of employees of Po Lian in payroll register was six. The total salary payment for employees of Po Lian was RMB0.4288 million in the first half of 2012.

(ii) For the year ended 31 December 2011

I. Principal Business and Analysis of Operations

(1) Principal Business Scope

Po Lian is principally engaged in the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products. Major products include Cefdinir Capsules (頭孢地尼膠囊), Josamycin (交沙霉素), Adenosine Triphosphatase (三磷酸腺苷), equipment and analytical apparatus and Xia Sang Ju Ke Li (夏桑菊顆粒).

(2) Analysis of Operating Results

I. Operations review

In 2011, leveraging on the opportunities arising from the implementation of 2010 GMP standards, Po Lian expedited the import of high-standard testing apparatus and equipment. In the meantime, effective measures were taken to mitigate the impact of adverse factors such as exchange rate fluctuations and increased import cost of products, contributing to a growth in principal operations.

In 2011, Po Lian recorded revenue from principal operations of RMB122.2287 million, with a growth of 12.07% as compared with last year. Total profit amounted to RMB1.9998 million, representing a drop of 27.56% over last year and net profit reached RMB1.6490 million, representing a decrease of 24.86% over last year.

(1) The import operations

In 2011, facing the unfavourable conditions such as the delay of approval of new registration and increased import cost caused by exchange rate fluctuations, Po Lian strived for tariff concessions through promoting the communication with customers and suppliers. In addition, the flexibility of banking in Hong Kong and relatively lower funding cost were fully utilized for flexible allocation of funds so as to avoid incurring exchange loss due to the appreciation of Japanese yen. Strenuous efforts were made in reducing procurement cost and obtaining short-term import approvals, and in turn generated sales revenue of RMB34.2283 million from Cefdinir Capsules（頭孢地尼膠囊）in 2011.

In 2011, under a 20% reduction in supply of Josamycin (交沙霉素) in the PRC, Po Lian tried to uphold its supply and indirectly expanded the market share of its products in the PRC market. Sales revenue from Josamycin (交沙霉素) amounted to RMB6.1376 million for the whole year 2011.

In 2011, the raw material project for Adenosine Triphosphatase (三磷酸腺苷) (ATP) encountered difficulties with the withdrawal of its supplier from the PRC market. With a view to ensure the supply of raw materials, Po Lian on one hand strengthened the communication with the original supplier and on the other hand identified other quality suppliers for replacement. The import sales of raw materials of ATP reached RMB1.5871 million.

Along with the implementation of unified operation for the procurement of imported apparatus and equipment by GPHL and the testing requirements of the new Pharmacopoeia 2010, imported refined testing apparatus amounted to RMB14.1061 million for the year 2011. In addition, Po Lian consolidated the collaboration with Guangzhou Pharmaceutical Import and Export Co., Ltd. making use of its advantages in quality and pricing, Po Lian obtained the procurement agency agreement for the tetra packing production line of WangLaoJi and recorded sales revenue of RMB39.0595 million.

(2) Export of Herbal tea granules

Since 1 December 2011, the new Chinese Medicine Ordinance (Cap. 549 of the Laws of Hong Kong) was implemented in Hong Kong in which there are new requirements for the packaging and the description of ingredients and functions. To comply with the new requirements, Po Lian made early moves in line with the production enterprises to develop new packaging for its products. The sale of Xia Sang Ju Ke Li (夏桑菊顆粒) in mainstream retail channels such as Wellcome, China Resources, CR care and Mannings was gratifying. The sales revenue of herbal tea granules amounted to RMB1.6797 million in 2011.

Besides, the Banlangen granules (黃板藍顆粒) of BYS Hutchison Whampoa had officially completed all the formalities of access and was placed on the shelf of over 100 pharmacies in Hong Kong for trial sale and received favourable market response.

II. Analysis of Financial Conditions

1. Assets

As at 31 December 2011, the assets of Po Lian amounted to RMB49.2434 million in aggregate and representing a decrease of 2.38% as compared to the amount of the assets as at 31 December 2010, among which, current assets amounted to RMB38.6369 million which represented a decrease of 1.07% as compared to the amount of the current assets as at 31 December 2010, while non-current assets amounted to RMB10.6065 million which represented a decrease of 6.89%.

2. Liquidity

As at 31 December 2011, the current ratio of Po Lian was 2.63 (31 December 2010: 2.46), and its quick ratio was 2.63 (31 December 2010: 2.46). Accounts receivable turnover rate was 5.83 times, representing an increase of 1.39 times as compared with 2010. Inventory turnover rate was 0.

3. Financial resources

As at 31 December 2011, cash and cash equivalents of Po Lian amounted to RMB 14.0625 million.

As at 31 December 2011, Po Lian had no bank borrowings.

4. Capital structure

As at 31 December 2011, Po Lian had liabilities of RMB14.9771 million (31 December 2010: RMB16.1682 million) representing a decrease of 7.37%, among which, current liabilities amounted to RMB14.6917 million (31 December 2010: RMB15.8796 million) which represented a decrease of 7.48%, while non-current liabilities amounted to RMB0.2854 million (31 December 2010: RMB0.2886 million) which represented a decrease of 1.12%.

5. Gearing ratio

As at 31 December 2011, Po Lian's gearing ratio (calculated according to the formula: total liabilities/total assets) was 30.41% with a decrease of 1.64 percentage points as compared with 2010.

6. Exposure to fluctuations in exchange rates

To prevent or shift its exchange rate risks, Po Lian monitored over the movement in foreign exchange market and set a corresponding cut-loss point and adopted forward exchange transaction and cross-border RMB trade settlement, Po Lian did not have significant risks in exposure to fluctuations in exchange rates.

7. Pledged assets

In 2011, Po Lian pledged 6 of its owned properties and bank deposits of 429,518 in euro, RMB2,602,825 and RMB2,809,550 to Bank of China (Hong Kong) Limited for a comprehensive credit line amounted to HK$100 million as working capital.

8. Significant investment held and expected performance and prospect of such investment during the fiscal year

As at 31 December 2011, Po Lian had no significant investment.

9. Details of material acquisition and disposal relating to the subsidiaries and associates

Not applicable.

10. Details of the future plans for material investments or acquisition of capital assets and their expected source of funding in the coming year

It is expected that Po Lian has no significant investment in 2012.

11. Details of contingent liabilities

As at 31 December 2011, Po Lian had no significant contingent liabilities.

III. Prospects for business development

In 2012, Po Lian targets to do better in the import and export of the existing products, and also expand the research and development of biological technology and intend to establish the US research and development team as the core strength of technology, Guangzhou Bai Di Bio-technology Co., Ltd. as the innovative biological technology research and development platform of the project, and continue to develop the high value-added products in order to become a new driver for the development of GPHL and Po Lian.

In addition, Po Lian is committed to develop and introduce the international innovative technology, communicate and cooperate with internationally renowned enterprises and establish the global platform for GPHL. Po Lian will also continue to procure the cooperation projects with Lonza Group of Switzerland, DSM Group (荷蘭帝斯曼集團)) and Johnson & Johnson.

IV. Employees of Po Lian

As at the end of 2011, the number of employees on the payroll register of Po Lian was six. The total salary payment for the year of 2011 was approximately RMB891,400.

(iii) For the year ended 31 December 2010

I. Principal Business and Analysis of Operations

(1) Principal Business Scope

Po Lian is principally engaged in the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products. Major products include Cefdinir Capsules (頭孢地尼膠囊), Josamycin (交沙霉素), Adenosine Triphosphatase (三磷酸腺苷), equipment and analytical apparatus, Xia Sang Ju Ke Li (夏桑菊顆粒) and Cefixime tablets (頭孢克肟).

(2) Analysis of Operating Results

I. Operations review

In 2010, Po Lian maintained close communication with customers and suppliers. Through flexible allocation of funds and early fixed procurement cost, Po Lian succeeded in overcoming the impact of exchange rate fluctuation and the rising price of products, leading to a rapid growth in principal operations. In 2010, Po Lian recorded revenue from principal operations of RMB109.0690 million, with a growth of 6.20% as compared with last year. The total profit amounted to RMB2.7607 million, representing a year-on-year increase of 16-fold and net profit reached RMB2.1946 million, representing an increase of 15 times over last year.

(1) The import operations

In 2010, Po Lian obtained USD410,000 of free samples through the effective communication with the senior management of Cefdinir (頭孢地尼) supplier. Po Lian also fully leveraged on its advantage of high credit limit and flexibly allocating its funds to avoid the exchange losses caused by the appreciation of the Japanese Yen. The market share of the Cefdinir Capsules（頭孢地尼膠囊）was increasing and recorded a sales volume of 1,300,000 boxes in 2010, amounting to RMB25.3366 million.

In 2010, with accurate market information, Po Lian maintained a reasonable inventory level of raw materials with various measures in a timely basis under a reduction in total supply of the raw materials of Josamycin (交沙霉素) from supplier and finally secured the sourcing of raw materials of Josamycin (交沙霉素), creating keen demand for Josamycin tablet (交沙霉素片) of Guang Hua in the domestic market. In 2010, the sales amount of Po Lian's raw materials of Josamycin reached RMB6.6264 million.

In 2010, with acute sense of information collection through multi channels, Po Lian maintained a half-year inventory level of the raw material of Adenosine Triphosphatase (三磷酸腺苷) (ATP) before the increase in price and reduced the cost of USD18,000 for the domestic manufacturing enterprises. The sales revenue of ATP reached RMB0.9507 million for the current period.

In 2010, Po Lian continued to optimize centralized procurement and reinforce the collaboration with fellow subsidiaries of GPHL in respect of the import of apparatus and equipment so as to further demonstrate its advantage in centralized procurement. Sales revenue reached RMB16.4481 million in 2010.

(2) The export operations

In 2010, the exporting CPM products sold in Hong Kong – Xia Sang Ju Ke Li (夏桑菊顆粒) of "Qun Xing Brand"（群星牌）" attained a breakthrough in sales network, being put on the shelves of over 200 chain stores of Mannings and recorded sales revenue of RMB1.5299 million for the current period. Meanwhile, the registration of Xia Sang Ju Ke Li (夏桑菊顆粒) (sugar free) of "Qun Xing Brand"（群星牌）was completed and under process.

II. Analysis of Financial Conditions

1. Assets

As at 31 December 2010, the total assets of Po Lian amounted to RMB50.4460 million, representing a decrease of 20.63% as compared to the total assets as at 31 December 2009, of which current assets amounted to RMB39.0548 million which represented a decrease of 24.16% as compared with that of the year of 2009, while non-current assets amounted to RMB11.3912 million which represented a decrease of 5.54%.

2. Liquidity

As at 31 December 2010, the current ratio of Po Lian was 2.46 (31 December 2009: 1.72), and its quick ratio was 2.46 (31 December 2009: 1.72). Accounts receivable turnover rate was 4.44 times, representing an increase of 0.36 times as compared with 2009. Inventory turnover rate was 0.

3. Financial resources

As at 31 December 2010, cash and cash equivalents of Po Lian amounted to RMB 21.1155 million.

As at 31 December 2010, Po Lian had no bank borrowings.

4. Capital structure

As at 31 December 2010, the total liabilities of Po Lian amounted to RMB16.1682 million (31 December 2009: RMB30.3196 million) and represented a year-on-year decrease of 46.67%, of which current liabilities amounted to RMB15.8796 million (31 December 2009: RMB30.0165 million) which represented a decrease of 47.10%, while non-current liabilities amounted to RMB0.2886 million (31 December 2009: RMB0.3031 million) which represented a year-on-year decrease of 4.77%.

5. Gearing ratio

As at 31 December 2010, Po Lian's gearing ratio (calculated according to the formula: total liabilities/total assets) was 32.05% with a decrease of 15.65 percentage points as compared with 2009.

6. Exposure to fluctuations in exchange rates

To prevent from or mitigate the exposure to fluctuations in exchange rates, Po Lian monitored over the movements in foreign exchange market and set a corresponding cut-loss point and adopted forward exchange transaction and cross-border RMB trade settlement, Po Lian did not have significant risks in exposure to fluctuations in exchange rates.

7. Pledged assets

In 2010, Po Lian pledged 6 of its owned properties and bank deposits of 429,518 in euro, RMB2,602,825 and RMB2,809,550 to Bank of China (Hong Kong) Limited for a comprehensive credit line as working capital. The credit line amounted to HK$56.08 million before 6 August 2010 and adjusted to HK$100 million after 6 August 2010.

8. Significant investment held and expected performance and prospect of such investment during the fiscal year

As at 31 December 2010, Po Lian had no significant investment.

9. Details of material acquisition and disposal relating to the subsidiaries and associates

Not applicable.

10. Details of contingent liabilities

As at 31 December 2010, Po Lian had no significant contingent liabilities.

III. Employees of Po Lian

As at the end of 2010, the number of employees on the payroll register of Po Lian was six. The total salary payment for the year of 2010 was approximately RMB699,500.

(iv) For the year ended 31 December 2009

I. Principal Business and Analysis of Operations

(1) Principal Business Scope

Po Lian is principally engaged in the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products. Major products include Sevoflourance solution (七氟烷), Cefdinir Capsules (頭孢地尼膠囊), Josamycin (交沙霉素), Adenosine Triphosphatase (三磷酸腺苷), equipment and analytical apparatus, Xia Sang Ju Ke Li (夏桑菊顆粒) and Cefixime tablets (頭孢克肟).

(2) Analysis of Operating Results

In 2009, according to Po Lian's operating plan for the year, it proactively communicated with its clients and suppliers, strived to overcome the impacts of factors like increasingly keen competition, fluctuation in exchange rates and rise in the price of imported products and achieved a steady growth in principal operations. In 2009, Po Lian realized revenue of RMB 102.7001 million, representing a decrease of 1.60% as compared with 2008. The total profit of RMB 0.1602 million was realized, representing a decrease of 85.02% as compared to 2008. The net profit of RMB 0.1338 million was realized, representing a decrease of 84.84% as compared with 2008.

1. Import business

Properly leveraging its advantages in position and actively interacting with suppliers, in 2009, Po Lian resumed the import agency business of "Sevoflourane Solution (七氟烷)" in June, which was lost in 2008 and achieved sales amount RMB21.8364 million in 2009 and laid a strong foundation for distribution of such products next year.

On the basis of introduction and distribution of Cefdinir Capsules (頭孢地尼膠囊) in 2008, Cefdinir Capsules（頭孢地尼膠囊）gradually occupied more market share in 2009. The actual import in 2009 was 600,000 pp packs, representing a year-on-year growth of 300% and achieved sales revenue of RMB12.0565 million.

The raw material of Josamycin (交沙霉素) was mainly supplied for the production use of Guangzhou Baiyunshan Guang Hua Pharmaceutical Co. Ltd. ("Guang Hua"). Due to the substantial decrease in the amount of supply planned by the manufacturer to China, the supply of such raw material faced greater challenge. Through the proactive coordination, Po Lian realized a procurement volume of 4.32 tons representing a growth of 8% as compared with the volume of import in 2008 under the severe condition that the total volume of import into PRC fell. In 2009, the sales revenue of the raw materials of josamycin (交沙霉素) was RMB6.7556 million and Guang Hua strengthened its position in domestic josamycin (交沙霉素) market.

The raw material of adenosine triphosphatase (三磷酸腺苷) was imported from Japan. In the second half of 2009, as the Japanese Yen appreciated sharply, such raw material faced price increase pressure. Po Lian conducted a number of negotiations with the supplier, the price increase of such raw material was controlled at 5% at last, the settlement in U.S. dollars remained unchanged throughout the year and in 2010 and secured the volume of supply of 5 tons. In 2009, Po Lian recorded sales revenue from the raw material of adenosine triphosphatase (三磷酸腺苷) amounting to RMB1.5494 million.

Po Lian is the platform for the procurement of imported equipments for GPHL and its subsidiaries. In 2009, Po Lian leveraged upon the advantage of centralized procurement and achieved sales revenue of RMB3.1386 million.

2. Export business

Xia Sang Ju Ke Li (夏桑菊顆粒) of "Qun Xing Brand" (群星牌) was the largest export Chinese patent medicine product sold in Hong Kong, it was sold in some supermarkets in Hong Kong and Po Lian was responsible for the sale and management of the Hong Kong market. In 2009, with the the strong presence of similar products in local supermarkets, the market competition became increasingly tense. Po Lian achieved sales revenue of RMB1.6906 million by close cooperation with the distributors in Hong Kong.

II. Analysis of Financial Conditions

1. Assets

As at 31 December 2009, total assets of Po Lian amounted to RMB63.5564 million, representing an increase of 12.19% as compared with the beginning of the year, among which, current assets amounted to RMB51.4967 million which represented an increase of 17.64% as compared with early 2009, while non-current assets amounted to RMB12.0598 million which represented a decrease of 6.35% as compared with the beginning of the year.

2. Liquidity

As at 31 December 2009, the current ratio of Po Lian was 1.72 (31 December 2008: 2.26), and its quick ratio was 1.72 (31 December 2008: 2.26). Accounts receivable turnover rate was 4.08 times, representing an increase of 0.63 time as compared with 2008. Inventory turnover rate was 0.

3. Financial resources

As at 31 December 2009, cash and cash equivalents of Po Lian amounted to RMB19.7962 million.

As at 31 December 2009, Po Lian had no bank borrowings (31 December 2008: RMB1.3409 million).

4. Capital structure

As at 31 December 2009, the liabilities of Po Lian amounted to RMB30.3196 million (31 December 2008: RMB20.7101 million) and represented an increase of 46.40%, among which, current liabilities amounted to RMB30.0165 million (31 December 2008: RMB19.357 million) which represented an increase of 55.06%, while non-current liabilities amounted to RMB0.3031 million (31 December 2008: RMB1.3527 million) which represented a decrease of 77.59%.

5. Gearing ratio

As at 31 December 2009, Po Lian's gearing ratio (calculated according to the formula: total liabilities/total assets) was 47.70% with an increase of 11.15 percentage points as compared with 2008.

6. Exposure to fluctuations in exchange rates

To prevent or shift its exchange rate risks, Po Lian monitored over the changes in foreign exchange market and set a corresponding cut-loss point and adopted forward exchange transaction and cross-border RMB trade settlement. Po Lian did not have significant risks in exposure to fluctuations in exchange rates.

7. Pledged assets

In 2009, Po Lian pledged 6 of its owned properties and bank deposits of 429,518 in euro, RMB2,602,825 and RMB2,809,550 to Bank of China (Hong Kong) Limited for a comprehensive credit line amounted to HK$56.08 million as working capital.

8. Significant investment held and expected performance and prospect of such investment during the fiscal year

As at 31 December 2009, Po Lian had no significant investment.

9. Details of material acquisition and disposal relating to the subsidiaries and associates

Not applicable.

10. Details of contingent liabilities

As at 31 December 2009, Po Lian had no significant contingent liabilities.

III. Employees of Po Lian

As at the end of 2009, the number of employees on the payroll register of Po Lian was six. The total salary payment for the year of 2009 was approximately RMB894,300.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The following is an illustrative and unaudited pro forma consolidated balance sheet, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the basis set out in the notes below for the purpose of illustrating the effect of the proposed absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("**BYS**") and its subsidiaries ("**BYS Group**") through share swap ("**Proposed Merger**") and acquisition of 21 properties ("**Target Properties**"), 388 trademarks ("**Target Trademarks**"), 100% equity interest in Po Lian Development Company Limited ("**Po Lian**") and 12.5% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. ("**Baxter**") (collectively, "**Target Assets**") from Guangzhou Pharmaceutical Holdings Limited ("**GPHL**") through issue of shares ("**Proposed Assets Acquisition**", together with the Proposed Merger, known as "**Major Assets Reorganization**") by the Company and its subsidiaries ("**the Group**") on the financial position of the enlarged group (being the BYS Group, the Target Assets together with the Group referred as the "**Enlarged Group**").

For this unaudited pro forma consolidated balance sheet, it was prepared based on (i) the audited consolidated balance sheet of the Group as at 30 June 2012 (as extracted from the 2012 interim report which has been published by the Company), (ii) the audited consolidated balance sheet of BYS Group as at 30 June 2012 (as extracted from the accountants' report set out in Appendix II(A) to this circular), (iii) the audited balance sheet of Po Lian as at 30 June 2012 (as extracted from the accountants' report set out in Appendix II(B) to this circular) and (iv) after making pro forma adjustments relating to the Major Assets Reorganization, as if the Proposed Merger and Proposed Assets Acquisition had been completed on 30 June 2012.

For this unaudited pro forma consolidated income statement, it was prepared based on (i) the audited consolidated income statement of the Group for the year ended 31 December 2011 (as extracted from the 2011 annual report which has been published by the Company), (ii) the audited consolidated income statement of BYS Group for the year ended 31 December 2011 (as extracted from the accountants' report set out in Appendix II(A) to this circular), (iii) the audited income statement of Po Lian for the year ended 31 December 2011 (as extracted from the accountants' report set out in Appendix II(B) to this circular), (iv) the income statement of the Target Properties and the Target Trademarks for the year ended 31 December 2011 (as extracted from the accountants' report set out in Appendix III to this circular) and (v) after making pro forma adjustments relating to the Major Assets Reorganization, as if the Proposed Merger and Proposed Assets Acquisition had been completed on 1 January 2011.

For the unaudited pro forma consolidated cash flow statement, it was prepared based on (i) the audited consolidated cash flow statement of the Group for the year ended 31 December 2011 (as extracted from the 2011 annual report which has been published by the

Company), (ii) the audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011 (as extracted from the accountants' report set out in Appendix II(A) to this circular), (iii) the audited cash flow statement of Po Lian for the year ended 31 December 2011 (as extracted from the accountants' report set out in Appendix II(B) to this circular) and (iv) after making pro forma adjustments relating to the Major Assets Reorganization, as if the Proposed Merger and Proposed Assets Acquisition had been completed on 1 January 2011.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not reflect a true picture of the financial position, financial results and cash flow of the Enlarged Group had the Major Assets Reorganization completed as at 30 June 2012 or 1 January 2011, where appropriate, or any future dates.

You should read this document together with the previous financial information set out in the annual report for the year ended 31 December 2011 and the interim report for the six months ended 30 June 2012 of the Group as well as other financial information set out in other parts of this circular.

(i) The audited consolidated financial report of the Group for the year ended 31 December 2011 and for the six months ended 30 June 2012;

(ii) The accountants' report on BYS for the year ended 31 December 2011 and for the six months ended 30 June 2012;

(iii) The accountants' report on Po Lian for the year ended 31 December 2011 and for the six months ended 30 June 2012; and

(iv) The accountants' report on the Target Properties and the Target Trademarks for the year ended 31 December 2011 and for the six months ended 30 June 2012,

are prepared pursuant to the China Accounting Standards for Business Enterprises ("**CASBE**") issued by the Ministry of Finance of the PRC in 2006.

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

Currency unit: RMB Yuan

		Pro forma adjustments							
		BYS Group							
ASSETS	Audited consolidated balance sheet of the Group as at 30 June 2012 *(Note 2)*	Audited consolidated balance sheet of BYS Group as at 30 June 2012 *(Note 3)*	Adjusted the investment properties from fair value to cost *(Note 4)*	Consolidated balance sheet of BYS Group as at 30 June 2012 after pro forma adjustment	Audited balance sheet of Po Lian as at 30 June 2012 *(Note 5)*	The Target Assets recognized at acquisition price *(Note 6)*	Pro forma elimination on consolidation *(Note 7a)*	The impact of the issue of shares *(Note 8)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2012
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9) = (1) + (4) + (5) + (6) + (7) + (8)*
Current assets:									
Cash at bank and on hand	789,117,665.72	421,937,011.61	0.00	421,937,011.61	9,903,894.86	0.00	0.00	0.00	1,220,958,572.19
Financial assets held for trading	2,871,401.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,871,401.80
Notes receivable	487,144,577.83	531,301,630.90	0.00	531,301,630.90	0.00	0.00	7,782,336.69	0.00	1,026,228,545.42
Accounts receivable	664,804,763.75	257,373,028.09	0.00	257,373,028.09	22,680,245.34	0.00	−50,222,327.49	0.00	894,635,709.69
Advances to suppliers	230,584,440.95	51,780,583.85	0.00	51,780,583.85	13,455,380.83	0.00	−18,465,926.85	0.00	277,354,478.78
Interest receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends receivable	0.00	20,000,000.00	0.00	20,000,000.00	0.00	0.00	0.00	0.00	20,000,000.00
Other receivables	73,828,225.07	35,593,177.13	0.00	35,593,177.13	424,333.77	0.00	−2,443,888.55	0.00	107,401,847.42
Inventories	877,718,454.77	643,802,033.09	0.00	643,802,033.09	0.00	0.00	−3,451,017.77	0.00	1,518,069,470.09
Current portion of non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	5,884,406.73	479,622.79	0.00	479,622.79	0.00	0.00	899,925.52	0.00	7,263,955.04
Total current assets	3,131,953,936.62	1,962,267,087.46	0.00	1,962,267,087.46	46,463,854.80	0.00	−65,900,898.45	0.00	5,074,783,980.43

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP (Continued)

		Pro forma adjustment							
		BYS Group							
ASSETS	Audited consolidated balance sheet of the Group as at 30 June 2012 *(Note 2)*	Audited consolidated balance sheet of BYS Group as at 30 June 2012 *(Note 3)*	Adjusted the investment properties from fair value to cost *(Note 4)*	Consolidated balance sheet of BYS Group as at 30 June 2012 after pro forma adjustment	Audited balance sheet of Po Lian as at 30 June 2012 *(Note 5)*	The Target Assets recognized at acquisition price *(Note 6)*	Pro forma elimination on consolidation *(Note 7a)*	The impact of the issue of shares *(Note 8)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2012
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9) = (1) + (4) + (5) + (6) + (7) + (8)*
Non-current assets:									
Available-for-sale financial assets	18,692,267.32	281,066.86	0.00	281,066.86	0.00	0.00	0.00	0.00	18,973,334.18
Held-to-maturity investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term equity investments	1,365,142,362.61	285,005,960.93	0.00	285,005,960.93	0.00	82,338,800.00	-2,150,226.42	0.00	1,730,336,897.12
Investment properties	99,303,560.45	279,804,070.00	-241,099,330.61	38,704,739.39	4,475,816.23	117,039,900.00	0.00	0.00	259,524,016.07
Fixed assets	962,923,393.35	650,363,503.26	-17,254,845.99	633,108,657.27	6,058,676.74	113,699,700.00	-401,046.02	0.00	1,715,389,381.34
Construction in progress	28,067,480.19	62,187,510.03	0.00	62,187,510.03	0.00	0.00	3,206,119.89	0.00	93,461,110.11
Construction materials	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fixed assets pending for disposal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bio-assets for production	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assets of oil and gas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	93,726,127.59	240,973,787.30	-23,705,468.82	217,268,318.48	0.00	51,141,600.00	0.00	0.00	362,136,046.07
Development costs	792,251.69	3,319,800.00	0.00	3,319,800.00	0.00	0.00	0.00	0.00	4,112,051.69
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term prepaid expenses	5,851,364.75	1,430,976.75	0.00	1,430,976.75	0.00	0.00	0.00	0.00	7,282,341.50
Deferred tax assets	62,563,781.69	48,281,899.68	0.00	48,281,899.68	0.00	0.00	0.00	0.00	110,845,681.37
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total non-current assets	2,637,062,589.64	1,571,648,574.81	–282,059,645.42	1,289,588,929.39	10,534,492.97	364,220,000.00	654,847.45	0.00	4,302,060,859.45
TOTAL ASSETS	5,769,016,526.26	3,533,915,662.27	–282,059,645.42	3,251,856,016.85	56,998,347.77	364,220,000.00	–65,246,051.00	0.00	9,376,844,839.88

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP (Continued)

Currency unit: RMB Yuan

		Pro forma adjustment							
		BYS Group							
LIABILITIES AND SHAREHOLDERS' EQUITY	Audited consolidated balance sheet of the Group as at 30 June 2012 *(Note 2)*	Audited consolidated balance sheet of BYS Group as at 30 June 2012 *(Note 3)*	Adjusted the investment properties from fair value to cost *(Note 4)*	Consolidated balance sheet of BYS Group as at 30 June 2012 after pro forma adjustment	Audited balance sheet of Po Lian as at 30 June 2012 *(Note 5)*	The Target Assets recognized at acquisition price *(Note 6)*	Pro forma elimination on consolidation *(Note 7a)*	The impact of the issue of shares *(Note 8)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2012
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9) = (1) + (4) + (5) + (6) + (7) + (8)*
Current liabilities:									
Short-term borrowings	137,667,087.26	782,100,000.00	0.00	782,100,000.00	0.00	0.00	0.00	0.00	919,767,087.26
Financial liabilities held for trading	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Notes payable	41,381,160.53	407,450.43	0.00	407,450.43	0.00	0.00	0.00	0.00	41,788,610.96
Accounts payable	572,504,724.94	409,299,328.81	0.00	409,299,328.81	4,081,579.14	0.00	-32,389,037.86	0.00	953,496,595.03
Advances from customers	550,647,272.40	192,550,186.39	0.00	192,550,186.39	13,557,357.51	0.00	-18,223,397.34	0.00	738,531,418.96
Employee benefits payable	116,433,623.03	69,268,976.55	0.00	69,268,976.55	0.00	0.00	0.00	0.00	185,702,599.58
Taxes payable	67,628,191.66	82,819,678.46	0.00	82,819,678.46	1,442,116.48	0.00	0.00	0.00	151,889,986.60
Interest payable	0.00	1,306,448.14	0.00	1,306,448.14	0.00	0.00	0.00	0.00	1,306,448.14
Dividends payable	5,093,930.51	21,828,316.07	0.00	21,828,316.07	0.00	0.00	0.00	0.00	26,922,246.58
Other payables	87,704,406.64	80,634,850.73	0.00	80,634,850.73	2,677,479.76	0.00	-2,366,254.71	0.00	168,650,482.42
Current portion of non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	72,324,174.88	92,066,704.41	0.00	92,066,704.41	0.00	0.00	0.00	0.00	164,390,879.29
Total current liabilities	1,651,384,571.85	1,732,281,939.99	0.00	1,732,281,939.99	21,758,532.89	0.00	-52,978,689.91	0.00	3,352,446,354.82

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP (Continued)

		Pro forma adjustment							
		BYS Group							
LIABILITIES AND SHAREHOLDERS' EQUITY	Audited consolidated balance sheet of the Group as at 30 June 2012 *(Note 2)*	Audited consolidated balance sheet of BYS Group as at 30 June 2012 *(Note 3)*	Adjusted the investment properties from fair value to cost *(Note 4)*	Consolidated balance sheet of BYS Group as at 30 June 2012 after pro forma adjustment	Audited balance sheet of Po Lian as at 30 June 2012 *(Note 5)*	The Target Assets recognized at acquisition price *(Note 6)*	Pro forma elimination on consolidation *(Note 7a)*	The impact of the issue of shares *(Note 8)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2012
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9) = (1) + (4) + (5) + (6) + (7) + (8)*
Non-current liabilities:									
Long-term borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debentures payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term payables	4,423,405.56	19,369,019.06	0.00	19,369,019.06	0.00	0.00	0.00	0.00	23,792,424.62
Payables for specific projects	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	72,086,418.21	0.00	72,086,418.21	0.00	0.00	0.00	0.00	72,086,418.21
Deferred tax liabilities	3,636,548.33	64,686,641.81	-41,539,462.93	23,147,178.88	0.00	0.00	0.00	0.00	26,783,727.21
Other non-current liabilities	76,203,373.99	40,050,446.35	0.00	40,050,446.35	286,993.61	0.00	0.00	0.00	116,540,813.95
Total non-current liabilities	84,263,327.88	196,192,525.43	-41,539,462.93	154,653,062.50	286,993.61	0.00	0.00	0.00	239,203,383.99
Total liabilities	1,735,647,899.73	1,928,474,465.42	-41,539,462.93	1,886,935,002.49	22,045,526.50	0.00	–52,978,689.91	0.00	3,591,649,738.81

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP (Continued)

		Pro forma adjustment							
		BYS Group							
LIABILITIES AND SHAREHOLDERS' EQUITY	**Audited consolidated balance sheet of the Group as at 30 June 2012** *(Note 2)*	**Audited consolidated balance sheet of BYS Group as at 30 June 2012** *(Note 3)*	**Adjusted the investment properties from fair value to cost** *(Note 4)*	**Consolidated balance sheet of BYS Group as at 30 June 2012 after pro forma adjustment**	**Audited balance sheet of Po Lian as at 30 June 2012** *(Note 5)*	**The Target Assets recognized at acquisition price** *(Note 6)*	**Pro forma elimination on consolidation** *(Note 7a)*	**The impact of the issue of shares** *(Note 8)*	**Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2012**
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9) = (1) + (4) + (5) + (6) + (7) + (8)*
Shareholders' equity:									
Share capital	810,900,000.00	469,053,689.00	0.00	469,053,689.00	4,747,300.00	30,100,826.00	0.00	-23,461,165.00	1,291,340,650.00
Capital surplus	1,147,597,963.81	108,957,459.00	-36,189,825.27	72,767,633.73	0.00	334,119,174.00	0.00	779,979,497.99	2,334,464,269.53
Less: Treasury shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus reserve	602,895,675.46	142,619,812.94	-18,150,409.12	124,469,403.82	0.00	0.00	0.00	-124,469,403.82	602,895,675.46
Undistributed profits	1,355,834,517.97	815,076,624.75	-183,027,695.58	632,048,929.17	36,624,888.51	0.00	-11,967,361.09	-632,048,929.17	1,380,492,045.39
Difference on translation of foreign currency financial statements	0.00	0.00	0.00	0.00	-6,419,367.24	0.00	0.00	0.00	-6,419,367.24
Total equity attributable to the shareholders of the parent company	3,917,228,157.24	1,535,707,585.69	-237,367,929.97	1,298,339,655.72	34,952,821.27	364,220,000.00	-11,967,361.09	0.00	5,602,773,273.14
Minority interest	116,140,469.29	69,733,611.16	-3,152,252.52	66,581,358.64	0.00	0.00	-300,000.00	0.00	182,421,827.93
Total shareholders' equity	4,033,368,626.53	1,605,441,196.85	-240,520,182.49	1,364,921,014.36	34,952,821.27	364,220,000.00	-12,267,361.09	0.00	5,785,195,101.07
Total liabilities and shareholders' equity	5,769,016,526.26	3,533,915,662.27	-282,059,645.42	3,251,856,016.85	56,998,347.77	364,220,000.00	-65,246,051.00	0.00	9,376,844,839.88

3. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

Currency unit: RMB Yuan

ITEMS	Audited consolidated income statement of the Group for the year ended 31 December 2011 *(Note 2)*	BYS Group: Audited consolidated income statement of BYS Group for the year ended 31 December 2011 *(Note 3)*	BYS Group: Adjusted the investment properties from fair value to cost *(Note 4)*	BYS Group: Consolidated income statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment	Audited income statement of Po Lian for the year ended 31 December 2011 *(Note 5)*	Pro forma adjustments – The corresponding income statement of the Target Assets recognized at acquisition price *(Note 6)*: Income statement for the Target Properties *(Note 6a)*	Income statement for the Target Trademarks *(Note 6b)*	Income from 12.5% equity interest in Baxter *(Note 6c)*	Pro forma adjustments *(Note 7)*: Pro forma elimination on inventory transaction and unrealized profit among the Group, BYS Group and Po Lian *(Note 7b-1)*	Pro forma elimination on inventory transaction and unrealized profit among the Group, BYS Group and Po Lian *(Note 7b-2)*	Pro forma elimination on the transaction relevant to the property lease and license fee among the target assets recognized at acquisition price *(Note 7b-3)*	Pro forma elimination on the inventory transaction and unrealized profit between the jointly controlled entities of the Group and BYS Group *(Note 7b-4)*	Pro forma elimination on the provision for bad debts of intra-group transaction arising from the transaction among the Group, BYS Group and Po Lian *(Note 7b-5)*	Unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2011
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14) = (1) + (4) + (5) + (6) + (7) + (8) + (9) + (10) + (11) + (12) + (13)*
1. Revenue	5,439,611,618.46	3,799,133,087.54	0.00	3,799,133,087.54	122,228,682.42	5,421,529.88	5,345,157.95	0.00	-484,520,497.89	-12,428,201.08	-7,332,842.59	0.00	0.00	8,867,458,534.69
Less: Cost of sales	4,042,751,834.94	2,514,552,639.30	0.00	2,514,552,639.30	117,024,734.24	950,863.20	0.00	0.00	-477,357,422.54	-12,032,550.13	0.00	0.00	0.00	6,185,890,099.01
Business taxes and surcharges	44,042,757.85	34,394,536.60	0.00	34,394,536.60	0.00	959,610.79	304,674.01	0.00	0.00	0.00	0.00	0.00	0.00	79,701,579.25
Selling and distribution expenses	710,833,473.66	507,181,315.31	0.00	507,181,315.31	51,964.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,218,066,753.00
General and administrative expenses	480,531,999.72	431,705,064.24	2,767,359.29	434,472,423.53	2,719,929.12	999,750.02	0.00	0.00	0.00	-16,728.11	-7,332,842.59	0.00	0.00	911,374,531.69
Financial expenses	1,853,078.95	51,256,449.28	0.00	51,256,449.28	356,235.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	53,465,764.19
Asset impairment losses	916,864.96	-748,622.02	0.00	-748,622.02	76,027.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-386,701.70	-142,430.79
Add: Profit arising from changes in fair value ("-" for loss)	-3,541,599.52	-699,940.00	699,940.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3,541,599.52
Investment income ("-" for loss)	153,785,668.56	53,966,146.86	0.00	53,966,146.86	0.00	0.00	0.00	6,250,000.00	0.00	0.00	0.00	-1,140,372.25	0.00	212,861,443.17
Including: Share of profit of associates and jointly controlled entities	153,343,410.54	53,937,472.72	0.00	53,937,472.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1,140,372.25	0.00	206,140,511.01
2. Operating profit ("-" for loss)	308,925,677.42	314,057,911.69	-2,067,419.29	311,990,492.40	1,999,791.10	2,511,305.87	5,040,483.94	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	628,422,081.99
Add: Non-operating income	33,370,701.19	24,519,675.74	0.00	24,519,675.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	57,890,376.93
Less: Non-operating expenses	7,303,369.86	10,285,482.36	0.00	10,285,482.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17,588,852.22
Including: Losses on disposal of non-current assets	1,333,448.86	3,915,101.48	0.00	3,915,101.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,248,550.34
3. Total profit ("-" for total loss)	334,993,008.75	328,292,105.07	-2,067,419.29	326,224,685.78	1,999,791.10	2,511,305.87	5,040,483.94	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	668,723,606.70

3. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP (CONTINUED)

ITEMS	Audited consolidated income statement of the Group for the year ended 31 December 2011 *(Note 2)*	BYS Group: Audited consolidated income statement of BYS Group for the year ended 31 December 2011 *(Note 3)*	BYS Group: Adjusted the investment properties from fair value to cost *(Note 4)*	BYS Group: Consolidated income statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment	Pro forma adjustments: Audited income statement of Po Lian for the year ended 31 December 2011 *(Note 5)*	Pro forma adjustments – The corresponding income statement of the Target Assets recognized at acquisition price *(Note 6)*: Income statement for the Target Properties *(Note 6a)*	Income statement for the Target Trademarks *(Note 6b)*	Income from 12.5% equity interest in Baxter *(Note 6c)*	Pro forma adjustments *(Note 7)*: Pro forma elimination on inventory transaction and unrealized profit among the Group, BYS Group and Po Lian *(Note 7b-1)*	Pro forma elimination on inventory transaction and unrealized profit among the Group, BYS Group and Po Lian *(Note 7b-2)*	Pro forma elimination on the transaction relevant to the property lease and license fee among the target assets recognized at acquisition price *(Note 7b-3)*	Pro forma elimination on the inventory transaction and unrealized profit between the jointly controlled entities of the Group and BYS Group *(Note 7b-4)*	Pro forma elimination on the provision for bad debts of intra-group transaction arising from the transaction among the Group, BYS Group and Po Lian *(Note 7b-5)*	Unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2011
	(1)	*(2)*	*(3)*	*(4) = (2) + (3)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14) = (1) + (4) + (5) + (6) + (7) + (8) + (9) + (10) + (11) + (12) + (13)*
Less: Income tax expenses	34,996,150.14	48,076,443.85	-100,918.93	47,975,524.92	350,746.18	627,826.47	1,260,120.99	0.00	0.00	0.00	0.00	0.00	0.00	85,210,368.69
4. Net profit ("-" for net loss)	299,996,858.61	280,215,661.22	-1,966,500.36	278,249,160.86	1,649,044.92	1,883,479.40	3,780,362.96	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	583,513,238.01
Attributable to shareholders of the parent company	287,530,980.07	261,085,612.90	-2,040,349.86	259,045,263.04	1,649,044.92	1,883,479.40	3,780,362.96	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	551,843,461.65
Minority interest	12,465,878.54	19,130,048.32	73,849.50	19,203,897.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31,669,776.36
5. Other comprehensive income	-5,206,746.38	-110,763.12	0.00	-110,763.12	-1,660,469.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-6,977,979.40
6. Total comprehensive income	294,790,112.23	280,104,898.10	-1,966,500.36	278,138,397.74	-11,424.98	1,883,479.40	3,780,362.96	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	576,535,258.61
Comprehensive income attributable to shareholders of the parent company	282,327,760.64	260,974,849.78	-2,040,349.86	258,934,499.92	-11,424.98	1,883,479.40	3,780,362.96	6,250,000.00	-7,163,075.35	-378,922.84	0.00	-1,140,372.25	386,701.70	544,869,009.20
Comprehensive income attributable to minority interest	12,462,351.59	19,130,048.32	73,849.50	19,203,897.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31,666,249.41

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

Currency unit: RMB Yuan

		Pro forma adjustments					
		BYS Group					
ITEMS	**Audited consolidated cash flow statement of the Group for the year ended 31 December 2011** *(Note 2)*	**Audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011** *(Note 3)*	**Adjusted the investment properties from fair value to cost** *(Note 4)*	**Consolidated cash flow statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment**	**Audited cash flow statement of Po Lian for the year ended 31 December 2011** *(Note 5)*	**Pro forma elimination on consolidation** *(Note 7c)*	**Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2011**
	(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7) = (1) + (4) + (5) + (6)
1. Cash flows from operating activities:							
Cash received from sales of goods or rendering of services	5,909,882,616.07	4,305,510,963.12	0.00	4,305,510,963.12	113,230,223.39	-542,074,395.17	9,786,549,407.41
Refund of taxes and surcharges	31,845,310.05	0.00	0.00	0.00	0.00	0.00	31,845,310.05
Cash received relating to other operating activities	116,722,037.36	92,467,252.35	0.00	92,467,252.35	2,904,846.07	0.00	212,094,135.78
Sub-total of cash inflows	6,058,449,963.48	4,397,978,215.47	0.00	4,397,978,215.47	116,135,069.46	-542,074,395.17	10,030,488,853.24
Cash paid for goods and services	4,492,360,143.46	2,624,196,872.88	0.00	2,624,196,872.88	117,413,022.90	-542,074,395.17	6,691,895,644.07
Cash paid to and on behalf of employees	820,408,562.80	688,648,198.88	0.00	688,648,198.88	891,394.65	0.00	1,509,948,156.33
Payments of taxes and surcharges	415,494,210.77	353,098,824.59	0.00	353,098,824.59	0.00	0.00	768,593,035.36
Cash paid relating to other operating activities	510,239,871.19	458,119,864.11	0.00	458,119,864.11	3,626,381.96	0.00	971,986,117.26
Sub-total of cash outflows	6,238,502,788.22	4,124,063,760.46	0.00	4,124,063,760.46	121,930,799.51	-542,074,395.17	9,942,422,953.02
Net cash flows from operating activities	-180,052,824.74	273,914,455.01	0.00	273,914,455.01	-5,795,730.05	0.00	88,065,900.22

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP (Continued)

		Pro forma adjustments					
		BYS Group					
ITEMS	Audited consolidated cash flow statement of the Group for the year ended 31 December 2011 *(Note 2)*	Audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011 *(Note 3)*	Adjusted the investment properties from fair value to cost *(Note 4)*	Consolidated cash flow statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment	Audited cash flow statement of Po Lian for the year ended 31 December 2011 *(Note 5)*	Pro forma elimination on consolidation *(Note 7c)*	Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2011
	(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7) = (1) + (4) + (5) + (6)
2. Cash flows from investing activities:							
Cash received from disposal of investments	5,000,000.00	0.00	0.00	0.00	0.00	0.00	5,000,000.00
Cash received from returns on investments	30,609,565.40	20,028,674.14	0.00	20,028,674.14	0.00	0.00	50,638,239.54
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	752,598.00	5,505,570.63	0.00	5,505,570.63	0.00	0.00	6,258,168.63
Net cash received from disposal of subsidiaries and other operational units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash received relating to other investing activities	13,068,178.14	0.00	0.00	0.00	0.00	0.00	13,068,178.14
Sub-total of cash inflows	49,430,341.54	25,534,244.77	0.00	25,534,244.77	0.00	0.00	74,964,586.31
Cash paid to acquire fixed assets, intangible assets and other long-term assets	58,862,504.67	67,220,744.34	0.00	67,220,744.34	19,544.57	0.00	126,102,793.58
Cash paid to acquire investments	180,000,000.00	0.00	0.00	0.00	0.00	0.00	180,000,000.00
Net cash paid to acquire subsidiaries and other operational units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash paid relating to other investing activities	31,094,387.83	0.00	0.00	0.00	0.00	0.00	31,094,387.83
Sub-total of cash outflows	269,956,892.50	67,220,744.34	0.00	67,220,744.34	19,544.57	0.00	337,197,181.41
Net cash flows from investing activities	-220,526,550.96	-41,686,499.57	0.00	-41,686,499.57	-19,544.57	0.00	-262,232,595.10

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP (Continued)

ITEMS	Audited consolidated cash flow statement of the Group for the year ended 31 December 2011 *(Note 2)*	Pro forma adjustments — BYS Group: Audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011 *(Note 3)*	Pro forma adjustments — BYS Group: Adjusted the investment properties from fair value to cost *(Note 4)*	Pro forma adjustments — BYS Group: Consolidated cash flow statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment	Pro forma adjustments: Audited cash flow statement of Po Lian for the year ended 31 December 2011 *(Note 5)*	Pro forma adjustments: Pro forma elimination on consolidation *(Note 7c)*	Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2011
	(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7) = (1) + (4) + (5) + (6)
3. Cash flows from financing activities:							
Cash received from capital contributions	900,000.00	0.00	0.00	0.00	0.00	0.00	900,000.00
Cash received from borrowings	177,808,254.51	871,800,000.00	0.00	871,800,000.00	0.00	0.00	1,049,608,254.51
Cash received relating to other financing activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of cash inflows	178,708,254.51	871,800,000.00	0.00	871,800,000.00	0.00	0.00	1,050,508,254.51
Cash repayments of borrowings	71,747,283.92	1,089,000,000.00	0.00	1,089,000,000.00	0.00	0.00	1,160,747,283.92
Cash payments for interest expenses and distribution of dividends or profits	46,701,652.88	84,807,337.14	0.00	84,807,337.14	0.00	0.00	131,508,990.02
Cash payments relating to other financing activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total of cash outflows	118,448,936.80	1,173,807,337.14	0.00	1,173,807,337.14	0.00	0.00	1,292,256,273.94
Net cash flows from financing activities	60,259,317.71	-302,007,337.14	0.00	-302,007,337.14	0.00	0.00	-241,748,019.43
4. Effect of foreign exchange rate changes on cash and cash equivalents	-278,572.02	0.00	0.00	0.00	-1,237,688.49	0.00	-1,516,260.51

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP (Continued)

		Pro forma adjustments					
		BYS Group					
ITEMS	**Audited consolidated cash flow statement of the Group for the year ended 31 December 2011** *(Note 2)*	**Audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011** *(Note 3)*	**Adjusted the investment properties from fair value to cost** *(Note 4)*	**Consolidated cash flow statement of BYS Group for the year ended 31 December 2011 after pro forma adjustment**	**Audited cash flow statement of Po Lian for the year ended 31 December 2011** *(Note 5)*	**Pro forma elimination on consolidation** *(Note 7c)*	**Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2011**
	(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7) = (1) + (4) + (5) + (6)
5. Net increase in cash and cash equivalents	-340,598,630.01	-69,779,381.70	0.00	-69,779,381.70	-7,052,963.11	0.00	-417,430,974.82
Add: Cash and cash equivalents at beginning year	696,347,134.34	326,257,816.23	0.00	326,257,816.23	21,115,456.94	0.00	1,043,720,407.51
Add: Cash and cash equivalents at beginning of year from merged subsidiaries	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6. Cash and cash equivalent at end of period	355,748,504.33	256,478,434.53	0.00	256,478,434.53	14,062,493.83	0.00	626,289,432.69

The accompanying notes form an integral part of these financial statements.

5. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. On 15 June 2012, the Company considered at the 17th meeting of the fifth session of the Board, the resolution for the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap, the Assets Acquisition through Issue of Shares and Connected Transactions of Guangzhou Pharmaceutical Company Limited, pursuant to which, the Company will carry out (1) the absorption and merger of BYS by way of share swap of new GPC A shares, upon the completion of which, the enterprise legal status of BYS shall be de-registered and all assets, liabilities, interests, business and personnel of which will be consolidated into the Company; (2) by issuing new GPC A shares to GPHL as consideration for the acquisition of the Target Properties, the Target Trademarks, 100% equity interest in Po Lian and 12.50% equity interest in Baxter held or to be disposed of by GPHL.

   The Company intended to issue shares to acquire the Target Properties. According to the asset valuation report (Zhong Tian Heng Ping Ping Zi [2012] No.026) issued by the China Valuer International Co., Ltd. (as set out in Appendix VII(A) to this circular), the valuation of the above Target Properties (including land use rights) as of 31 December 2011 amounted to RMB230.7396 million, and the proposed acquisition price is RMB230.7396 million.

   The Company intended to issue shares to acquire the Target Trademarks owned by GPHL. According to the asset valuation report (Zhong Tian Heng Ping Ping Zi [2012] No.026) issued by the China Valuer International Co., Ltd. (as set out in Appendix VII(A) to this circular), the valuation of the above Target Trademarks as of 31 December 2011 amounted to RMB51.1416 million, and the proposed acquisition price is RMB51.1416 million.

   The Company intended to issue shares to acquire 100% equity interest in Po Lian. According to the asset valuation report (Zhong Tian Heng Ping Ping Zi [2012] No.027) issued by the China Valuer International Co., Ltd. (as set out in Appendix VII(B) to this circular), the valuation of 100% equity interest in Po Lian as of 31 December 2011 amounted to RMB57.3397 million, and the proposed acquisition price is RMB57.3397 million.

   The Company intended to issue shares to acquire 12.5% equity interest in Baxter. According to the asset valuation report (Zhong Tian Heng Ping Ping Zi [2012] No.028) issued by the China Valuer International Co., Ltd. (as set out in Appendix VII(C) to this circular), the valuation of 12.5% equity interest in Baxter held by GPHL as of 31 December 2011 amounted to RMB82.3388 million, and the proposed acquisition price is RMB82.3388 million.

   The absorption and merger of BYS and acquisition of 100% equity interest in Po Lian through issue of shares by the Company constituted a business combination. According to the accounting policy for business combination in CASBE, if the enterprises involved in the business combination are ultimately under the control of the same party or parties before and after the merger, and that control is not temporary, then such business combination is regarded as business combination involving enterprises under common control. As GPHL is the controlling shareholder of the Company, BYS and Po Lian during the period of three years ended 31 December 2011 and the six months ended 30 June 2012 (please refer to the Annual Reports of the Company for the three years ended 31 December 2011, the Interim Report of the Company for the six months ended 30 June 2012, the accountants' report of BYS as set out in Appendix II(A), the accountants' report of Po Lian as set out in Appendix II(B) for the respective details of their controlling shareholders), it is considered as a business combination involving entities under common control. According to the accounting policy for business combinations in CASBE, when business combinations involving entities under common control, assets and liabilities acquired by the acquirer in business combinations shall be measured at the carrying value of the acquiree on the date of combination. If there is an inconsistency between the accounting policies adopted by the acquiree and the acquirer, adjustment will be made by the acquirer according to the acquirer's accounting policies at the date of combination, and the adjusted carrying value will be recognized on this basis.

The absorption and merger of BYS by the Company by share swap is a business combination under common control. In accordance with the accounting policy for business combination in CASBE and relevant guidance, after the acquirer confirms that it has obtained the assets and liabilities of the acquiree under the business combination, and if such business combination is completed with issue of new shares, then the difference between the carrying value of net asset value recognized and the nominal value of the newly issued shares shall be credited to the capital surplus (as capital premium or share premium). If the balance of capital surplus (as capital premium or share premium) is insufficient for offset, the corresponding offset shall be made against the surplus reserve and undistributed profits.

The issue of new shares by the Company to acquire 100% equity interest in Po Lian is a business combination under common control. In accordance with the accounting policy for long-term equity investments in CASBE, if the acquirer issue of shares as consideration for the combination, the carrying value of the net asset value attributed to the interest acquired by the acquirer as at the combination date shall be recognized as the initial recognition investment cost of the acquirer. The difference between the initial recognition investment cost of the long-term investment recognized and the nominal value of the newly issued shares shall be credited to the capital surplus. If the balance of capital surplus is insufficient for offset, the corresponding offset shall be made against the retained earnings. In accordance with the accounting policy for business combination in CASBE and relevant guidance, after the acquirer confirms that it has obtained the long-term investment through business combination, when preparing the consolidated balance sheet, for the retained earnings (summation of surplus reserve and undistributed profits) of the acquiree prior to the business combination attributable to the acquirer, if the acquirer's carrying value of capital reserve (as capital premium or share premium) is larger than that retained earnings of the acquiree prior to the business combination attributable to the acquirer, then that retained earnings of the acquiree prior to the business combination attributable to the acquirer shall be transferred from capital reserve to surplus reserve and undistributed profits in the consolidated balance sheet.

The acquisitions of the Target Properties, Target Trademarks and 12.50% equity interest in Baxter through issue of shares by the Company are not business combinations and are applicable to the respective accounting standards on the fixed assets, intangible assets and long-term equity investments in CASBE and the relevant acquisition prices are treated as the initial recognition values for the relevant properties, trademarks and equity interests.

2. The audited consolidated balance sheet of the Group as at 30 June 2012 was extracted without adjustment from the audited interim financial statements of the Group as at 30 June 2012.

   The audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2011 was extracted without adjustment from the audited annual financial statements of the Group as at 31 December 2011.

3. The audited consolidated balance sheet of BYS Group as at 30 June 2012 was extracted without adjustment from the audited financial statements of BYS Group as at 30 June 2012 as incorporated in Appendix II(A) to this circular for reference.

   The audited consolidated income statement and audited consolidated cash flow statement of BYS Group for the year ended 31 December 2011 was extracted without adjustment from the audited annual financial statements of the BYS Group for the year ended 31 December 2011 as incorporated in Appendix II(A) to this circular for reference.

4. Pursuant to the accounting policy for business combinations in CASBE, when business combinations involving entities under common control, assets and liabilities acquired by the acquirer in business combinations shall be measured at the carrying value of the acquiree on the date of combination. If there is an inconsistency between the accounting policies adopted by the acquiree and the acquirer, adjustment will be made by the acquirer according to the acquirer's accounting policies at the date of the combination, and the adjusted carrying value will be recognized on this basis. The accounting policy adopted by the BYS Group for the subsequent recognition of its investment property is measured at fair value, which is material different from that adopted by the Company for subsequent recognition of its investment property which is measured at cost. Therefore, when preparing this unaudited pro forma financial information, the subsequent recognition of investment properties of BYS Group were retrospectively adjusted from fair value method to cost method.

   To adjust the subsequent recognition of investment properties of BYS Group from fair value method to cost method, the changes in fair value of the investment properties accrued over the past years which amounted to RMB232,995,057.05 were required to be reversed. At the same time, the relevant depreciation of RMB8,104,273.56 on investment properties should be provided based on the same depreciation policy of fixed assets of BYS Group (which is consistent with the depreciation policy of fixed assets of the Company). The changes in fair value of RMB-699,940.00 included in the income statement of 2011 should be reversed and the amount of RMB2,767,359.29 should be provided as the depreciation cost of 2011.

	Before adjustment *(RMB)*	**Adjustment** *(RMB)*	**After adjustment** *(RMB)*
Original cost of investment properties	46,809,012.95	–	46,809,012.95
Changes in fair value of investment properties	232,995,057.05	-232,995,057.05	–
Accumulated depreciation of investment properties	–	-8,104,273.56	-8,104,273.56
Carrying value of investment properties	279,804,070.00	-241,099,330.61	38,704,739.39
Deferred tax liabilities accrued for investment properties	41,539,462.93	-41,539,462.93	–

When the fair value method is adopted for subsequent recognition of investment property, deferred income tax liability is recognized at the income tax rate of 15% for the time difference arising from the carrying amount of investment property and its amount calculated for tax purpose, so that the deferred income tax liabilities amounted to RMB41,539,462.93 recognized for the time difference arising from the carrying value of investment property and its value measured for tax purpose should be retrospectively reversed in this adjustment. The deferred income tax liabilities of RMB-100,918.93 recognized in 2011 for the time difference arising from the carrying value of investment properties and its value measured for tax purpose should be reversed from the income tax expense in the income statement.

According to the relevant provisions of CASBE, the difference between the fair value and the carrying value of the investment property is recognized in the undistributed profits when CASBE was firstly adopted on 1 January 2007. For the investment property newly recognized as a result of change in use after the first implementation date of CASBE, the difference between its fair value and carrying value at initial recognition should be recognized in the capital surplus. The changes in fair value during the ownership of investment properties should be recognized as the gains or losses of fair value in the income statement. Therefore, the capital surplus of RMB36,189,825.27, the undistributed profit of RMB183,027,695.58 recognized in the past years and the surplus reserve of RMB18,150,409.12 provided at 10% of the profit after tax as required by the Company Law of PRC shall be retrospectively reversed for this adjustment.

In January 2012, the BYS Group transferred certain of its investment properties to fixed assets or intangible assets, details of which were as follow: (1) the properties located at 46 West Wenquan Road, Wenquan Town, Conghua, Guangdong Province, PRC (Yue Fang Di Zheng Zi Di No.C0604135, C0604136, C0604137, C0604098, C0604099) which were originally held for rental purpose were then changed to be held for provision of tourism and training services by the Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd.* (廣州廣藥白雲山大健康酒店有限公司), a wholly-owned subsidiary of BYS. The investment properties with the then fair value of RMB13,291,020.00 as at the end of December 2011 is recognized as the carrying value of the fixed assets when transferred in from investment properties; and (2) the land of football field and basketball court located at Yilu Villa, East of Yuandunling, Tonghe Town Baiyun District, Guangzhou (Sui Guo Yong (2004) No. 297), the land located at 97 Yunxiang Road, Baiyun District (Sui Guo Yong (2007) No. 1300053) and the buildings of Yuanyang Buildings, guesthouse and old canteen located at 2 Yunxiang Road, Baiyun District (part of the properties of Sui Fang Di Zheng Zi Di No. 0453679) were no longer leased out. The then total fair value of these investment properties as at the end of December 2011 amounted to RMB55,925,870.00 (in which the land amounted to RMB45,211,170.00 and the buildings amounted to RMB10,714,700.00) is recognized as the carrying values of the corresponding intangible assets and fixed assets when transferred in from investment properties.

The transfers of the abovementioned investment properties are based on the then fair values, thus when preparing the balance sheet of the Enlarged Group, the changes in original fair value of the then investment properties and now of the fixed assets or intangible assets shall be reversed and the relevant accumulated depreciation of the then investment properties shall be transferred out and adjust to the corresponding depreciation of fixed assets and amortization of intangible assets for the period from January 2012 to June 2012 resulting from the change in fair values. Hence, the original value of fixed assets was decreased by RMB17,500,379.57, accumulated depreciation of fixed assets was decreased by RMB245,533.58, original value of intangible assets was decreased by RMB23,969,298.88, amortization of intangible assets was decreased by RMB263,830.06.

Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. ("Tian Xin Pharmaceutical"), the subsidiary of BYS, is held as to 82.49% by BYS while the remaining interest is held by its minority shareholders, and Tian Xin Pharmaceutical holds some of the investment properties. Therefore, when reversing the changes in fair value of investment properties accrued over the past years, it is also necessary to reverse the changes in fair value of RMB3,152,252.52 attributable to the minority interest of Tian Xin Pharmaceutical. The gains or losses from change in fair value of RMB73,849.50 attributable to the minority interest in the changes of fair value of investment properties in 2011 was reversed at the same time.

5. The audited balance sheet of Po Lian as at 30 June 2012 was extracted without adjustment from the accountants' report of Po Lian as incorporated in Appendix II(B) to this circular for reference.

The audited income statement and audited cash flow statement of Po Lian for the year ended 31 December 2011 was extracted without adjustment from the accountants' report of Po Lian as incorporated in Appendix II(B) to this circular for reference.

6. The Target Assets recognized at the relevant acquisition price represented (except for the 100% equity interest in Po Lian, please refer to the details of Po Lian in Note 5 above) the Target Properties, the Target Trademarks and 12.5% equity interest in Baxter ("**Target Assets at Acquisition Prices**") intended to be acquired by the Company through issue of shares, and were accounted for into the relevant items of assets at their respective acquisition prices. The Target Properties were respectively recognized as the investment properties of RMB117,039,900 and fixed assets of RMB113,699,700 based on whether these properties were leased as at 31 December 2011. The acquisition prices of the Target Assets (except for the 100% equity interest in Po Lian, please refer to the details of Po Lian in Note 5 above) is RMB364,220,000 based on the issue price of RMB12.10 per GPC A Share, 30,100,826 new GPC A shares will be issued, the share capital of the Company will increase by RMB30,100,826 and the difference of RMB334,119,174 between the acquisition prices of RMB364,220,000 and the share capital of RMB30,100,826 will be recorded as share premium in capital surplus.

   Properties without leasing agreement or with leasing agreement but the lessee is a subsidiary of the Company should be recognized as fixed assets. The remaining Target Properties should be recognized as investment properties. Properties that are recognized as fixed assets are as follow:

No. of the Target Properties in valuation report *(Note)*	**Certificate No.**	**Name of Properties**	**Gross floor area** *(sq.m.)*	**Valuation Value** *(RMB)*
1	Yue Fang Di Zheng Zi No. C1491223	45 Sha Mian North Street, Liwan District	2,775.59	37,534,000.00
2	Yue Fang Di Zheng Zi No. C1491222	45-1 Sha Mian North Street, Liwan District	1,022.97	11,126,800.00
3	Yue Fang Di Zheng Zi No. C1491224	45-2 Sha Mian North Street, Liwan District	1,874.08	21,310,200.00

No. of the Target Properties in valuation report *(Note)*	Certificate No.	Name of Properties	Gross floor area *(sq.m.)*	Valuation Value *(RMB)*
18	Yue Fang Di Zheng Zi No. C6190029	Rear Block of 282 of Beijing Road, Yuexiu District	215.51	15,271,000.00
19	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	Unit 5, First Floor, 246 Baogang Avenue, Haizhu District	99.34	2,791,000.00
20	Yue Fang Di Zheng Zi No. C6465931	Unit 2, First Floor, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	293.2134	8,073,600.00
21	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	Unit 2, 12 Saiba Road, Liwan District	2,464.36	17,593,100.00
Total				113,699,700.00

Note: Please refer to Appendix VII(A) to this circular.

The income statement of the Target Assets recognized at acquisition price was prepared according to the following methods:

6(a) The income statement of the Target Properties was extracted from the accountants' report of the Target Properties and the Target Trademarks (as set out in Appendix III to this circular).

6(b) The income statement of the Target Trademarks was extracted from the accountants' report of the Target Properties and the Target Trademarks (as set out in Appendix III to this circular).

The Company entered into the Trademark Custody Agreement with GPHL, no pro forma adjustment was made to this unaudited pro forma financial information.

6(c) For the income of the 12.5% equity interest in Baxter, pro forma adjustment was made to the actual dividend of RMB6.25 million for the above 12.5% equity interest in Baxter received by GPHL in 2011.

7. The elimination on pro forma consolidation represented the elimination on the connected transactions and the assets and liabilities arisen from these transactions among the Group, the BYS Group, Po Lian and the Target Assets at Acquisition Prices. The major connected transactions included: the purchase and sale of raw materials, the

purchase and sale of products, the purchase and sale of machinery and equipment and the corresponding unrealized profits, the properties leased and leased out as well as the trademark license fee.

7a. The pro forma elimination on balance sheet of 30 June 2012:

7a-1. Pro forma elimination on the balances between the connected parties arising from the purchase and sale of products and purchase and sale of fixed assets among the Group, the BYS Group and Po Lian, consisted of the decrease of accounts receivables amounted to RMB50,729,623.73, the decrease of provisions for account receivables amounted to RMB507,296.24, the decrease of prepayments amounted to RMB18,465,926.85, the decrease of other receivables amounted to RMB2,443,888.55, the increase of other current assets amounted to RMB899,925.52, the decrease of advances from customers amounted to RMB18,223,397.34, the decrease of accounts payables amounted to RMB32,389,037.86, the decrease in other payables amounted to RMB2,366,254.71 the decrease of inventory amounted to RMB10,223,384.89, the decrease of fixed assets amounted to RMB401,046.02 and the increase in notes receivable-in-transit amounted to RMB7,782,336.69, the increase of inventory-in-transit amounted to RMB6,772,367.12 and the increase in construction in progress amounted to RMB3,206,119.89.

7a-2. The pro forma elimination on the unrealized profits of the inventory transactions between the jointly controlled entities of the Group and the BYS Group consisted of the decrease of long-term equity investment of RMB1,850,226.42. According to the accounting policy for long-term equity investment in CASBE, the unrealized profits or losses from intra-group transaction among the investing company, its associates and jointly controlled entities shall be eliminated. When the investing company disposes assets to the associates or jointly controlled entities and there are unrealized profits or losses for such transaction (i.e. the relevant assets are not disposed to the external independent third party), the amount of the unrealized profits or losses from intra-group transaction should be eliminated when the investing company recognizes the investment income with equity method and based on its share of profit or loss in the associates or jointly controlled entities. The carrying value of the long-term equity investment in the associates or jointly controlled entities should be adjusted and the amount to be adjusted should be the share of equity interest in associates or jointly controlled entities held by investing company or its subsidiaries. For the sale of products by BYS Group to the jointly controlled entities of the Group, its unrealized profits or losses from intra-group transaction should be eliminated based on the investment percentage held in the jointly controlled entities by the Enlarged Group and the long-term equity investment and investment income shall be decreased at the same time.

7a-3. In February 2012, Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* （廣州白雲山明興製藥有限公司）, a subsidiary of BYS, invested and set up Shandong Guangyao Chinese Medicine Development Co., Ltd. （山東廣藥中藥材開發有限公司） together with Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.* （廣州采芝林藥業有限公司）, a subsidiary of the Company, and Shandong Pingyi Fangyuan Pharmaceutical Co., Ltd. （山東平邑方圓藥業有限公司）, the proportion of capital contribution are 15%, 45% and 40% respectively. The Enlarged Group will hold 60% equity interest in Shandong Guangyao Chinese Medicine Development Co., Ltd., thus pro forma elimination is required on the minority interests in Shandong Guangyao Chinese Medicine Development Co., Ltd. held by Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. and long-term equity investment and minority interests is decreased by RMB300,000.00 respectively.

7a-4. The unrealized profits and investment income in aggregate involved in the pro forma eliminations or adjustments above caused the decrease in then shareholders' equity attributable to the shareholders of the parent company of RMB11,967,361.09.

7b. The pro forma elimination on income statement for the year ended 31 December 2011:

7b-1. There was pro forma elimination on inventory transaction and unrealized profit among the Group, the BYS Group and Po Lian which involved the decrease in revenue of RMB484,520,497.89, the decrease in cost of sales of RMB477,357,422.54.

7b-2. There was pro forma elimination on inventory transaction and unrealized profit (these inventory was used as fixed assets by the acquirer after acquisition) among the Group, the BYS Group and Po Lian which involved the decrease in revenue of RMB12,428,201.08, the decrease in cost of sales of RMB12,032,550.13 and the decrease in general and administrative expenses of RMB16,728.11.

7b-3. There was pro forma elimination on the transaction relevant to the property lease and trademark license fee among the Target Assets at Acquisition Prices. As the rental income of the Target Properties and license fee income of the Target Trademarks were recognized as revenue in the accountants' report on the Target Property and Target Trademarks, as a result, elimination was made to decrease revenue by RMB7,332,842.59 and general and administrative expenses by RMB7,332,842.59 respectively.

7b-4. There was pro forma elimination on the inventory transaction and unrealized profit between the jointly controlled entities of the Group and the BYS Group which involved the decrease in investment income of RMB1,140,372.25, for the reason of adjustment please refer to the pro forma elimination on balance sheet of 30 June 2012 in Note 7(a) above.

7b-5. There was pro forma elimination on the provision for bad debts of intra-group transaction arising from the transaction among the Group, the BYS Group and Po Lian which involved the decrease in the asset impairment losses of RMB386,701.07.

The pro forma elimination on cash flow statement:

7c. The pro forma elimination of cash flow statement for the year ended 31 December 2011.

There was pro forma elimination on the cash received from sales of products or rendering of services and the cash paid for purchase of products and receiving services involved in the purchase and sale of products, purchase and sale of fixed assets among the Group, the BYS Group and Po Lian which amounted to RMB542,074,395.17.

8. The Company will issue an addition of 445,601,005 GPC A shares for absorption and merger of BYS by share swap, the difference between the shareholders' equity attributable to the shareholders of parent company of BYS of RMB1,298,339,655.72 as at 30 June 2012 and the additional RMB445,601,005 share capital of the Company shall be transferred to capital surplus, as a result the share capital will decrease by RMB23,452,684, the surplus reverse will decrease by RMB124,469,403.82, the undistributed profits by RMB632,048,929.17, and the capital surplus will increase by RMB779,971,016.99.

The Company will also issue an addition of 4,738,819 GPC A shares for the acquisition of 100% equity interest in Po Lian from GPHL, the difference of RMB8,481 between the existing share capital of Po Lian (amounted to RMB4,747,300) and the additional RMB4,738,819 share capital of the Company shall be transferred to capital surplus.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of an accountants' report in respect of the unaudited pro forma financial information on the Enlarged Group prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO China Shu Lun Pan CPAs LLP, an audit firm that is licensed to conduct securities and futures related business in China and approved by the relevant PRC authorities to act as an auditor or a reporting accountant of a PRC incorporated company listed in Hong Kong.

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

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4 September 2012

To the directors of Guangzhou Pharmaceutical Company Limited

We report on the unaudited pro forma financial information set out on pages V-3 to V-13 under the section headed "A. Unaudited pro forma financial information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix V to the circular dated 4 September 2012 (the "Circular") of Guangzhou Pharmaceutical Company Limited (the "Company"), in connection with the proposed absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. by shares swap and acquisition of assets through issuance of shares and connected transactions. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the absorption and merger through share swap and acquisition of assets might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages V-3 to V-13 in the section headed "A. Unaudited pro forma financial information of the Enlarged Group" of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THE REPORTING ACCOUNTANT

It is the sole responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountant's Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted consolidated balance sheet of the Group as at 30 June 2012, unadjusted consolidated income statement and consolidated cash flow statement of the Group for year ended 31 December 2011 as set out in the section headed "A. Unaudited pro forma financial information of the Enlarged Group" of the circular with the audited consolidated financial statement of the Group for the six months ended 30 June 2012 as set out in the 2012 Interim Report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2011 as set out in the 2011 Annual Report of the Company, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 30 June 2012 or any future dates, or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2011 or any future periods.

OPINION

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,

BDO CHINA SHU LUN PAN CPAs LLP

Shanghai

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) 2012 PROFIT FORECAST OF THE ENLARGED GROUP

Guangzhou Pharmaceutical Company Limited
The Audit Report of Profit Forecast and the Consolidated Profit Forecast Statement
For the year ending 31 December 2012

Contents — Page

a. THE AUDIT REPORT OF PROFIT FORECAST

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Ref. No.: Xin Kuai Shi Bao Zi [2012] No. 410250
(信會師報字[2012]第410250號)

15 June 2012

THE AUDIT REPORT OF PROFIT FORECAST

To All Shareholders of Guangzhou Pharmaceutical Company Limited:

We have audited the accompanying consolidated profit forecast report for 2012 prepared by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of GPC is responsible for this forecast and the assumptions upon which it was based. Such assumptions have been disclosed in "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2012 of GPC".

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the forecast. Also, we believe this forecast has been properly compiled based on such assumptions, which has been presented in accordance with the requirements of basis of preparation in the section "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2012 of GPC".

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information.

This report is solely for the information of GPC in connection with its submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the major assets reorganization involving the absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap and acquisition of the assets of Guangzhou Pharmaceutical Holdings Limited by GPC, and should not be used for any other purposes.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Wu Changhua

Certified Public Accountant of China: Pan Wenzhong

Shanghai, the PRC

b. THE CONSOLIDATED PROFIT FORECAST STATEMENT

Consolidated Forecasted Income Statement

Prepared by Guangzhou Pharmaceutical Company Limited *Unit: RMB'0000*

ITEMS		*Note*	Audited amounts for 2011	Forecasted amounts for 2012
I.	**Revenue from principal operations**	*(V)1*	**872,817**	**1,001,303**
	Less: Cost of sales of principal operations	*(V)2*	615,042	698,480
	Less: Taxes and surcharges of principal operations	*(V)3*	8,036	9,484
II.	**Profit from principal operations**		**249,739**	**293,339**
	Add: Revenue from other operation	*(V)4*	14,196	14,035
	Less: Expenses of other operation	*(V)4*	3,734	3,645
	Less: Selling and distribution expenses	*(V)5*	121,806	134,058
	Less: General and administrative expenses	*(V)6*	91,297	106,748
	Less: Financial expenses	*(V)7*	5,347	6,733
	Less: Assets impairment losses	*(V)8*	-14	756
	Add: Profit arising from changes in fair value		-354	0
	Add: Investment income	*(V)9*	21,286	25,200
III.	**Operating profit**		**62,697**	**80,634**
	Add: Non-operating income	*(V)10*	5,789	3,242
	Less: Non-operating expenses	*(V)11*	1,759	1,547
IV.	**Total profit**		**66,727**	**82,329**
	Less: Income tax expenses	*(V)12*	8,457	11,690
V.	**Net Profit**		**58,270**	**70,639**
	(1) Attributable to owners of the parent company		55,103	67,043
	(2) Minority interest		3,167	3,596

c. THE CONSOLIDATED PROFIT FORECAST REPORT

Guangzhou Pharmaceutical Company Limited
Consolidated Profit Forecast Report for 2012

NOTE: The consolidated profit forecast report for 2012 of Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC" or the "Company" or the "Enlarged Company") was prepared based on the best estimates and assumptions, and there are no intentional uses of unreasonable assumptions, misleading statements and material omissions.

The preparation of this profit forecast report was made on prudent sake, but since the assumptions upon which the profit forecast was based are uncertain, investors should not place undue reliance on such information when making their investment decisions.

(I) GENERAL INFORMATION ON THE COMPANY

(I) General Information on GPC

1. Establishment of the Company and the history development of its share capital

(1) Establishment

As approved by the Circular Ti Gai Sheng [1997] No.139 (體改生[1997]139號) issued by the State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會), GPC was a joint stock limited liability company founded by Guangzhou Pharmaceutical Holdings Limited ("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 business license on 1 September 1997 and the registered number is 4401011101830. Total share capital of the Company on its establishment was RMB513.0 million, which was 100% owned by GPHL.

(2) The initial public offering and listing of H shares

As approved by the Circular Ti Gai Sheng [1997] No.145 (體改生[1997]145號) issued by the State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) and Circular Zheng Wei Fa [1997] No.56 (證委發[1997]56號) issued by the Securities Regulatory Commission of the State Council (國務院證券委員會), the Company issued and listed 219,900,000 shares in Hong Kong Stock Exchange (H shares) in October 1997. After its completion of issue, total share capital of the Company increased to 732,900,000 shares, of which 513,000,000 shares were held by GPHL, representing 70.00% of its total share capital.

(3) Additional issue of A shares which are listed on the Shanghai Stock Exchange

As approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed on the Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar. and stock code is 600332. After its completion of such issue, total share capital of the Company increased to 810,900,000 shares, of which 513,000,000 shares were held by GPHL, representing 63.26% of its total share capital.

As of 31 December 2011, total share capital of GPC was 810,900,000 shares, and its share capital structure was shown in the following table:

Class of shares		**Number of shares**	**Percentage of total share capital**
I.	GPHL and its related parties		
	GPHL (A shares)	390,833,391	48.20%
II.	Public		
	A shares	200,166,609	24.68%
	H shares	219,900,000	27.12%
	Total share capital	**810,900,000**	**100.00%**

2. Business Scope

The Company and its subsidiaries are principally engaged in the development and manufacture of Chinese patent medicine, manufacture of bio-tech products, health medicine and health drinks, wholesale, retail, import and export of Chinese and western pharmaceutical products and medical apparatus, and assets operation, investment, development, financing and other business operations.

(II) Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (hereinafter as "BYS")

1. Establishment of the company and its historical changes on its share capital

(1) Establishment

As approved by the Circular Sui Gai Gu Zi [1992] No. 11 (穗改股字[1992]11號) issued by the Guangzhou City Commission for Restructuring the Economic Systems (廣州市經濟體制改革委員會), BYS was established as a limited liability joint stock company based on original five pharmaceutical factories (including Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山製藥廠)) under Guangzhou Baiyunshan Enterprise Group

Company Limited (廣州白雲山企業集團) ("Baiyunshan Group"), and was established as a standardized joint stock enterprise as confirmed by the Circular Gai Sheng [1992] No. 31 (改生[1992]31號) issued by the State Commission for Restructuring the Economic Systems (國家體改委) in 1992. Total share capital of BYS on its establishment was RMB108,000,000.

(2) The initial public offering and listing

In 1993, as approved by the Circular Zheng Jian Fa Shen Zi (1993) No. 31 (證監發審字(1993)31號) issued by China Securities Regulatory Commission and the Circular Shen Zheng Suo Zi No. 265 (深證所字第265號) issued by Shenzhen Stock Exchange, BYS issued 36,000,000 A shares to the public, which are listed on the Shenzhen Stock Exchange, and stock code is 000522. After its completion of this public offering, total share capital of BYS increased to 144,000,000 shares, of which 90,000,000 shares were held by the State, 36,000,000 shares were held by the public and 18,000,000 shares were held by its internal staff.

(3) Bonus and dividend payment and allotment of shares

In May 1994, BYS implemented a bonus and dividend payment proposal for 1993, being issue of 10 shares and payment of RMB2 for every 10 shares, and its total share capital increased to 288,000,000 shares.

In April 1995, BYS implemented a share allotment proposal, being allotment of 1.5 shares for every 10 shares at allotment price of RMB3 per share, which resulted in allotment of a total of 21,375,500 shares, and its total share capital increased to 309,375,500 shares.

In July 1995, BYS implemented a bonus proposal for 1994, being issue of 1 share for every 10 shares, and its total share capital increased to 340,313,050 shares.

In July 1997, BYS implemented a bonus proposal for 1996, being issue of 1 share for every 10 shares, and its total share capital increased to 374,344,355 shares.

(4) Custody and reorganization

Approved by the Guangzhou Municipal Government, in November 2000, Baiyunshan Group, the former controlling shareholder of BYS, was first escrowed and then reorganized by GPHL. As approved by the Circular Cai Qi (2001) No. 433 (財企(2001)433號) issued by the Ministry of Finance of the PRC, on 2 July 2001, the State-owned Assets Supervision and Administration Bureau of Guangzhou Municipality transferred all of 108,900,000 state shares in BYS held by it to GPHL, thereby GPHL became the largest shareholder of BYS.

As judged by the First Intermediate People's Court of Beijing Municipality, in May 2004, 57,000,000 shares of 99,000,000 state-owned legal person shares in BYS held by Baiyunshan Group were ordered to be used to set off amounts owed to GPHL. As such, shares in BYS held by GPHL increased to 165,900,000 shares, representing 44.32% of the total share capital of BYS.

(5) Share conversion scheme

Pursuant to the resolution of the first extraordinary general meeting in 2005 and the revised articles of association of BYS, BYS, based on the original 156,544,355 tradable shares, issued new shares 94,709,334 through the conversion for capital reserve and transferred such shares for free to all holders of tradable shares whose name appeared on the register of members on the record date in proportion of 6.05 shares for every 10 shares. In April 2006, after completion of share conversion scheme, total share capital of BYS increased to 469,053,689 shares, of which 165,900,000 shares were held by GPHL, representing 35.37% of the total share capital of BYS.

As of 31 December 2011, the total share capital of BYS was 469,053,689 shares, and its share capital structure was shown in the following table:

Class of shares		**Number of shares**	**Percentage of total share capital**
I.	GPHL and its related parties		
	GPHL	166,900,000	35.58%
II.	Public shares	302,153,689	64.42%
	Total share capital	**469,053,689**	**100.00%**

2. *Business Scope*

BYS and its subsidiaries are principally engaged in the research and development, manufacture and sales of Chinese and Western patent medicine, active pharmaceutical ingredients, medicine for external use, child medicine and health medicine; commerce and materials supply and sales; import and export of commodities and technologies (other than those restricted or forbidden by the State); operation of processing imported goods and "Three-plus-one" business (i.e. processing and compensation trade) and manufacture of type II clinical testing and analytical apparatus and diagnosis reagent, etc.

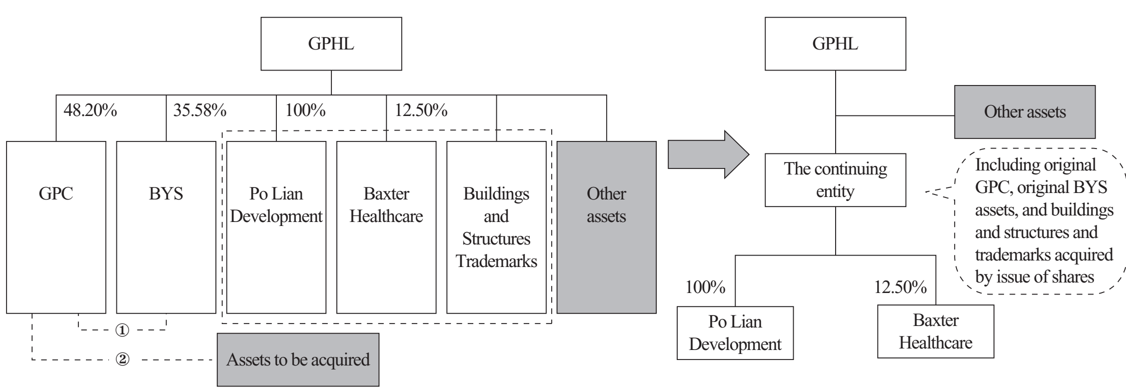
(III) General information on GPHL

GPHL is a major wholly state-owned conglomerate operated by Guangzhou Municipal Government, its business scope include: investment and management of the State-owned assets, sale and manufacturing of pharmaceutical intermediaries, 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, as well as medicine related import and export and real estate development.

II. PROPOSED MAJOR ASSETS REORGANIZATION PLAN

(I) Summary of major assets reorganization plan

This major assets reorganization proposal for GPC includes: (1) GPC will absorb and merge with BYS through share swap. After completion of the transaction, the status of BYS as a legal person will be cancelled, and its assets, liabilities, interests, businesses and staff will all be consolidated into GPC; and (2) GPC will issue its A shares to GPHL as payment of consideration to acquire relevant buildings and structures, trademarks, 100% equity interests in Po Lian Development Company Limited, 12.50% equity interests in Baxter Healthcare (Guangzhou) Company, Ltd. (the assets mentioned above collectively as "Target Assets"). The items of the Target Assets had been finally determined on the second board meeting for consideration of major assets reorganization plan. Through such transaction, GPHL will take GPC as a platform to realize the listing of its principal businesses as a whole. After completion of this reorganization, GPC, as an only listed pharmaceutical company of GPHL, will change its company name. the reorganization process is shown as the following chart:



Reorganization process **After completion of reorganization**

(II) General information on Target Assets

1. General information on Po Lian Development Company Limited (hereinafter as "Po Lian")

Chinese name:	保聯拓展有限公司
English name:	PO LIAN DEVELOPMENT COMPANY LIMITED
Date of incorporation:	15 January 1988
Registered Address:	Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
Authorized and issued share capital:	HK$5,000,000
Business scope:	operation and investment of state-owned assets contributed by members of GPHL. Its main objective is expanding the import and export of GPHL's pharmaceutical products and developing the international market; operating the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products; introduces foreign capital and advanced technologies for pharmaceutical industry in Guangzhou; conducting compensation trade and processing on customer-supplied materials; providing the economic information on pharmaceutical technologies to facilitate the development of pharmaceutical industry in Guangzhou.

As approved by the Circular Sui Wai Jing Mao [1988] No.125 (穗外經貿[1988]125號) issued by Foreign Economic Relation and Trade Commission of the People's Government of Guangzhou Municipality (廣州市人民政府對外經濟貿易委員) and the Circular Sui Wai Jing Mao Ji Qing (1990) No. 07 (穗外經貿(1990)07號) issued by the Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau (廣州市清理整頓駐港澳機構領導小組), Po Lian is a Hong Kong company wholly-owned, incorporated and operated by GPHL. Po Lian was incorporated as a limited liability company under the Companies Ordinance on 15 January 1988 in Hong Kong. Its authorized and issued share capital was HK$1,000,000. The authorized and issued share capital of Po Lian was increased to HK$5,000,000 in October 1998.

Since its incorporation, GPHL has held 100% equity interest in Po Lian.

2. ***General information on 12.50% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. (hereinafter as "Baxter")***

Chinese name:	廣州百特醫療用品有限公司
English name:	BAXTER HEALTHCARE (GUANG ZHOU) COMPANY, LTD.
Date of registration:	13 August 1993
Address of registration:	Jiaoyuan Road, Dongji Industrial District, Guangzhou Economic and Technological Development Zone
Registered capital:	USD11,000,000
Business scope:	manufacture and sales of dialysis fluid for dialysis therapy and supporting disinfection liquid and related accessories; manufacture and sales of medicinal infusion and other medicinal products directly related with preparation, feeding, storage and delivery of medicinal infusion.

Baxter was established on 13 August 1993 with a registered capital of USD10,000,000. It was jointly founded by Baxter Global Trade Company (美國百特世界貿易公司), Guangzhou Pharmaceutical Development Company and Guangzhou Economic and Technological Development Zone Industrial Development Corporation in proportion of capital contribution of 75%, 12.5% and 12.5% respectively. It is principally engaged in manufacture of dialysis fluid for continuous ambulatory peritoneal dialysis treatment.

In 1999, Guangzhou Pharmaceutical Development Company transferred its entire equity interest amounting to USD1,250,000 in Baxter to GPHL at the same price; Baxter Global Trade Company transferred its entire equity interest amounting to USD7,500,000 in Baxter to its related company, Baxter (China) Investment Company Limited.

On 20 May 2002, GPHL, Guangzhou Economic and Technological Development Zone Industrial Development Corporation and Baxter (China) Investment Company Limited entered into a supplementary contract to the joint venture contract regarding Baxter Healthcare (Guangzhou) Company, Ltd., pursuant to which Guangzhou Economic and Technological Development Zone Industrial Development Corporation transferred its 12.5% equity interest in Baxter to Baxter (China) Investment Company Limited, and the parties to the joint venture, Baxter, had been changed to GPHL and Baxter (China) Investment Company Limited, the registered capital of the joint venture had been changed to USD11,000,000, of which GPHL held its 12.5% equity interest, being USD1,375,000; Baxter (China) Investment Limited held its 87.5% equity interest, being USD9,625,000.

As of the issue date of this report, the paid-up capital of Baxter was USD11,000,000, and GPHL held its 12.5% equity interest.

3. Buildings and structures

The general information on the buildings and structures to be acquired by GPC by issue of shares is shown as following table:

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area *(m^2)*	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
1	45-1 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491222	1,022.97	An office building jointly occupied by GPHL and GPC	yes
2	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036340	3,432.18	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
3	Rear Block, 282 Beijing Road, Yuexiu District	Yue Fang Di Zheng Zi No. C6190029	215.51	Leased to Cai Zhi Lin for sales outlet	Yes
4	45 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491223	2,775.59	An office building jointly occupied by GPHL and GPC	Yes
5	45-2 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491224	1,874.08	An office building jointly occupied by GPHL and GPC	Yes
6	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143847	694.29	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
7	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143846	272.89	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
8	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143845	648.28	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
9	2nd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143849	4,044.32	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
10	1-2/F, 3rd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143848	5,041.21	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
11	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036348	2,778.24	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
12	Warehouse of Guangzhou Pharmaceuticals Corporation, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yue Fang Di Zheng Zi No. C5932126	3,524.68	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
13	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942848	684.44	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
14	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942849	414.96	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
15	2/F of East Tower, Rear Block, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932123	310.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
16	1/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932124	82.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area *(m^2)*	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
17	2/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932125	104.07	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
18	1-2/F, 118 West Heping Road, Liwan District	Sui Fang Zheng Zi No. 0059002 Sui Di Zheng Zi No. 0093202	4,224.48	A warehouse occupied by Guangzhou Pharmaceuticals Corporation, intended to be used as office	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
19	Unit 2, 12 Saiba Road, Fangcun District	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	2,464.36	Office building for factory of Cai Zhi Lin	Yes
20	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	Yue Fang Di Zheng Zi No. C6465931	293.21	Sales outlet for Cai Zhi Lin	Yes
21	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	99.34	Sales outlet for Cai Zhi Lin	Yes

4. *Trademarks*

In this major assets reorganization, GPHL has a total of 421 registered trademarks, of which 364 trademarks were registered within the PRC, and 57 trademarks were registered overseas. Save for 29 Wang Lao Ji series trademarks and other 4 trademarks exclusively used by Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. under certain conditions upon license of GPHL (in aggregate 33 trademarks), all other 388 registered trademarks was included in Target Assets.

Among the domestic trademarks to be injected into the listed company by GPHL, 277 trademarks are associated trademarks or defensive trademarks, only registered for the group's image, defensive purpose, historical development or arisen as derivative registration. They have no direct impact on revenue of products or directly generate any revenue from licensing such trademarks. They only have relatively lower value, and pre-evaluation of value is only registration cost. Their consideration is nil, and not listed in detail herein. For trademarks which GPHL has licensed GPC to use, 54 trademarks of which have higher reputation with higher valuation, including six series being "Chen Li Ji", "Pan Gao Shou", "Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang". The detailed information are shown as the following table:

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
Xing Qun series trademarks					
1	GPHL	155258		Western medicine	28 February 2013
2	GPHL	150105		Ruihuayou	28 February 2013
3	GPHL	150106		Pilulae viticis cannabifolii	28 February 2013
4	GPHL	848199	元 神	Angelica south jujube tea powder	20 June 2016
5	GPHL	256482		Nourishing beverage	19 July 2016
6	GPHL	850196	怡生	Human medicine	27 June 2016
7	GPHL	835119		Bird's nest soup with crystal sugar	27 April 2016
Zhong Yi series trademarks					
8	GPHL	781270	中 一	Mineral water, chrysanthemum tea, alcohol free beverage, alcohol free fruit juice beverage	6 October 2015
9	GPHL	661178		Guiling Jelly	13 October 2013
10	GPHL	713652		Alcohol free beverage, soda-water, mineral water, solid beverage	6 November 2014
11	GPHL	588610		Human medicine	29 March 2022

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
12	GPHL	708835	紫地	Human medicine	6 October 2014
13	GPHL	170359		Chinese medicine	28 February 2013
14	GPHL	139307		CPM	28 February 2013
15	GPHL	171212		Chinese medicine	28 February 2013
16	GPHL	339914		Chinese and western patent medicine	19 February 2019
Chen Li Ji series trademarks					
17	GPHL	651324		Chinese medicine and patent medicine	27 July 2013
18	GPHL	284093	陳李濟	Chinese medicine and patent medicine	19 April 2017
19	GPHL	822299		Medical nutrition beverage, medical nutrition foods, medical nutrition food products, medicated candy, baby foods, sanitary protection, haemostatic ointment, slimming, headache medicine pen	13 March 2016
20	GPHL	605208		CPM	9 August 2012
21	GPHL	147894	杏和堂	Chinese medicine	28 February 2013
22	GPHL	815038		Foods, including Bean products, coffee, and sugar, seasoning	13 February 2016
23	GPHL	807121	星 馬	Foods, including meat, processed meat and fish, can, preserved foods, milk products	13 January 2016

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
Qi Xing series trademarks					
24	GPHL	145345	星牌	Chinese medicine	28 February 2013
25	GPHL	248428		CPM	14 April 2016
26	GPHL	798245	奇星 QIXING	CPM for human	13 December 2015
27	GPHL	812250		Human medicine	6 February 2016
28	GPHL	653407		Human medicine	13 August 2013
29	GPHL	653423	天凤	Human medicine	13 August 2013
30	GPHL	652155	奇星	Chinese medicine, patent medicine (Human medicine)	6 August 2013
31	GPHL	653424	四方	Human medicine	13 August 2013
32	GPHL	653425	新雪	Human medicine	13 August 2013
33	GPHL	626102		Chinese medicine, patent medicine	19 January 2013
34	GPHL	723369	奇星	Human medicine	6 January 2015
35	GPHL	990820	奇星 QIXING	Medical nutrition food products, medical nutrition beverage, medicinal beverage, medical nutrition products, medicine candy, raw medicine (for human), human medicine and herbal tea	27 April 2017

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
Jing Xiu Tang series trademarks					
36	GPHL	135276		Veterinary medicine and etc., CPM	28 February 2013
37	GPHL	268996		Western medicine	19 November 2016
Pan Gao Shou series trademarks					
38	GPHL	171203		CPM	28 February 2013
39	GPHL	246145		Chinese medicine, patent medicine	14 March 2016
40	GPHL	786868		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
41	GPHL	717049		Human medicine	27 November 2014
42	GPHL	786867		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
43	GPHL	689167		Human medicine	13 May 2014
44	GPHL	782783		Beverage dispenser, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
45	GPHL	782784	潘高壽	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
46	GPHL	786918		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
47	GPHL	786928	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
48	GPHL	795079	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	27 November 2015
49	GPHL	801146	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	20 December 2015
50	GPHL	689166	PGS 潘高壽	Human medicine	13 May 2014
51	GPHL	781193	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015
52	GPHL	782782	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, syrup for making beverage, grape juice, lemon juice	13 October 2015
53	GPHL	782781	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, syrup for making beverage, grape juice, lemon juice	13 October 2015
54	GPHL	780863	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015

III. BASIS OF PREPARATION AND PRINCIPAL ASSUMPTIONS FOR THE CONSOLIDATED PROFIT FORECAST REPORT FOR 2012 OF GPC

According to the requirements of the Administrative Rules on Major Asset Reorganization of Listed Companies (No. 53 Directive of China Securities Regulatory Commission ("CSRC")) and Rule No. 26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly – Application Documents for the Material Asset Reorganisations of Listed Companies issued by CSRC, the Company has prepared 2012 consolidated profit forecast for the major asset reorganization plan as set out in Section II above.

This profit forecast report has been prepared based on the operating results of the audited 2011 pro forma financial statements (including the Company, BYS and the Target Assets) of the Company as audited by BDO China Shu Lun Pan CPAs LLP, in light of 2012 production and operation plan, sales plan of the Company, BYS and the Target Assets as well as the relevant information, including the development of the pharmaceutical market for the period, on the basis of prudent sake and excluding the effect of other factors beyond the control of the Company.

The accounting policies and accounting estimates used in preparing the profit forecast has complied with the existing laws, regulations of the State and the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, and are consistent with the accounting policies and accounting estimates adopted by the Company in all material aspects.

1. Major assumptions in the preparation of profit forecast:

   1.1 There will not be any significant changes in the existing government policies and political, legal, fiscal, market or economic conditions in the PRC, Hong Kong or any countries/regions in which the Enlarged Group carries on its business, or any other countries/regions that may have significant impact on its businesses.

   1.2 There will not be any material adverse changes in the existing state and local laws, rules, or regulations in the PRC, Hong Kong or any countries/regions in which the Enlarged Group carries on its business, or with which the Enlarged Group has any arrangement or agreement with any parties operates therein.

   1.3 There will not be significant changes in the prospects of the Enlarged Group and the industry it operates and the market conditions for the sales of product and provisions of services by the Enlarged Group.

   1.4 There will not be any material delay in the production schedules, operational projects and capacity expansion projects planned by the Enlarged Group.

   1.5 There will not be any material changes in the market prices of the pharmaceutical-related raw materials and the labor cost in the PRC.

   1.6 There will be no interruption of operations that will adversely affect the Enlarged Group as a result of shortage of supply of raw materials, which are beyond management's control.

   1.7 There will not be any significant change in the current inflation rates, interest rates and foreign currency exchange rates in the business environments that the Enlarged Group operates.

   1.8 There will not be any significant changes in the taxation system and relevant tax bases, tax rates and preferential tax applicable to the Enlarged Group in the PRC, Hong Kong or any country or territory in which the Enlarged Group carries on its business.

   1.9 The Enlarged Group and the operation of the Enlarged Group will not be severely affected or interrupted by any force majeure events or any unpredictable factors, and any unpredictable reasons that are out of the control of the Directors.

   1.10 There will be no significant deviation of the weighted average selling price of all types of products offered by the Enlarged Group under normal operations in 2012, after taking into account of the sales discounts and rebates, from that of 2011.

1.11 Assuming the unrealized profits from inter-company transactions and connected transactions of the Enlarged Group included in the inventory balance before elimination for consolidation for the year ending 31 December 2012 will be consistent with those for the year ended 31 December 2011.

1.12 Assuming the Company completed the proposed major assets reorganization transactions before 31 December 2011 in the calculation of the net profit attributable to the owners of the parent company after this time in this profit forecast report.

1.13 Other than such proposed major assets reorganization,, there will be no material changes in the existing structure of the Enlarged Group and the equity interests of the Company in its major subsidiaries, joint ventures and associates for the year ending 31 December 2012.

1.14 Assuming certain subsidiaries of the Enlarged Group will be able to renew their high-tech enterprise certifications which expired in 2011 and will continue to calculate and pay the enterprise income tax at a rate of 15% in the PRC in 2012. Please refer to explanation in note (II) 2 Preferential tax treatment and approval documents of this report for details.

1.15 Assuming there will be no breaches of laws by the Enlarged Group and the management of the Enlarged Group, which will cause any material adverse impact on the Enlarged Group.

2. The audited figures of 2011 in the consolidated forecast income statement represented the audited figures extracted from the audit report of 2011 (Xin Kuai Shi Bao Zi [2012] No. 410257 (信會師報字[2012]410257號)) issued by BDO China Shu Lun Pan CPAs LLP.

IV. EXPLANATIONS ON PROFIT FORECAST

(I) Significant accounting policies, accounting estimates and preparation of consolidated financial statements

1. Accounting period

The accounting year of the Company starts on 1 January and ends on 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

3. Accounting treatments for business combinations involving entities under and not under common control

(1) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(2) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

4. Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Enlarged Company including all subsidiaries.

Subsidiaries are consolidated from the date on which the Enlarged Company obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Enlarged Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Enlarged Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Enlarged Company are recognized as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

5. Determination of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(2) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

7. Financial instruments

(1) Financial Assets

1) Classification of the financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Enlarged Company's intention and ability to hold the financial assets.

① Financial assets carried at fair value through profit or loss for the current period

Financial assets carried at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

② Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

③ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

④ Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

2) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Enlarged Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

3) Impairment of financial assets

The Enlarged Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Enlarged Company shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

In the case of a decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in equity directly.

4) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When the Enlarged Company transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred.

The financial assets shall not be derecognized if the Enlarged Company substantially retains all the risks and rewards of ownership of the financial asset. If the Enlarged Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to the two circumstances of the derecognition mentioned above, a financial asset shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss.

(2) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Enlarged Company mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized cost using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(3) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Enlarged Company.

8. Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(1) Provision for bad debts of individually significant receivables

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000 thousand (including RMB1,000 thousand) or 10% of total accounts receivable and other receivables are individually more than RMB100 thousand (including RMB100 thousand) or 10% of total other receivables.
Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

(2) Receivables that are combined into certain groups and subject to provision by groups:

Basis for determination of groups is as follow:

Group name	**Criteria**
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Enlarged Company determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognized.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	**Method for provision**
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Aging	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

(3) Receivables which are individually insignificant but subject to separate provision:

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

9. Method for Inventories Measurement

(1) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished products, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(2) Cost of inventories

Cost is determined by the cost of commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(3) Basis for the determination of net realizable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(4) Inventory system

The Company adopts the perpetual inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

10. Measurement of Long-term equity investments

(1) Determination of cost of investment

Long-term equity investments comprise the Enlarged Company's long-term equity investments in its subsidiaries, the Enlarged Company's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Enlarged Company does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Enlarged Company is able to control. Jointly controlled entities are the investees over which the Enlarged Company is able to exercise joint control together with other venturers. Associates are all entities over which the Enlarged Company has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Enlarged Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Enlarged Company does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(2) Subsequent measurement and recognition of profit or loss

Under the cost method of accounting, investment income is recognized in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Enlarged Company recognized the investment income based on its share of net profit or loss of the investee. The Enlarged Company discontinues recognizing its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Enlarged Company has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Enlarged Company continues to recognize the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Enlarged Company record directly in capital surplus, provided that the Enlarged Company's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Enlarged Company's share of the profit distribution or cash dividends declared by the investee. The unrealized profits or losses arising from the intra-group transactions amongst the Enlarged Company and its investees are eliminated in proportion to the Enlarged Company's equity interest in the investees, and then based which the investment gain or losses are recognized. The loss on the intra-group transaction amongst the Enlarged Company and its investees, of which the nature is asset impairment, is recognized in full, and the related unrealized loss is not eliminated.

(3) Definition of control, joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Enlarged Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible bonds and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(4) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognized as impairment loss and cannot be reversed once recognized.

11. Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Enlarged Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Enlarged Company adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Enlarged Company adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

12. Initial measurement and depreciation method of fixed assets

(1) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. Fixed assets purchased or constructed by the Enlarged Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(2) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. Depreciation period and annual depreciation rate of each category of the fixed assets are as follows:

Fixed assets category	**Depreciation period**	**Residual value**	**Annual depreciation rate**
Buildings	10-70 years	0-10%	1.29%-10%
Machinery and equipment	4-18 years	0-10%	5%-25%
Motor vehicles	5-10 years	0-10%	9%-20%
Electronic equipment	5-10 years	0-10%	9%-20%
Office equipment	4-8 years	0-10%	11.25%-25%
Decoration and fixtures	5 years	0%	20%

(3) Impairment test for fixed assets and method of provision for asset impairment

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(4) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded mount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(5) Other specification

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

13. Method of measurement for construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

14. Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalization period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

15. Method of measurement for intangible assets

(1) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Enlarged Company, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(2) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

(3) Basis for judgment on utilization of intangible assets with indefinite useful life:

The Enlarged Company owned trademarks of products of Baiyunshan and Dashen, together with trademarks of Xing Qun, Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou and others. The Enlarged Company expects that in the foreseeable future the utilization of such trademarks will bring economic benefit inflow, thus recognized their useful life as indefinite.

After review, the useful life of such intangible assets remains indefinite.

(4) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

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 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 authorities.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

(5) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its

carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

16. Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

17. Provision estimation

Provisions for product warranties, onerous contracts etc. are recognized when the Enlarged Company has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. 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.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

18. Principle of revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Enlarged Company's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Enlarged Company.

(1) Principle and measurement of revenue recognition

The Enlarged Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Enlarged Company's activities as described below. The Enlarged Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(2) Sales of goods

Sales of goods are recognized when an entity of the Enlarged Company has delivered products to the customer and the customer has accepted the goods, the Enlarged Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Enlarged Company and the relevant revenue and costs can be measured reliably.

(3) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

(4) Rendering of services

Income from transfer of asset use rights include:

– Interest income is recognized on a time-proportion basis using the effective interest method;

– Trademark license fee income is recognized when the right to receive payment is established;

– Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(5) Dividend income

Dividend income is recognized when the right to receive payment is established.

19. Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Enlarged Company from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognized when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognized as deferred revenue, and evenly amortized to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognized immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized as deferred revenue; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current year.

20. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Enlarged Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when all of the following conditions are satisfied:

- the deferred taxes are related to the same tax payer within the Enlarged Company and the same taxation authority; and,

- the tax payer within the Enlarged Company has a legally enforceable right to offset current tax assets against current tax liabilities.

21. Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1. Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current year.

2. Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

22. Connected parties

That an entity controlled solely or jointly or material influenced over by another party, or that two or more entities controlled solely or jointly by another party constitutes a connected party. Connected parties may be individuals or corporations. Companies under control of the same government but without any other connected party relation do not constitute a connected party for each other.

Connected parties of the Enlarged Company includes with limitation:

(1) The parent company of the Enlarged Company;

(2) Subsidiaries of the Enlarged Company;

(3) Companies under the control of the same parent company as the Enlarged Company;

(4) Investors jointly imposing influence over the Enlarged Company;

(5) Investors imposing material influence over the Enlarged Company;

(6) Joint ventures of the Enlarged Company, including subsidiaries thereof;

(7) Associated companies of the Enlarged Company, including subsidiaries thereof;

(8) Major investing individuals of the Enlarged Company and their immediate family members;

(9) Key management personnel of the Enlarged Company or its parent company and their immediate family members; and

(10) Other companies controlled or jointly controlled by major investing individuals or key management members of the Enlarged Company or their immediate family members.

23. Segment information

The Enlarged Company identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Enlarged Company that satisfies all of the following conditions:

1. the component is able to earn revenues and incur expenses from its ordinary activities;

2. whose operating results are regularly reviewed by the Enlarged Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and

3. for which the information on financial position, operating results and cash flows is available to the Enlarged Company.

Two or more operating segments sharing similar financial characteristics as well as sameness or similarities in the following aspects may be combined:

(1) Nature of each product or service;

(2) Nature of productive process;

(3) Categories of client receiving products or services;

(4) Manner of sales of products or rendering of services; and

(5) Effect of laws and administrative regulations on products produced and services provided.

24. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Enlarged Company terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognized, with a corresponding charge to profit or loss when the Enlarged Company has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Enlarged Company unilaterally.

Except for offering compensations for terminating the employment relationship with employees, employee benefits are recognized as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

25. *Dividend distribution*

Cash dividend distribution is recognized as a liability in the period in which it is approved by the shareholders' meeting.

26. *Current and deferred income tax*

Save for Po Lian Development Company Limited, which is subject to income tax in Hong Kong, other entities of the Enlarged Company are subject to income taxes in the People's Republic of China (the "PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Enlarged Company recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

27. *Changes in significant accounting policies and accounting estimates*

(1) Changes in accounting policies

There are no changes in accounting policies in the current year.

(2) Changes in accounting estimates

There are no changes in accounting estimates in the current year.

(3) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current year.

(II) Taxation

1. Main types of taxes and tax rates

Taxable item	Type	Tax rate
Income from sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance and construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%
Enterprise income tax	Taxable profit	15%, 16.5%, 25%

2. Preferential tax treatment and approval documents

Seven subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., received the "Certificate of High/New Technology Enterprise", which was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau. A subsidiary of the Group, Guangxi Ying Kang Pharmaceutical Co. Ltd. received the "Certificate of High and New Technology Enterprise", which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau.

The certificates of the six subsidiaries (namely, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GR200844000618, GR200844000446, GR200844000475, GR200844000599, GR200844000937, GR200844001238 respectively, were issued in December 2008 and the effective period is 3 years (2008 to 2010). The six companies above have passed the high/new technology enterprise recognition review in 2011 and on 23 August 2011 obtained new certificates numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144 and Gf201144000400. The certificate of Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., numbering GR201044000004, was issued in 26 September 2010 and the effective period is 3 years. The certificate of subsidiary Guangxi Ying Kang Pharmaceutical Co., Ltd., numbering GR200945000085, was issued in November 2009 and the effective period is 3 years.

Pursuant to the relevant tax preference regulation of the PRC, the recognized New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2008, numbering GR200844000382 and GR200844000381 respectively with effective period of 3 years, from 2008 to 2010, during which their income tax rate was 15%. These two subsidiaries passed the high/new technology enterprise recognition review in 2011 and obtained certificates numbering GF201144000016 and GF201144000599 respectively with effective period extended for 3 years, from 2011 to 2013, during which their income tax rate was 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2009, numbering GR200944000225 and GR200944000224 respectively with effective period of 3 years, from 2009 to 2011, during which their income tax rate was 15%.

Except for the preferential tax treatment mentioned above, the Enlarged Company pays the enterprise income tax in accordance with "PRC Enterprise Income Tax Law" and "Implementation Rules of PRC Enterprise Income Tax Law" and the applicable enterprise income tax rate of the Enlarged Company is 25%. The applicable enterprise income tax rate of Po Lian, a subsidiary of the Enlarged Company, is 16.5% under the tax law of Hong Kong.

(III) Scope of consolidation

(In the following tables of this section, all amounts are in Renminbi '0000 unless otherwise stated)

(1) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	7,717	Production of CPM	88.99	88.99	88.99	88.99	Yes
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	21,741	Production of CPM	100	100	100	100	Yes
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	11,285	Production of CPM	100	100	100	100	Yes
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	16,876	Research and development of medicine and health products	97.04	97.04	99.26	99.26	Yes
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	8,242	Production of CPM	100	100	100	100	Yes
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	8,623	Production of CPM	88.40	88.40	88.40	88.40	Yes
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	6,544	Production of CPM	87.77	87.77	87.77	87.77	Yes
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	100	100	100	100	Yes
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Subsidiary of GPC	Guangzhou	Trading	2,400	Import and export trading of medicine	100	100	100	100	Yes
Guangzhou Bai Di Biotechnology Co., Ltd	Subsidiary of GPC	Guangzhou	Manufacturing	13,160	Research and development of medicine	98.48	98.48	98.48	98.48	Yes
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	75	75	75	75	Yes

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	50	Sales of cosmetic	45.08	45.08	51	51	Yes
Guangzhou Pan Gao Shou Natural Health Products Co., Ltd	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	78.99	78.99	90	90	Yes
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Subsidiary of GPC's subsidiary	Guangzhou	Trading	294	Retailing of Chinese raw medicine and CPM	100	100	100	100	Yes
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	80	Processing of Chinese raw medicine	100	100	100	100	Yes
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	100	100	100	100	Yes
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	668	Trading of medical apparatus	100	100	100	100	Yes
Xizang Lin Zhi Guang Yao Development Co., Ltd	Subsidiary of GPC's subsidiary	Linzhi	Trading	200	Production and trading of local product, and craft	54.74	54.74	55	55	Yes
Guangzhou Pan Gao Shou Food Beverage Co., Ltd	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	100	Production and processing of food and health products	87.77	87.77	100	100	Yes

(2) Subsidiaries acquired in a business combination involving enterprises under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity Interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	46,905	Research and develop, manufacture and sales of Chinese and western patent medicine	100	100	100	100	Yes
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	4,569	Manufacture, processing and sales of chemical preparation, CPM, bulk medicine and healthcare products	82.49	82.49	82.49	82.49	Yes
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	5,529	Manufacture of active pharmaceutical ingredients, chemical preparation, CPM, veterinary pharmaceutical and cosmetics	84.48	84.48	84.48	84.48	Yes
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	2,649	Manufacture and processing of active pharmaceutical ingredients, chemical preparation, CPM and health care products	100	100	100	100	Yes
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Subsidiary of BYS	Jiexi	Manufacturing	1,179	Tablets, capsules and granules	100	100	100	100	Yes
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Subsidiary of BYS	Guangzhou	Trading	200	Wholesale of Chinese patent medicines, active pharmaceutical ingredients and chemical preparation antibiotics	51	51	51	51	Yes
Bozhou Baiyunshan Pharmaceutical Co., Ltd.	Subsidiary of BYS	Bozhou	Manufacturing	50	Manufacture and sales of tablets and granules	80	80	80	80	Yes
Guangzhou Baiyunshan Pharmacy	Subsidiary of BYS	Guangzhou	Retail	100	Retail of Chinese raw medicine, commonly-used Chinese and Western patent medicines, cigarette and wine, sales of subsidiary foodstuffs and other food as well as general merchandise	100	100	100	100	Yes

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity Interest held by the Company 2011-12-31	% equity Interest held by the Company 2012-12-31	% voting rights held 2011-12-31	% voting rights held 2012-12-31	Consolidated or not
Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd.	Subsidiary of BYS	Guangzhou	Hospitality	50	Retail trading, hospitality, manufacture and sales of Chinese food	100	100	100	100	Yes
Po Lian Development Company Limited	Subsidiary	Hong Kong	Trading	HK$5 million	Import and export of medicine	100	100	100	100	Yes

(3) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity interest held by the Company 2011-12-31	% equity interest held by the Company 2012-12-31	% voting rights held 2011-12-31	% voting rights held 2012-12-31	Consolidated or not
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	3,188	Wholesale of CPM, active pharmaceutical ingredients and chemical preparation antibiotics	51	51	51	51	Yes

(IV) Preparation of profit forecast

This consolidated profit forecast for 2012 was prepared based on operating results as set out in pro forma 2011 financial statements (including the Company, BYS and Target Assets) of the Company as audited by BDO China Shu Lun Pan CPAs LLP, with reference to production and operation plans and sale plan for 2012 of each of the Company, BYS and Target Assets and as well as the relevant information, including the development of the pharmaceutical market for the period, in accordance with the consistent accounting policies and accounting estimates adopted by the Company on basis of prudent sake.

(V) Key items of the profit forecast (amounts in RMB'0000)

1. Revenue forecast from principal operations

Items	Audited amounts for 2011	Forecasted amounts for 2012
Revenue from principal operations	872,817	1,001,303

The revenue forecast of the Company was made based on its projected sales volume and selling price. Among which, the sales volume were estimated based on historical data on actual sales volume for the previous years with reference to production and operation plans during the forecast period and achieved sales volume, taking into account of the changing trend on sales volume during the forecast period; the selling price was estimated based on actual selling price for the previous years with reference to the market price level, the changing trend on supply and demand and pricing strategies of the group.

(1) Macro analysis

- According to the "12th Five-Year" Development Planning for Pharmaceutical Industry issued by the Ministry of Industry and Information Technology of the PRC, during the "12th Five-Year" period, the overall international and domestic conditions faced by China pharmaceutical industry is favorable, and it is a critical period for structure adjustment, transformation and upgrading in the industry, but there are more the uncertain factors affecting industry development, bringing both opportunities and challenges.

- Internationally, the global pharmaceutical market will continue to grow, this will steadily increase the export of pharmaceutical products and speed up the process of internationalization. With the rapid development of generic medicine and bio-tech medicine, it has provided an opportunity to narrow the gap of China pharmaceutical industry with advanced levels in the world. On the other hand, with the expanding scale and increasing strength of multinational pharmaceutical enterprises, they are strongly entering into the generic medicine field while dominating the patent medicine market, and thus the market competition is more intensifying, China pharmaceutical industry will face a serious challenge.

- Domestically, the market demand is increasing rapidly, the central government had further enhanced the support efforts on the pharmaceutical industry, the quality standard system and management standard is continuously improving, and social capital is more abundant. Such factors are favorable for the steady and faster development of the pharmaceutical industry. On the other hand, with increasing environment and resources constraint, the production costs of enterprise are continuously increasing, the price of medicine is tending to decline, which increase the difficulty on the development of new products, and there are still a lot of difficulties and constraints in the development of pharmaceutical industry.

The main development target for the "12th Five-Year" is "To grow the total industrial output value at an average annual growth rate of 20%, and to grow the industrial added value at an average annual growth rate of 16%".

(2) Revenue forecast for 2012

The revenue of the Company is mainly generated from manufacturing and sales of medicine. It is estimated that revenue in 2012 will increase to RMB10,013,030,000 from RMB8,728,170,000 in 2011, representing an increase of approximately 14.72%. The main reasons are as follows:

1) Driven by previous strong investments on advertising and promotion, the product awareness of GPC is continuously increasing, it is expected that the pharmaceutical manufacturing segment will maintain a faster growth, among which "Cephathiamidine for Injection" (注射用頭孢硫脒) series, "Shi Fu Su" (世福素) series "Xia Sang Ju" (夏桑菊) series, "Qing Kai Ling" (清開靈) series, "Yi Li Hai Te Ling" (一力咳特靈) and "Xiao Chai Hu Granules" (小柴胡顆粒) series are expected to achieve a higher growth;

2) Further broaden sales channels, expand sales agency of medicines, and increase sales regions outside Guangdong Province. It is expected the pharmaceutical trading segment will maintain a steady growth;

3) Continue to expand sales of product portfolio in other trading. It is expected that sales revenue from other trading will achieve a higher growth;

2. Cost of sales forecast of principal operations

Items	Audited amounts for 2011	Forecasted amounts for 2012
Cost of sales of principal operations	615,042	698,480

It is estimated that the operating costs of the Company for 2012 will increase to RMB6,984,800,000 from RMB6,150,420,000 in 2011, representing an increase of approximately 13.57%. It would be mainly due to the expected increase in revenue from principal operations, and the cost of sales of principal operations will be increased accordingly. It is also expected that prices in general will fall in 2012, and the procurement costs of raw materials for medicine will also decline.

The cost of sales forecast of the Company is made based on unit production cost forecast and sales volume forecast.

Unit production cost forecast is made based on actual cost level for previous years with reference to gross profit margin level for the previous years, taking into account of changing trend in direct materials, direct labor, fuels and energy and manufacturing overhead during the forecast period, and determined after analysis of such factors. Among which, direct materials are estimated mainly based on historical data on costs per unit and market price change of materials; direct labor is estimated mainly based on production and staffing plan and wage rise plan; for manufacturing overhead, the wage of production and management staff and their welfare funds are estimated based on production and management staffing and wage increment plan. The depreciation charge is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and the adopted depreciation policy, and other expenses are estimated based on the historical data and the change trend.

3. Taxes and surcharges forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Taxes and surcharges	8,036	9,484

The taxes and surcharges of the Company mainly include consumption taxes, business taxes, urban maintenance and construction taxes, education surcharges, local education surcharges and real-estate tax. The forecast amount for 2012 will increase by RMB14,480,000 compared to the actual amount in 2011, representing an increase of approximately 18.02%. It is mainly due to the increase in revenue, resulting in the increase in estimated taxes and surcharges.

4. Revenue and costs forecasts from other operation

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Revenue from other operation	14,196	14,035
Expenses of other operation	3,734	3,645
Profit from other operation	10,462	10,390

The revenue from other operation of the Company mainly includes rental income, income from sales of raw materials, trademark licensing income and etc. The forecast amounts for 2012 will decrease by RMB1,610,000 compared to actual amounts in 2011, and it is estimated that the change will be insignificant.

The expenses of other operation of the Company mainly include depreciation charge of the leased properties, cost of raw materials sold and etc. The forecast amounts for 2012 will decrease RMB890,000 as compared to actual amounts in 2011, and it is estimated that the change will be insignificant.

5. Selling and distribution expenses forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Selling and distribution expenses	121,806	134,058
The main items are as follows:		
Staff salary	57,614	65,341
Advertising and promotion expenses	32,731	33,327
Transportation expenses	8,793	9,751
Sales-related service expenses	8,008	7,977

The selling and distribution expenses of the Company mainly include staff salary, advertising and promotion expenses, transportation expenses and sales-related service expenses. The selling and distribution expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans of staffing and wage, welfare, social insurance premiums and housing provident funds;

2) The advertising and promotion expenses are estimated based on advertising and promotion launching plan;

3) The transportation expenses are estimated based on the sales volume and the distance to sales regions;

4) The sales service expenses are estimated basined on the sales volume, mainly including sales channel expenses, quality assurance expenses and etc.

It is estimated that the selling and distribution expenses for 2012 will increase to RMB1,340,580,000 from RMB1,218,060,000 in 2011, representing an increase of 10.06%. The main reasons are as follows:

1) Average wage rises in general, and it is estimated that staff salary will increase;

2) Sales volume will increase, and the transportation expenses will increase accordingly.

3) Increased investment was made in advertising and promotion expenses and sales-related service expenses in 2011, and it is estimated that that for 2012 will be the same.

6. General and administrative expenses forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
General and administrative expenses	91,297	106,748
The main items are as follows:		
Staff salary	40,139	46,658
Research and development expenses	20,899	25,318
Depreciation and amortization expenses	6,579	7,014
Transaction taxes and charges	3,656	3,886

The general and administrative expenses of the Company mainly include staff salary, research and development expenses, depreciation and amortization charge and Transaction taxes and charges. The general and administrative expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans of staffing and wage, welfare, social insurance premiums and housing provident funds;

2) The research and development expenses are estimated based on research and development plan;

3) The depreciation and amortization charge are mainly depreciation of fixed assets and amortization of intangible assets. Amortization of intangible assets is estimated based on the original value of intangible assets, value change of intangible assets during the forecast period and adopted amortization policy; depreciation of fixed assets is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and adopted depreciation policy;

4) The trading taxes and charges is estimated based on land use rights, building ownerships and execution of contracts.

It is estimated the general and administrative expenses for 2012 will increase to RMB1,067,480,000 from RMB912,970,000 in 2011, representing an increase of 16.92%. The main reasons are as follows:

1) Average wage rises in general, and it is estimated that staff salary will increase;

2) Increase investment in new medicine, and it is estimated that research and development expenses will increase;

3) Increase in fixed assets resulted in higher depreciation charge;

4) Trading amounts will rise, and it is estimated that transaction taxes and charges will increase.

7. Financial expenses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Financial expenses	5,347	6,733
The main items are as follows:		
Interest expenses	5,763	6,683
Interest income	-941	-529
Exchange gains and losses	40	-45

The financial expenses of the Company mainly include interest expenses, interest income and exchange gains and losses. Among which,

1) The interest expenses are estimated based on the interest-bearing liabilities including bank borrowings during the forecast period, interest rate and term;

2) The interest income is estimated based on the average balance of bank deposits during the forecast period and bank demand deposit interest rate;

3) The exchange gains and losses are estimated based on actual situation in 2011 and estimated business operation during the forecast period.

It is estimated that the financial expenses for 2012 will increase to RMB67,330,000 from RMB53,470,000 in 2011, representing an increase of 25.94%. The main reasons include expansion of the Company's pharmaceutical trading business and increase of investment in research and development; greater increase in capital need; it is estimated that the interest expenses will increase accordingly, and the interest income will decrease accordingly.

8. Assets impairment losses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Bad debt	-394	485
Losses on declines in value of inventory	337	271
Intangible asset impairment losses	18	0
Impairment losses on construction in progress	25	0
Total	-14	756

The assets impairment losses are estimated in accordance with the accounting policies of the Company, among which,

1) The bad debt are estimated based on the expected amounts receivable with reference to the bad debt provision policy;

2) The losses on decline in value of inventory is estimated based on the lower of book value of inventory as at the end of the year and the recoverable amount.

It is estimated that the assets impairment losses for 2012 will increase to RMB7,560,000 from RMB-140,000. The main reasons include:

1) Written back of bad debt arising from the collection of bad debt in 2011 and it is estimated that no such recovery in 2012;

2) The price of Chinese medicine's raw materials fell in 2011, and it is estimated the losses on declines in value of inventory will be reversed;

9. Investment income forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Income from investment in jointly controlled entities and associates	20,614	24,497
Of which: income from investments in Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng	15,335	19,090
Income from long-term equity investment under cost method	626	625
Other investment income	46	78
Total	21,286	25,200

Most of investment income of the Company is mainly derived from the joint ventures, being Wang Lao Ji, Guangzhou Pharmaceuticals Corporation, Nuo Cheng, and Hutchison Whampoa. It is estimated that total investment income for 2012 will increase to RMB252,000,000 from RMB212,860,000 in 2011. Of which, investment income from the joint ventures being Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng for 2012 will increase to RMB190,900,000 from RMB153,350,000 in 2011, the main reasons include:

1) It is estimated that the sales volume of the rabies vaccine of Nuo Cheng will increase significantly with higher gross profit margin, and the Company will recognize its investment income based on its equity interest.

2) It is estimated that net profit of Guangzhou Pharmaceuticals Corporation will maintain a faster growth, and the Company will recognize its investment income based on its equity interest.

10. Non-operating income forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Non-operating income	5,789	3,242

The non-operating income of the Company is mainly government subsidy. Such government subsidy is the government's subsidy to the expenses and charges incurred on independent innovation and pharmaceutical research.

11. Non-operating expenses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Non-operating expenses	1,759	1,547

The non-operating expenses of the Company for the year 2012 are mainly donations and losses on disposal of fixed assets.

12. Income tax expenses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Income tax expenses	8,457	11,690

It is estimated that the income tax expenses for 2012 will increase to RMB116,900,000 from RMB84,570,000 in 2011, representing an increase of 38.23%. The main reasons include the increase of the Company's profit, thereby resulting in the increase of enterprise income tax required to be paid.

(VI) Main issues affecting achievement of profit forecast and measures to be taken

The profit forecast of the Company has been taken into account of factors in all respects on basis of prudent sake. However, given that the assumptions upon which the profit forecast is based are uncertain, the Company would like to remind that investors should not place undue reliance on such information when making their investment decisions and it is advised to pay attention to the following issues:

1. Policy risk

Medicines are special type of consumer goods relating to the people's life health and security. There are a variety of medicines in category with a higher science and technology barrier in the industry. The manufacture, circulation and consumption of medicine have been strictly supervised by the State. Therefore, the pharmaceutical industry has been considered as one of main industries which has an important effect on the national economy development, and being largely affected by change of national policy. On 7 April 2009, the State Council issued "Recent Key Implementation Program for the Medical and Health System Reform"(2009-2011), in which it has determined a reform direction for national medical security system and its implementation steps in future years, which will bring a profound effect on the development of the pharmaceutical industry. On 18 August 2009, China officially released "Implementation Opinions Regarding Establishment of National Essential Medicines System" and "National Essential Medicines List", thereby formally commencing the construction work for National Essential Medicines List. It has created a good policy environment for continuous and fast development of the pharmaceutical market.

Therefore, if the national macro economic situation, the industrial policies in pharmaceutical industry and national and local regulations have been changed, they will directly affect pharmaceutical industry sentiment, and thus may impact on the Company's operating results in future.

2. Internal integration risk

After completion of this major assets reorganization, the Company will have more complete operation from research and development, manufacture to marketing, and benefiting from the synergistic effect generating from the internal integration, the profitability and core competitiveness of the Company will be strengthened. However, after completion of this major assets reorganization, the business scope and industrial types of the Company will be substantially increased, and its business segments are distributed into various geographical regions. Its internal organization structure will be more complex, and subsequent integration will be more difficult, the completion of integrating its procurement, production, sale, research and development, and management and etc. will take some time. As such, there is a risk that the profit level of the Company may be difficult to achieve the expected level after taking into account of the synergistic effect in short term.

3. Corporate governance and internal control risk

(1) Internal control risk

After completion of this transaction, it will require some time to establish the internal control system for the continuing entity, and prior to establishment of its new internal control system with normal operation, there is a risk that the continuing entity may suffer loss arisen from imperfection of its internal control system.

(2) Investee enterprise risk

After completion of this transaction, some enterprises under the Company are investee enterprises, and the Company has no control on such enterprises. If the Company has dispute or disagreement with the controlling shareholder of such enterprises, it may have an impact on the operation of such investee enterprise. In addition, profit distribution of such investee enterprise also will affect the cash flows of the Company, thus affecting the operation of the Company.

4. Operation risk

(1) Market competition risk

After completion of this reorganization, the Company will become a pharmaceutical conglomerate covering the whole industry chain in the pharmaceutical industry in the PRC. The Company has an obvious competitive advantage in the manufacturing and trading of pharmaceutical, but the pharmaceutical industry in which the Company operates is a perfect market competitive industry. There are a variety of medicines types and categories, with high research and development expenses, long cycle and being a fully competitive market; and currently, there are a number of issues in the pharmaceutical industry, such as low level redundant construction in manufacture of medicines, low product technology, uneven quality of operators and complex of medicines circulation channels. If some enterprises take a substantial incentive or price reduction measures for surviving, it will have an impact on the operating results of the Company. At the same time, if the Company can't continuously rationalize its product mix, expand its distribution networks, enhance its technology level and strengthen its comprehensive competitive capacity, it will be in an unfavorable position under a keen competitive environment.

(2) Product price limitation risk

The prices of medicines are controlled by the State. The State often makes new requirements in medicine price policy and medicine price control to restrict medicine pricing. The prices of medicines manufactured and distributed by the Company are mostly within price range controlled by the State, and the corresponding change on price policy will have an impact on the operation and profit of the Company. The National Development and Reform Commission has adjusted prices of medicines in several times since 1998, covering a variety of common medicines, mainly Chinese and western medicines. The price reduction trend will continue to remain for a considerable period in the PRC in the future, and the overall profit margin of the industry may be continuously declined, so the profitability of the Company's pharmaceutical operation will also be reduced.

(3) Raw materials price fluctuation risk

The main raw materials of the Company include various bulk pharmaceuticals and Chinese raw medicine, and it requires procurement of about 1,000 species of bulk pharmaceuticals and Chinese raw medicine each year. The unit price of bulk pharmaceuticals is mainly affected by domestic ex-factory price, while the unit price of Chinese raw medicine is affected by the domestic prices of agricultural products. The price fluctuation of raw materials increases the Company's difficulties on control of production costs and management, thus increasing its operation risk.

(4) Medicines life-cycle risks

The research and development cycle of medicines is relative long, the life cycle of medicines is gradually shortened as affected by various factors like pharmacological value, side effect, the human body resistance time and development and launching cycle of similar new medicines. At the same time, once a protection period for new medicines had expired after launching, they will be affected by a plenty of generic medicines. Therefore, various medicines currently manufactured by the Company are affected by each of its product life cycles.

(5) Risk for research and development of new specie of medicine

The State has made strict requirements on research and development of new medicines. The development of new medicines generally divides into four stages, being preclinical study, application of clinical approval, clinical study and new medicine certificate, and application of production approval. Each stage is subject to strict requirements of laws and regulations. Among the four stages, the preclinical studies for new medicine include preparation technique, physical and chemical properties, purity, method of assay, prescription selection, form of medicine, stability, quality standard, pharmacology, toxicology and pharmacokinetics. It will be generally obtained a new medicine certificate for medicine upon approval from the State Food and Drug Administration after completion of phase III clinical trials. However, enterprise or workshop will be permitted to produce new medicine only after it obtained Pharmaceutical Production Enterprise License and met the GMP related requirements with issue of approval number. As such, the development of new medicine has characteristics of long cycle, greater difficulty and high risk. If the development of new medicine is unsuccessful, it will have an impact on production of subsequent new products.

5. Risk for reliance on joint ventures

One fourth of profit of the Company is derived from its investment income from Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng. In 2012, its investment income under equity method in Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng accounted for 23% of total profit of the Company. Therefore, if the business operation for any of Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng encounters a serious difficulty or fails to achieve the expected goal, it will have an adverse impact on the financial condition and results of operation of the Company.

6. Other risks

The Company might have an adverse impact arisen from other factors which are beyond the control of the Company like politics, economy and natural disasters.

For the above issues, the Company will take the following measures accordingly:

(1) Keep up with the national macro policy trend, study in-depth the industry development trend, promptly obtain the market information, fully understand the consumer demand, establish a rapid response mechanism, improve market analysis and response ability, really focus on customer demand, speed up the development and launching of new products, further rationalize the Company's product mix, and increase the market competitive capacity of the Company.

(2) The investment of project will adhere to the principle of acting according to its ability and measuring expenditure according to its income, overall planning, emphasis on key aspects, focus of quality, pursuit of efficiency, rational investment; fully make investigation and study, and feasibility demonstration to increase the scientific decision-making ability.

(3) Actively introduce advanced technologies and train management personnel, increase the investment in research and development, and continuously enhance the Company's independent research and development capacity and technology innovation ability.

(4) Proactively expand the market, enhance marketing service ability and level, rationalize sale networks, innovate marketing mode, strengthen efforts on brand promotion, strive for improving the image of the Company and its brands, increase market share of the Company's products.

(5) Improve the Company's corporate governance level, strengthen internal management, increase overall operational efficiency of the Company, enhance the ability to avoid risk.

(VII) Other significant events description

This consolidated profit forecast report is solely to be used by GPC for the major assets reorganization in respect of its absorption and merger of BYS by share swap and acquisition of assets of GPHL, which was compiled under the requirements of Administrative Rules on Major Asset Reorganization of Listed Companies issued by the China Securities Regulatory Commission. It is solely to be used by GPC for application and approval of such matters with the China Securities Regulatory Commission and disclosed on the website of The Stock Exchange of Hong Kong Limited.

Guangzhou Pharmaceutical Company Limited
15 June 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

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Comfort Letter for Profit Forecast

Xin Kuai Shi Bao Zi [2012] 410252
(信會師報字[2012]第410252號)

18 June 2012

To Guangzhou Pharmaceutical Company Limited

We have been engaged to review the calculations and accounting policies adopted in the consolidated profit forecast report (hereinafter the "Profit Forecast") of Guangzhou Pharmaceutical Company Limited (hereinafter the "Company", together with its subsidiaries, the "Group") for the year ending 31 December 2012. The Profit Forecast is set out in the announcement of the Company dated 18 June 2012 (hereinafter the "Announcement"), for which the Directors of the Company are solely responsible.

We conducted our work in accordance with the "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the Directors of the Company based on the audited pro forma financial information of the Enlarged Group as at 31 December 2011.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the Directors of the Company as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Group in its financial statements for the year ended 31 December 2011.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Wu Changhua

Certified Public Accountant of China: Pan Wenzhong

Shanghai, the PRC

(b) Letter from the financial advisers

時富金融 CFSG

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181 Queen's Road Central
Hong Kong

Goldman Sachs

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

18 June 2012

The Board of Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
The PRC

Dear Sirs,

Re: Guangzhou Pharmaceutical Company Limited (the "Company")
– Very substantial acquisitions and connected transactions
(I) Involving Major Assets Reorganization: (A) Absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd; and (B) Acquisition of Target Assets from Guangzhou Pharmaceutical Holdings Limited; and (C) Compensation for profit shortfall; (II) Trademark custody; (III) Profit forecast in relation to the Major Assets Reorganization prepared under CASBE; and (IV) Profit forecasts underlying the valuation of certain Target Assets

We refer to the profit forecast of the Enlarged Group (the "**Enlarged Group Profit Forecast**") for the year ending 31 December 2012 prepared by the Company and reviewed by BDO China Shu Lun Pan CPAs LLP ("**BDO**") in relation to the Major Assets Reorganization as set out in the announcement dated 18 June 2012 issued by the Company (the "**Announcement**"). Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Enlarged Group Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Enlarged Group Profit Forecast has been made. We have also considered the letter addressed to the Directors from BDO dated 18 June 2012 regarding the accounting policies and calculations upon which the Enlarged Group Profit Forecast has been made.

On the basis of the foregoing, we are of the opinion that the Enlarged Group Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Celestial Capital Limited
Daphne Ng
Managing Director

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Richard Campbell-Breeden
Managing Director

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) 2012 PROFIT FORECAST OF THE TARGET ASSETS

Target Assets by Guangzhou Pharmaceutical Company Limited through issue of shares
The Audit Report of Profit Forecast and the Consolidated Profit Forecast Statement
For the year ending 31 December 2012

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a. THE AUDIT REPORT OF PROFIT FORECAST

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Ref. No.: Xin Kuai Shi Bao Zi [2012] 410251
(信會師報字[2012]第410251號)

15 June 2012

THE AUDIT REPORT OF PROFIT FORECAST

To All Shareholders of Guangzhou Pharmaceutical Company Limited:

We have audited the accompanying consolidated profit forecast report for 2012 of assets to be acquired (the "Target Assets") through issue of shares prepared by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of GPC is responsible for this forecast and the assumptions upon which it was based. Such assumptions have been disclosed in "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2012 of Target Assets by GPC through issue of shares".

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the forecast. Also, we believe this forecast has been properly compiled based on such assumptions, which has been presented in accordance with the requirements of basis of preparation in the section "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2012 of Target Assets by GPC through issue of shares".

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information.

This report is solely for the information of GPC in connection with its submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the major assets reorganization involving the absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap and acquisition of the Target Assets of Guangzhou Pharmaceutical Holdings Limited by GPC, and should not be used for any other purposes.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Wu Changhua

Certified Public Accountant of China: Pan Wenzhong

Shanghai, the PRC

b. THE CONSOLIDATED PROFIT FORECAST STATEMENT

Consolidated Forecast Income Statement of Target assets

Prepared by Guangzhou Pharmaceutical Company Limited *Unit: RMB'0000*

ITEMS		*Notes*	**Audited amounts for 2011**	**Forecasted amounts for 2012**
I.	**Revenue from principal operations**	*(IV)1*	**12,138**	**12,292**
	Less: Cost of sales of principal operations	*(IV)2*	11,693	11,787
	Less: Taxes and surcharges of principal operations	*(IV)3*	126	133
II.	**Profit from principal operations**		**319**	**372**
	Add: Revenue from other operation	*(IV)4*	1,161	1,355
	Less: Expenses of other operation	*(IV)4*	105	105
	Less: Selling and distribution expenses	*(IV)5*	5	5
	Less: General and administrative expenses	*(IV)6*	371	353
	Less: Financial expenses	*(IV)7*	36	14
	Less: Assets impairment losses	*(IV)8*	8	0
	Add: Profit arising from changes in fair value		0	0
	Add: Investment income	*(IV)9*	625	625
III.	**Operating profit**		**1,580**	**1,875**
	Add: Non-operating income		0	0
	Less: Non-operating expenses		0	0
IV.	**Total profit**		**1,580**	**1,875**
	Less: Income tax expenses	*(IV)10*	224	261
V.	**Net Profit**		**1,356**	**1,614**
	(1) Attributable to owners of the parent company		1,356	1,614
	(2) Minority interest		0	0

c. THE CONSOLIDATED PROFIT FORECAST REPORT

Target Assets by Guangzhou Pharmaceutical Company Limited through issue of shares The Consolidated Profit Forecast Report for 2012

NOTE: The consolidated profit forecast report for 2012 of the Target Assets by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC" or the "Company") through issue of shares was prepared based on the best estimates and assumptions, and there are no intentional uses of unreasonable assumptions, misleading statements and material omissions.

The preparation of this profit forecast report was made on prudent sake, but since the assumptions upon which the profit forecast was based are uncertain, investors should not place undue reliance on such information when making their investment decisions.

I. GENERAL INFORMATION ON TARGET ASSETS

1. General information on Po Lian Development Company Limited (hereinafter as "Po Lian")

Chinese name:	保聯拓展有限公司
English name:	PO LIAN DEVELOPMENT COMPANY LIMITED
Date of incorporation:	15 January 1988
Registered address:	Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
Authorized and issued share capital:	HK$5,000,000
Business scope:	operation and investment of state-owned assets contributed by the corporation. Its main objective is expanding the import and export of GPHL's pharmaceutical products and developing the international market; operating the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products; introducing foreign capital and advanced technologies for pharmaceutical industry in Guangzhou; conducting compensation trade and processing on customer-supplied materials; providing the economic information on pharmaceutical technologies to facilitate the development of pharmaceutical industry in Guangzhou.

As approved by the Circular Sui Wai Jing Mao [1988] No.125 (穗外經貿[1998]125號) issued by Foreign Economic Relation and Trade Commission of the People's Government of Guangzhou Municipality (廣州市人民政府對外經濟貿易委員) and the Circular Sui Wai Jing Mao Ji Qing (1990) No. 07 (穗外經貿際清(1990)07號) issued by the Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau (廣州市清理整頓駐港澳機構領導小組), Po Lian is a Hong Kong company wholly-owned, incorporated and operated by GPHL. Po Lian was incorporated as a limited liability company under the Companies Ordinance on 15 January 1988 in Hong Kong. Its authorized and issued share capital was HK$1,000,000. The authorized and issued share capital of Po Lian was increased to HK$5,000,000 in October 1998.

Since its incorporation, GPHL has held 100% equity interest in Po Lian.

2. General information on 12.50% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. (hereinafter as "Baxter")

Chinese name:	廣州百特醫療用品有限公司
English name:	BAXTER HEALTHCARE (GUANG ZHOU) COMPANY, LTD.
Date of registration:	13 August 1993
Address of registration:	Jiaoyuan Road, Dongji Industrial District, Guangzhou Economic and Technological Development Zone
Registered capital:	USD11,000,000
Business scope:	manufacture and sales of dialysis fluid for dialysis therapy and supporting disinfection liquid and related components; manufacture and sales of medicinal infusion and other medicinal products directly related with preparation, feeding, storage and delivery of medicinal infusion.

Baxter was established on 13 August 1993 with a registered capital of USD10,000,000. It was jointly founded by Baxter Global Trade Company (美國百特世界貿易公司), Guangzhou Pharmaceutical Development Company and Guangzhou Economic and Technological Development Zone Industrial Development Corporation in proportion of capital contribution of 75%, 12.5% and 12.5% respectively. It is principally engaged in manufacture of dialysis fluid for continuous ambulatory peritoneal dialysis treatment.

In 1999, Guangzhou Pharmaceutical Development Company transferred its entire equity interest amounting to USD1,250,000 in Baxter to GPHL at the same price; Baxter Global Trade Company transferred its entire equity interest amounting to USD7,500,000 in Baxter to its related company, Baxter (China) Investment Company Limited.

On 20 May 2002, GPHL, Guangzhou Economic and Technological Development Zone Industrial Development Corporation and Baxter (China) Investment Company Limited entered into a supplementary contract to the joint venture contract regarding Baxter Healthcare (Guangzhou) Company, Ltd., pursuant to which Guangzhou Economic and Technological Development Zone Industrial Development Corporation transferred its 12.5% equity interest in Baxter to Baxter (China) Investment Company Limited, and the parties to the joint venture, Baxter, had been changed to GPHL and Baxter (China) Investment Company Limited, the registered capital of the joint venture had been changed to USD11,000,000, of which GPHL held its 12.5% equity interest, being USD1,375,000; Baxter (China) Investment Limited held its 87.5% equity interest, being USD9,625,000.

As of the issue date of this proposal, the paid-up capital of Baxter was USD11,000,000, and GPHL held its 12.5% equity interest.

3. Buildings and structures

The general information on the buildings and structures to be acquired by GPC by issue of shares is shown as following table:

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
1	45-1 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491222	1,022.97	An office building jointly occupied by GPHL and GPC	yes
2	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036340	3,432.18	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
3	Rear Block, 282 Beijing Road, Yuexiu District	Yue Fang Di Zheng Zi No. C6190029	215.51	Leased to Cai Zhi Lin for sales outlet	Yes
4	45 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491223	2,775.59	An office building jointly occupied by GPHL and GPC	Yes

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
5	45-2 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491224	1,874.08	An office building jointly occupied by GPHL and GPC	Yes
6	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143847	694.29	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
7	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143846	272.89	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
8	Warehouse, 3-5 Floors, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143845	648.28	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
9	2nd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143849	4,044.32	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
10	1-2/F, 3rd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143848	5,041.21	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
11	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036348	2,778.24	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
12	Warehouse of Guangzhou Pharmaceuticals Corporation, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yue Fang Di Zheng Zi No. C5932126	3,524.68	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
13	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942848	684.44	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
14	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942849	414.96	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
15	2/F of East Tower, Rear Block, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932123	310.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
16	1/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932124	82.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
17	2/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932125	104.07	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
18	1-2/F, 118 West Heping Road, Liwan District	Sui Fang Zheng Zi No. 0059002 Sui Fang Zheng Zi No. 0093202	4,224.48	A warehouse occupied by Guangzhou Pharmaceuticals Corporation, intended to be used as office	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
19	Unit 2, 12 Saiba Road, Liwan District	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	2,464.36	Office building for factory of Cai Zhi Lin	Yes

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
20	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	Yue Fang Di Zheng Zi No. C6465931	293.21	Sales outlet fro Cai Zhi Lin	Yes
21	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	99.34	Sales outlet for Cai Zhi Lin	Yes

4. *Trademarks*

In this major assets reorganization, save for the 29 Wang Lao Ji series trademarks and other 4 trademarks exclusively used by Wang Lao Ji Pharmaceutical under certain conditions upon license of GPHL (in aggregate 33 trademarks), all other 388 registered trademarks were included in Target Assets.

Amongst of the domestic trademarks to be injected into the listed company by GPHL, 277 trademarks are associated trademarks or defensive trademarks, only registered for the group's image, defensive purpose, historical development or arisen as derivative registration. They have no direct impact on revenue of products or directly generate any revenue from licensing such trademarks. They only have relatively lower value, and the pre-evaluation of value is only registration cost. Their consideration is nil, and not listed in detail herein. For trademarks which GPHL has licensed GPC to use, 54 trademarks of which have higher reputation with higher appraised value, including six major series being "Chen Li Ji", "Pan Gao Shou", "Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang". The detailed information are shown as the following table:

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
Xing Qun series trademarks					
1	GPHL	155258		Western medicine	28 February 2013
2	GPHL	150105		Ruihuayou	28 February 2013

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
3	GPHL	150106		Pilulae viticis cannabifolii	28 February 2013
4	GPHL	848199	元 神	Angelica south jujube tea powder	20 June 2016
5	GPHL	256482		Nourishing beverage	19 July 2016
6	GPHL	850196	怡生	Human medicine	27 June 2016
7	GPHL	835119		Bird's nest soup with crystal sugar	27 April 2016
Zhong Yi series trademarks					
8	GPHL	781270	中一	Mineral water, chrysanthemum tea, alcohol free beverage, alcohol free fruit juice beverage	6 October 2015
9	GPHL	661178		Guiling Jelly	13 October 2013
10	GPHL	713652		Alcohol free beverage, soda-water, mineral water, solid beverage	6 November 2014
11	GPHL	588610		Human medicine	29 March 2022
12	GPHL	708835	紫地	Human medicine	6 October 2014
13	GPHL	170359		Chinese medicine	28 February 2013
14	GPHL	139307		CPM	28 February 2013

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
15	GPHL	171212		Chinese medicine	28 February 2013
16	GPHL	339914		Chinese and western patent medicine	19 February 2019
Chen Li Ji series trademarks					
17	GPHL	651324		Chinese medicine and patent medicine	27 July 2013
18	GPHL	284093	陳李濟	Chinese medicine and patent medicine	19 April 2017
19	GPHL	822299		Medical nutrition beverage, Medical nutrition foods, medical nutrition food products, medicated candy, baby foods, sanitary napkins, haemostatic ointment, Yaotiao, Headache medicine pen	13 March 2016
20	GPHL	605208		CPM	9 August 2012
21	GPHL	147894	杏和堂	Chinese medicine	28 February 2013
22	GPHL	815038		Foods, including Bean products, coffee, and sugar, seasoning	13 February 2016
23	GPHL	807121	星 馬	Foods, including meat, processed meat and fish, can, preserved foods, milk products	13 January 2016
Qi Xing series trademarks					
24	GPHL	145345		Chinese medicine	28 February 2013
25	GPHL	248428		CPM	14 April 2016

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
26	GPHL	798245		CPM for human	13 December 2015
27	GPHL	812250		Human medicine	6 February 2016
28	GPHL	653407		Human medicine	13 August 2013
29	GPHL	653423	天凤	Human medicine	13 August 2013
30	GPHL	652155	奇星	Chinese medicine, patent medicine (Human medicine)	6 August 2013
31	GPHL	653424	四方	Human medicine	13 August 2013
32	GPHL	653425	新雪	Human medicine	13 August 2013
33	GPHL	626102		Chinese medicine, patent medicine	19 January 2013
34	GPHL	723369	奇星	Human medicine	6 January 2015
35	GPHL	990820		Medical nutrition food products, medical nutrition beverage, medicinal beverage, medical nutrition products, medicine candy, raw medicine (for human), human medicine and herbal tea	27 April 2017
Jing Xiu Tang series trademarks					
36	GPHL	135276		Veterinary medicine and etc., CPM	28 February 2013
37	GPHL	268996		Western medicine	19 November 2016

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
Pan Gao Shou series trademarks					
38	GPHL	171203		CPM	28 February 2013
39	GPHL	246145		Chinese medicine, patent medicine	14 March 2016
40	GPHL	786868		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
41	GPHL	717049		Human medicine	27 November 2014
42	GPHL	786867		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
43	GPHL	689167		Human medicine	13 May 2014
44	GPHL	782783		Beverage dispenser, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
45	GPHL	782784	潘高壽	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
46	GPHL	786918		Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
47	GPHL	786928	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
48	GPHL	795079		Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	27 November 2015

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
49	GPHL	801146	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	20 December 2015
50	GPHL	689166	PGS潘高壽	Human medicine	13 May 2014
51	GPHL	781193	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015
52	GPHL	782782	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
53	GPHL	782781	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
54	GPHL	780863	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015

II. BASIS OF PREPARATION AND PRINCIPAL ASSUMPTIONS FOR THE CONSOLIDATED PROFIT FORECAST REPORT FOR 2012 OF TARGET ASSETS BY GPC THROUGH ISSUE OF SHARES

According to the requirements of the Administrative Rules on Major Asset Reorganization of Listed Companies (No. 53 Directive of China Securities Regulatory Commission("CSRC")) and Rule No. 26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly – Application Documents for the Material Asset Reorganisations of Listed Companies issued by CSRC, the Company has prepared 2012 consolidated profit forecast of Target Assets as set out in Section I above.

This profit forecast report has been prepared based on the operating results of the audited 2011 financial statements of the Company as audited by BDO China Shu Lun Pan CPAs LLP, in light of 2012 production and operation plan, sales plan of the Company as well as the relevant information, including the situation of the pharmaceutical market for the period, on the basis of prudent sake.

The accounting policies and accounting estimates used in preparing the profit forecast has complied with the existing laws, regulations of the State and the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, and are consistent with the accounting policies and accounting estimates adopted by the Company in all material aspects.

1. Major assumptions in the preparation of profit forecast:

1.1 There will not be any significant changes in the existing government policies and political, legal, fiscal, market or economic conditions in the PRC, Hong Kong or any countries/regions in which the Target Assets carry on its business, or any other countries/regions that may have significant impact on the businesses.

1.2 There will not be any material adverse changes in the existing state and local laws, rules, or regulations in the PRC, Hong Kong or any countries/regions in which the Target Assets carry on its business, or with which the Target Assets have any arrangement or agreement with any parties operates therein.

1.3 There will not be significant changes in the prospects of the Target Assets and the industry it operates and the market conditions for the sales of product and provisions of services by the Target Assets.

1.4 There will not be any material delay in the production schedules, operational projects and capacity expansion projects planned by the Target Assets.

1.5 There will not be any material changes in the market prices of the pharmaceutical-related raw materials and the labor cost in the PRC,

1.6 There will be no interruption of operations that will adversely affect the Target Assets as a result of shortage of supply of raw materials, which are beyond management's control.

1.7 There will not be any significant change in the current inflation rates, interest rates and foreign currency exchange rates in the business environments that the Target Assets operate.

1.8 There will not be any significant changes in the taxation system and relevant tax bases, tax rates and preferential tax applicable to the Target Assets in the PRC, Hong Kong or any country or territory in which the Target Assets carry on its business.

1.9 The Target Assets and the operation of the Target Assets will not be severely affected or interrupted by any force majeure events or any unpredictable factors, and any unpredictable reasons that are out of the control of the Directors.

1.10 There will be no significant deviation of the weighted average selling price of all types of products offered by the Target Assets under normal operations in 2012, after taking into account of the sales discounts and rebates, from that of 2011.

2. The audited figures of 2011 in the consolidated forecast income statements of Target Assets represented the aggregate audited figures extracted from the audit reports issued by BDO China Shu Lun Pan CPAs LLP (Xin Kuai Shi Bao Zi [2012] 410258 and 410259 (信會師報字[2012]第410258號及第410259號)).

III. EXPLANATIONS ON PROFIT FORECAST

(I) Significant accounting policies, accounting estimates, preparation of consolidated financial statements

1. Accounting period

The accounting year of the Company starts on 1 January and ends on 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

3. Accounting treatments for business combinations involving entities under and not under common control

(1) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(2) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

4. Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Enlarged Company and all subsidiaries.

Subsidiaries are consolidated from the date on which the Enlarged Company obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Enlarged Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Enlarged Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Enlarged Company are recognized as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

5. Determination of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(2) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

7. Financial instruments

(1) Financial Assets

1) Classification of the financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Enlarged Company's intention and ability to hold the financial assets.

① Financial assets carried at fair value through profit or loss for the current period

Financial assets carried at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

② Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

③ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

④ Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

2) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Enlarged Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

3) Impairment of financial assets

The Enlarged Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Enlarged Company shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

In the case of a significant or prolonged decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in equity directly.

4) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When the Enlarged Company transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the Enlarged Company substantially retains all the risks and rewards of ownership of the financial asset. If the Enlarged Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to the two circumstances of the derecognition mentioned above, a financial asset shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss for the current period.

(2) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Enlarged Company mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized costs using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(3) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Enlarged Company.

8. Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(1) Provision for bad debts of individually significant receivables

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000 thousand (including RMB1,000 thousand) or 10% of total accounts receivable and other receivables are individually more than RMB100 thousand (including RMB100 thousand) or 10% of total other receivables.
Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

(2) Receivables that are combined into certain groups and subject to provision by groups:

Basis for determination of groups is as follow:

Group name	**Criteria**
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Enlarged Company determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.

Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognized.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	**Method for provision**
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Aging	**Ratios for provision for bad debts**
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

(3) Receivables which are individually insignificant but subject to separate provision:

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of its present value of the future cash flows below the carrying amount.

9. Method for Inventories Measurement

(1) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished products, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(2) Cost of inventories

Cost is determined by the cost of commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(3) Basis for the determination of net realizable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(4) Inventory system

The Company adopts the perpetual inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

10. Measurement of Long-term equity investments

(1) Determination of cost of investment

Long-term equity investments comprise the Enlarged Company's long-term equity investments in its subsidiaries, the Enlarged Company's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Enlarged Company does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Enlarged Company is able to control. Jointly controlled entities are the investees over which the Enlarged Company is able to exercise joint control together with other venturers. Associates are all entities over which the Enlarged Company has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Enlarged Company's financial statements and adjusted using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Enlarged Company does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(2) Subsequent measurement and recognition of profit or loss

Under the cost method of accounting, investment income is recognized in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Enlarged Company recognized the investment income based on its share of net profit or loss of the investee. The Enlarged Company discontinues recognizing its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Enlarged Company has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Enlarged Company continues to recognize the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Enlarged Company record directly in capital surplus, provided that the Enlarged Company's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Enlarged Company's share of the profit distribution or cash dividends declared by the investee. The unrealized profits or losses arising from the intra-group transactions amongst the Enlarged Company and its investees are eliminated in proportion to the Enlarged Company's equity interest in the investees, and then based which the investment gain or losses are recognized. The loss on the intra-group transaction amongst the Enlarged Company and its investees, of which the nature is asset impairment, is recognized in full, and the related unrealized loss is not eliminated.

(3) Definition of joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Enlarged Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible bonds and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(4) Method of impairment test and recognition of provision

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognized as impairment loss and cannot be reversed once recognized.

11. Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Enlarged Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Enlarged Company adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Enlarged Company adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

12. Initial measurement and depreciation method of fixed assets

(1) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. Fixed assets purchased or constructed by the Enlarged Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(2) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. Depreciation period and annual depreciation rate of each category of the fixed assets are as follows:

Fixed assets category	**Depreciation period**	**Residual value**	**Annual depreciation rate**
Buildings	10-70 years	0-10%	1.29%-10%
Machinery and equipment	4-18 years	0-10%	5%-25%
Motor vehicles	5-10 years	0-10%	9%-20%
Electronic equipment	5-10 years	0-10%	9%-20%
Office equipment	4-8 years	0-10%	11.25%-25%
Decoration and fixtures	5 years	0%	20%

(3) Impairment test for fixed assets and method of provision for asset impairment

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(4) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded mount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(5) Other specification

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

13. Method of measurement for construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

14. Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalization period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

15. Method of measurement for intangible assets

(1) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Enlarged Company, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(2) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

(3) Basis for judgment on utilization of intangible assets with indefinite useful life:

The Enlarged Company owned trademarks of products of Baiyunshan and Dashen, together with trademarks of Xing Qun, Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou and others. The Enlarged Company expects that in the foreseeable future the utilization of such trademarks will bring economic benefit inflow, thus recognized their useful life as indefinite.

After review, the useful life of such intangible assets remains indefinite.

(4) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

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 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 authorities.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

(5) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

16. Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

17. Provision estimation

Provisions for product warranties, onerous contracts etc. are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. 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.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

18. Principle of revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Enlarged Company's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Enlarged Company.

(1) Principle and measurement of revenue recognition

The Enlarged Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Enlarged Company's activities as described below. The Enlarged Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(2) Sales of goods

Sales of goods are recognized when an entity of the Enlarged Company has delivered products to the customer and the customer has accepted the goods, the Enlarged Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Enlarged Company and the relevant revenue and costs can be measured reliably.

(3) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

(4) Rendering of services

Income from transfer of asset use rights include:

– Interest income is recognized on a time-proportion basis using the effective interest method;

– Trademark license fee income is recognized when the right to receive payment is established;

– Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(5) Dividend income

Dividend income is recognized when the right to receive payment is established.

19. Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Enlarged Company from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognized when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognized as deferred revenue, and evenly amortized to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognized immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current year.

20. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets arising from deductible temporary differences are recognized to the extent of probable taxable profit against which the deductible temporary differences may be applied.

Deferred tax liabilities are recognized for taxable temporary differences relating to investments in subsidiaries, jointly controlled entities and associates, except where the Enlarged Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences relating to investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when all of the following conditions are satisfied:

- the deferred taxes and liabilities are related to the income tax of the same tax payer within the Enlarged Company imposed by the same taxation authority; and,

- the tax payer within the Enlarged Company has a legally enforceable right to offset current tax assets against current tax liabilities.

21. Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1. Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current period.

2. Finance leases

The leased asset is initially recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

22. Connected parties

That an entity controlled solely or jointly or material influenced over by another party, or that two or more entities controlled solely or jointly by another party constitutes a connected party. Connected parties may be individuals or corporations. Companies under control of the same government but without any other connected party relation do not constitute a connected party for each other.

Connected parties of the Enlarged Company includes without limitation:

(1) The parent company of the Enlarged Company;

(2) Subsidiaries of the Enlarged Company;

(3) Companies under the control of the same parent company as the Enlarged Company;

(4) Investors jointly imposing influence over the Enlarged Company;

(5) Investors imposing material influence over the Enlarged Company;

(6) Joint ventures of the Enlarged Company, including subsidiaries thereof;

(7) Associated companies of the Enlarged Company, including subsidiaries thereof;

(8) Major investing individuals of the Enlarged Company and their immediate family members;

(9) Key management personnel of the Enlarged Company or its parent company and their immediate family members; and

(10) Other companies controlled or jointly controlled by major investing individuals or key management members of the Enlarged Company or their immediate family members.

23. Segment information

The Enlarged Company identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and reportable segments are determined on the basis of operating segments. An operating segment is a component of the Enlarged Company that satisfies all of the following conditions:

1. the component is able to earn revenues and incur expenses from its ordinary activities;

2. whose operating results are regularly reviewed by the Enlarged Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and

3. for which the accounting information on financial position, operating results and cash flows is available to the Enlarged Company.

Two or more operating segments sharing similar financial characteristics as well as sameness or similarities in the following aspects may be combined:

(1) Nature of each product or service;

(2) Nature of productive process;

(3) Categories of client receiving products or services;

(4) Manner of sales of products or rendering of services; and

(5) Effect of laws and administrative regulations on products produced and services provided.

24. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Enlarged Company terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognized, with a corresponding charge to current expenses when the Enlarged Company has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Enlarged Company unilaterally.

Except for offering compensations for terminating the employment relationships with employees, employee benefits are recognized as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

25. Dividend distribution

Cash dividend distribution is recognized as a liability in the period in which it is approved by the shareholders' meeting.

26. Current and deferred income tax

Save for Po Lian Development Company Limited, which is subject to income tax in Hong Kong, other entities of the Enlarged Company are subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Enlarged Company recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets and tax provision in the period in which such estimate is changed.

27. Changes in significant accounting policies and accounting estimates

(1) Changes in accounting policies

There are no changes in accounting policies in the Reporting Period.

(2) Changes in accounting estimates

There are no changes in accounting estimates in the Reporting Period.

(3) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the Reporting Period.

(II) Taxation

1. Main types of taxes and tax rates

Taxable item	Type	Tax rate
Income from sales of goods	Value-added ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance and construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%
Enterprise income tax	Taxable profit	15%, 16.5%, 25%

2. Preferential tax treatment and approval documents

Seven subsidiaries of the Enlarged Company, being Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Baiyunshan

Pan Gao Shou Pharmaceutical Co., Ltd. and Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., received the "Certificate of High/New Technology Enterprise", which was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau. A subsidiary of the Group, Guangxi Ying Kang Pharmaceutical Co. Ltd. received the "Certificate of High and New Technology Enterprise", which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau.

The certificates of the six subsidiaries (including Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GR200844000618, GR200844000446, GR200844000475, GR200844000599, GR200844000937, GR200844001238 respectively, were issued in December 2008 and the effective period is 3 years (2008 to 2010). The six companies above have passed the high/new technology enterprise recognition review in 2011 and on 23 August 2011 obtained new certificates numbering GF201144000520, GF201144000114, Gf201144000043, GF201144000298, GF201144000144 and Gf201144000400. The certificate of Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., numbering GR201044000004, was issued on 26 September 2010 and the effective period is 3 years. The certificate of subsidiary Guangxi Ying Kang Pharmaceutical Co., Ltd., numbering GR200945000085, was issued in November 2009 and the effective period is 3 years.

Pursuant to the relevant tax preference regulation of the PRC, the recognized New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2008, numbering GR200844000382 and GR200844000381 respectively with effective period of 3 years, from 2008 to 2010, during which their enterprise income tax rate was 15%. These two subsidiaries passed the high/new technology enterprise recognition review in 2011 and obtained certificates numbering GF201144000016 and GF201144000599 respectively with effective period extended for 3 years, from 2011 to 2013, during which their enterprise income tax rate was 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2009, numbering GR200944000225 and GR200944000224 respectively with effective period of 3 years, from 2009 to 2011, during which their enterprise income tax rate was 15%.

Except for the preferential tax treatment mentioned above, enterprises the Enlarged Company in the PRC pays the enterprise income tax in accordance with "PRC Enterprise Income Tax Law" and "Implementation Rules of PRC Enterprise Income Tax Law" and the applicable enterprise income tax rate is 25%. The applicable enterprise income tax rate of Po Lian, a subsidiary of the Enlarged Company, is 16.5% under the tax law of Hong Kong.

(III) Preparation of the profit forecast

This consolidated profit forecast was prepared based on operating results of the audited 2011 financial statements as audited by BDO China Shu Lun Pan CPAs LLP, with reference to production and operation plans and sale plan for 2012 of the Company as well as relevant information, including the development of the pharmaceutical market for the period in accordance with accounting policies and accounting estimates consistent with those adopted by the Company on prudent sake.

(IV) Key items of the profit forecast (amounts in RMB'0000)

1. Revenue forecast from principal operations

Items	Audited amounts for 2011	Forecasted amounts for 2012
Revenue from principal operations	12,138	12,292

The revenue forecast from principal operations of the Target Assets was made based on the projected sales volume and selling price of Po Lian. Among which, the sales volume were estimated based on historical data on actual sales volume for the previous years with reference to operation plans during the forecast period and achieved sales volume, taking into account the change trend on sales volume during the forecast period; the selling price was estimated based on actual selling price for the previous years with reference to the market price level, the change trend on supply and demand and pricing strategies of the group.

The revenue from principal operations of the Target Assets is mainly generated from trading of medicine. It is estimated that revenue in 2012 will increase to RMB122,920,000 from RMB121,380,000 in 2011, representing an increase of 1.27% which is close to that of last year.

2. Cost of sales forecast of principal operations

Items	Audited amounts for 2011	Forecasted amounts for 2012
Cost of sales of principal operations	11,693	11,787

The cost of sales forecast of principal operations of the Target Assets was made based on cost of sales forecast of purchase per unit and sales volume forecast.

It is estimated that the costs of sales of principal operations for 2012 will increase to RMB117,870,000 from RMB116,930,000 in 2011, representing an increase of 0.80%. It will be mainly due to that the expected increase in the revenue from principal operations, and the cost of sales of principal operations will increase accordingly.

3. Taxes and surcharges forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Taxes and surcharges	126	133

The taxes and surcharges of the Target Assets mainly include consumption taxes, business taxes, urban maintenance and construction taxes, education surcharges, local education surcharges and real-estate tax. The forecast amount for 2012 will increase by RMB70,000 compared to the actual amount in 2011, representing an increase of 4.87%. It is mainly due to the increase in operating revenue, resulting in the increase in estimated taxes and surcharges.

4. Revenue and costs forecasts from other operation

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Revenue from other operation	1,161	1,355
Expenses of other operation	105	105
Profit from other operation	1,057	1,251

The revenue from other operation of the Target Assets mainly include rental income, trademark licensing income and custody income of Wang Lao Ji Trademarks. The forecast amount for 2012 will increase by RMB1,940,000 compared to the actual amount in 2011, representing a increase of 16.70%, mainly due to:

(1) GPC expected its sales income will increase and the trademark licensing fee will increase accordingly;

(2) custody income of Wang Lao Ji Trademarks of RMB1,000,000 will be newly added in 2012.

The expenses of other operation of the Target Assets mainly represent depreciation charge of the leased properties. The forecast amount for 2012 will remain at the same level as that in 2011.

5. Selling and distribution expenses forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Selling and distribution expenses	5	5

The selling and distribution expenses of the Target Assets mainly represent other sales expenses of Po Lian from sales. As the forecast revenue from principal operations of sales will have no significant fluctuation to that of 2011, forecast selling and distribution expenses for 2012 will be basically the same as that of 2011.

6. General and administrative expenses forecast

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
General and administrative expenses	371	353
The main items are as follows:		
Staff salary	125	131
Depreciation and amortization expenses	81	81
Transaction taxes and charges	46	46

The general and administrative expenses of the Target Assets mainly include staff salary, depreciation and amortization charge and taxes and charges. The general and administrative expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans from staffing and wage, welfare, social insurance premiums and housing provident fund;

2) The depreciation and amortization charge are mainly depreciation of fixed assets and amortization of intangible assets. Amortization of intangible assets is estimated based on the original value of intangible assets, value change of intangible assets during the forecast period and adopted amortization policy; depreciation of fixed assets is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and adopted depreciation policy;

3) The transaction taxes and charges is estimated based on land use rights, building ownerships and execution of contracts.

4) It is estimated the general and administrative expenses for 2012 will decrease to RMB3,530,000 from RMB3,710,000 in 2011, representing a decrease of 4.97%. The main reasons are as follows: (i) average wage rises in general, and it is estimated that staff salary will increase; (ii) Entertainment expenses and travelling expenses are to be controlled within RMB950,000.

7. *Financial expenses forecast*

Items	**Audited amounts for 2011**	**Forecasted amounts for 2012**
Financial expenses	36	14
The main items are as follows:		
Interest income	-4	-4
Exchange gains and losses	14	-5

The financial expenses of the Target Assets mainly represent interest income and exchange gains or losses generated or incurred by Po Lian.

1) The interest income is estimated based on the average balance of bank deposits during the forecast period and bank demand deposit interest rate;

2) The exchange gains and losses are estimated based on actual situation in 2011 and estimated business operation during the forecast period. It is estimated that exchange rate of Renminbi will decrease in 2012 and exchange losses will be reduced.

8. Assets impairment losses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Bad debt	8	0
Total	8	0

The assets impairment losses are estimated in accordance with the accounting policies of Po Lian, among which,

The bad debt are estimated based on the expected amounts receivable with reference to the bad debt provision policy.

As accounts receivable at end of 2012 is estimated to have no significant fluctuation to that of 2011, no additional bad debt is estimated for 2012.

9. Investment income forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Income from long-term equity investment under cost method	625	625
Total	625	625

Investment income of the Target Assets represents cash dividends distributed by Baxter, which is estimated to be the same in 2012 as that of 2011.

10. Income tax expenses forecast

Items	Audited amounts for 2011	Forecasted amounts for 2012
Income tax expenses	224	261

It is estimated that the income tax expenses for 2012 will increase to RMB2,610,000 from RMB2,240,000 in 2011, representing an increase of 16.70%. The main reasons include the increase of the Company's profit, thereby resulting in the increase of enterprise income tax required to be paid.

(V) Main issues affecting achievement of profit forecast and measures to be taken

The profit forecast of the Company has been taken into account of factors in all respects on basis of prudent sake. However, given that the assumptions upon which the profit forecast is based are uncertain, the Company would like to remind that investors should not place undue reliance on such information when making their investment decisions and it is advised to pay attention to the following issues:

1. Policy risk

Medicines are special type of consumer goods relating to the people's life, health and security. There are a variety of medicines in category with a higher science and technology barrier in the industry. The manufacture, circulation and consumption of medicine have been strictly supervised by the State. Therefore, the pharmaceutical industry has been considered as one of main industries which has an important effect on the national economy development, and being largely affected by change of national policy. On 7 April 2009, the State Council issued "Recent Key Implementation Program for the Medical and Health System Reform"(2009-2011), in which it has determined a reform direction for national medical security system and its implementation steps in future years, which will bring a profound effect on the development of the pharmaceutical industry. On 18 August 2009, China officially released "Implementation Opinions Regarding Establishment of National Essential Medicines System" and "National Essential Medicines List", thereby formally commencing the construction work for National Essential Medicines List. It has created a good policy environment for continuous and fast development of the pharmaceutical market.

Therefore, if the national macro economic situation, the industrial policies in pharmaceutical industry and national and local regulations have been changed, they will directly affect pharmaceutical industry sentiment, and thus may impact on operating results of the Target Assets in future.

2. *Operation risk*

(1) Market competition risk

The pharmaceutical industry in which the Company operates is a perfect market competitive industry. There are a variety of medicines types and categories, with high research and development expenses, long cycle and being a fully competitive market; and currently, there are a number of issues in the pharmaceutical industry, such as low level redundant construction in manufacture of medicines, low product technology, uneven quality of operators and complex of medicines circulation channels. If some enterprises take a substantial incentive or price reduction measures for surviving, it will have an impact on the operating results of the Company. At the same time, if the Company can't continuously rationalize its product mix, expand its distribution networks, enhance its technology level and strengthen its comprehensive competitive capacity, it will be in an unfavorable position under a keen competitive environment.

(2) Product price limitation risk

The prices of medicines are controlled by the State. The State often makes new requirements in medicine price policy and medicine price control to restrict medicine pricing. The prices of medicines manufactured and distributed by the Company are mostly within price range controlled by the State, and the corresponding change on price policy will have an impact on the operation and profit of the Company. The National Development and Reform Commission has adjusted prices of medicines in several times since 1998, covering a variety of common medicines, mainly Chinese and western medicines. The price reduction trend will continue to remain for a considerable period in the PRC in the future, and the overall profit margin of the industry may be continuously declined, so the profitability of the Company's pharmaceutical operation will also be reduced.

(3) Raw materials price fluctuation risk

The main raw materials of the Company include various bulk pharmaceuticals and Chinese raw medicine, and it requires procurement of about 1,000 species of bulk pharmaceuticals and Chinese raw medicine each year. The unit price of bulk pharmaceuticals is mainly affected by domestic ex-factory price, while the unit price of Chinese raw medicine is affected by the domestic prices of agricultural products. The price fluctuation of raw materials increases the Company's difficulties on control of production costs and management, thus increasing its operation risk.

(4) Medicines life-cycle risks

The research and development cycle of medicines is relative long, the life cycle of medicines is gradually shortened as affected by various factors like pharmacological value, side effect, the human body resistance time and development and launching cycle of similar new medicines. At the same time, once a protection period for new medicines had expired after launching, they will be affected by a plenty of generic medicines. Therefore, various medicines currently manufactured by the Company are affected by each of its product life cycles.

(5) Risk for research and development of new specie of medicine

The State has made strict requirements on research and development of new medicines. The development of new medicines generally divides into four stages, being preclinical study, application of clinical approval, clinical study and new medicine certificate, and application of production approval. Each stage is subject to strict requirements of laws and regulations. Among the four stages, the preclinical studies for new medicine include preparation technique, physical and chemical properties, purity, method of assay, prescription selection, form of medicine, stability, quality standard, pharmacology, toxicology and pharmacokinetics. It will be generally obtained a new medicine certificate for medicine upon approval from the State Food and Drug Administration after completion of phase III clinical trials. However, enterprise or workshop will be permitted to produce new medicine only after it obtained Pharmaceutical Production Enterprise License and met the GMP related requirements with issue of approval number. As such, the development of new medicine has characteristics of long cycle, greater difficulty and high risk. If the development of new medicine is unsuccessful, it will have an impact on production of subsequent new products.

3. Other risks

The Company might have an adverse impact arisen from other factors which are beyond the control of the Company like politics, economy and natural disasters.

For the above issues, the Company will take the following measures accordingly:

(1) Keep up with the national macro policy trend, study in-depth the industry development trend, promptly obtain the market information, fully understand the consumer demand, establish a rapid response mechanism, improve market analysis and response ability, really focus

on customer demand, speed up the development and launching of new products, further rationalize the Company's product mix, and increase the market competitive capacity of the Company.

(2) The investment of project will adhere to the principle of acting according to its ability and measuring expenditure according to its income, overall planning, emphasis on key aspects, focus of quality, pursuit of efficiency, rational investment; fully make investigation and study, and feasibility demonstration to increase the scientific decision-making ability.

(3) Actively introduce advanced technologies and train management personnel, increase the investment in research and development, and continuously enhance the Company's independent research and development capacity and technology innovation ability.

(4) Proactively expand the market, enhance marketing service ability and level, rationalize sale networks, innovate marketing mode, strengthen efforts on brand promotion, strive for improving the image of the Company and its brands, increase market share of the Company's products.

(5) Improve the Company's corporate governance level, strengthen internal management, increase overall operational efficiency of the Company, enhance the ability to avoid risk.

(VI) Other significant events description

This consolidated profit forecast report is solely to be used by GPC for the major assets reorganization in respect of its absorption and merger of BYS by share swap and acquisition of assets of GPHL, which was compiled under the requirements of Administrative Rules on Major Asset Reorganization of Listed Companies issued by the China Securities Regulatory Commission. It is solely to be used by GPC for application and approval of such matters with the China Securities Regulatory Commission and disclosed on the website of The Stock Exchange of Hong Kong Limited.

Guangzhou Pharmaceutical Company Limited
15 June 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

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Comfort Letter for Profit Forecast

Xin Kuai Shi Bao Zi [2012] 410253
(信會師報字[2012]第410253號)

18 June 2012

To Guangzhou Pharmaceutical Company Limited

We have been engaged to review the calculations and accounting policies adopted in the consolidated profit forecast report for the year 2012 (hereinafter the ″Profit Forecast of Target Assets″) of Target Assets through issuance of shares by Guangzhou Pharmaceutical Company Limited (hereinafter the ″Company″, together with its subsidiaries, the ″Group″) for the year ending 31 December 2012. The Profit Forecast is set out in the announcement of the Company dated 18 June 2012, for which the directors of the Company are solely responsible.

We conducted our work in accordance with the ″Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants - Audit of Forecasted Financial Information″ issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the directors of the Company based on the financial information of Target Assets as at 31 December 2011, which is set out in the Announcement.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the Directors of the Company as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Group in its financial statements for the year ended 31 December 2011.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Wu Changhua

Certified Public Accountant of China: Pan Wenzhong

Shanghai, the PRC

(b) Letter from the financial advisers

CFSG

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

18 June 2012

The Board of Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
The PRC

Dear Sirs,

Re: Guangzhou Pharmaceutical Company Limited (the "Company")
– Very substantial acquisitions and connected transactions
(I) Involving Major Assets Reorganization: (A) Absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd; and (B) Acquisition of Target Assets from Guangzhou Pharmaceutical Holdings Limited; and (C) Compensation for profit shortfall; (II) Trademark custody; (III) Profit forecast in relation to the Major Assets Reorganization prepared under CASBE; and (IV) Profit forecasts underlying the valuation of certain Target Assets

We refer to the profit forecast of the Target Assets (the "**Target Assets Profit Forecast**") for the year ending 31 December 2012 prepared by the Company and reviewed by BDO China Shu Lun Pan CPAs LLP ("**BDO**") in relation to the Major Assets Reorganization as set out in the announcement dated 18 June 2012 issued by the Company (the "**Announcement**"). Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Target Assets Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Target Assets Profit Forecast has been made. We have also considered the letter addressed to the Directors from BDO dated 18 June 2012 regarding the accounting policies and calculations upon which the Target Assets Profit Forecast has been made.

On the basis of the foregoing, we are of the opinion that the Target Assets Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Celestial Capital Limited
Daphne Ng
Managing Director

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Richard Campbell-Breeden
Managing Director

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) 2013 PROFIT FORECAST OF THE ENLARGED GROUP

Guangzhou Pharmaceutical Company Limited
The Audit Report of Profit Forecast and the Consolidated Profit Forecast Statement
For the year ending 31 December 2013

Contents Page

a. THE AUDIT REPORT OF PROFIT FORECAST

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Ref. No.: Xin Kuai Shi Bao Zi [2012] No. 410317
(信會師報字[2012]第410317號)

24 August 2012

THE AUDIT REPORT OF PROFIT FORECAST

To All Shareholders of Guangzhou Pharmaceutical Company Limited:

We have audited the accompanying consolidated profit forecast report for 2013 prepared by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of GPC is responsible for this forecast and the assumptions upon which it was based. Such assumptions have been disclosed in "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2013 of GPC".

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the forecast. Also, we believe this forecast has been properly compiled based on such assumptions, which has been presented in accordance with the requirements of basis of preparation in the section "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2013 of GPC".

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information.

This report is solely for the information of GPC in connection with its submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the major assets reorganization involving the absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap and acquisition of the assets of Guangzhou Pharmaceutical Holdings Limited by GPC, and should not be used for any other purposes.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Huang Weicheng

Certified Public Accountant of China: Wu Changhua

Shanghai, the PRC

b. THE CONSOLIDATED PROFIT FORECAST STATEMENT

Consolidated Forecasted Income Statement

Prepared by Guangzhou Pharmaceutical Company Limited *Unit: RMB'0000*

ITEMS		*Note*	Forecasted amounts for 2012	Forecasted amounts for 2013
I.	**Revenue from principal operations**	*(V)1*	**1,001,303**	**1,181,586**
	Less: Cost of sales of principal operations	*(V)2*	698,480	829,856
	Less: Taxes and surcharges of principal operations	*(V)3*	9,484	10,547
II.	**Profit from principal operations**		**293,339**	**341,183**
	Add: Revenue from other operation	*(V)4*	14,035	14,193
	Less: Expenses of other operation	*(V)4*	3,645	3,893
	Less: Selling and distribution expenses	*(V)5*	134,058	156,035
	Less: General and administrative expenses	*(V)6*	106,748	119,243
	Less: Financial expenses	*(V)7*	6,733	6,841
	Less: Assets impairment losses	*(V)8*	756	640
	Add: Profit arising from changes in fair value		0	0
	Add: Investment income	*(V)9*	25,200	32,227
III.	**Operating profit**		**80,634**	**100,951**
	Add: Non-operating income	*(V)10*	3,242	2,453
	Less: Non-operating expenses	*(V)11*	1,547	1,311
IV.	**Total profit**		**82,329**	**102,093**
	Less: Income tax expenses	*(V)12*	11,690	14,354
V.	**Net Profit**		**70,639**	**87,739**
	(1) Attributable to owners of the parent company		67,043	83,468
	(2) Minority interest		3,596	4,271

c. THE CONSOLIDATED PROFIT FORECAST REPORT

Guangzhou Pharmaceutical Company Limited
Consolidated Profit Forecast Report for 2013

NOTE: The consolidated profit forecast report for 2013 of Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC" or the "Company" or the "Enlarged Company") was prepared based on the best estimates and assumptions, and there are no intentional uses of unreasonable assumptions, misleading statements and material omissions.

The preparation of this profit forecast report was made on prudent sake, but since the assumptions upon which the profit forecast was based are uncertain, investors should not place undue reliance on such information when making their investment decisions.

I. GENERAL INFORMATION ON THE COMPANY

(I) General Information on GPC

1. Establishment of the Company and the history development of its share capital

(1) Establishment

As approved by the Circular Ti Gai Sheng [1997] No. 139（體改生[1997]139號）issued by the State Commission for Restructuring the Economic Systems（國家經濟體制改革委員會）, GPC was a joint stock limited liability company founded by Guangzhou Pharmaceutical Holdings Limited ("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 business license on 1 September 1997 and the registered number is 4401011101830. Total share capital of the Company on its establishment was RMB513.0 million, which was 100% owned by GPHL.

(2) The initial public offering and listing of H shares

As approved by the Circular Ti Gai Sheng [1997] No. 145（體改生[1997]145號）issued by the State Commission for Restructuring the Economic Systems（國家經濟體制改革委員會）and Circular Zheng Wei Fa [1997] No. 56 證委發[1997]56號）issued by the Securities Regulatory Commission of the State Council（國務院證券委員會）, the Company issued and listed 219,900,000 shares in Hong Kong Stock Exchange (H shares) in October 1997. After its completion of issue, total share capital of the Company increased to 732,900,000 shares, of which 513,000,000 shares were held by GPHL, representing 70.00% of its total share capital.

(3) Additional issue of A shares which are listed on the Shanghai Stock Exchange

As approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed on the Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar. and stock code is 600332. After its completion of such issue, total share capital of the Company increased to 810,900,000 shares, of which 513,000,000 shares were held by GPHL, representing 63.26% of its total share capital.

As of 31 December 2011, total share capital of GPC was 810,900,000 shares, and its share capital structure was shown in the following table:

Class of shares		Number of shares	Percentage of total share capital
I.	GPHL and its related parties		
	GPHL (A shares)	390,833,391	48.20%
II.	Public		
	A shares	200,166,609	24.68%
	H shares	219,900,000	27.12%
	Total share capital	**810,900,000**	**100.00%**

2. Business Scope

The Company and its subsidiaries are principally engaged in the development and manufacture of Chinese patent medicine, manufacture of bio-tech products, health medicine and health drinks, wholesale, retail, import and export of Chinese and western pharmaceutical products and medical apparatus, and assets operation, investment, development, financing and other business operations.

(II) Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (hereinafter as "BYS")

1. Establishment of the company and its historical changes on its share capital

(1) Establishment

As approved by the Circular Sui Gai Gu Zi [1992] No. 11（穗改股字[1992]11號）issued by the Guangzhou City Commission for Restructuring the Economic Systems（廣州市經濟體制改革委員會）, BYS was established as a limited liability joint stock company based on original five pharmaceutical factories (including Guangzhou Baiyunshan Pharmaceutical General Factory（廣州白雲山製藥廠）) under Guangzhou Baiyunshan Enterprise Group Company Limited（廣州白雲山企業集團）("Baiyunshan Group"), and was established as a standardized joint stock enterprise as confirmed by the Circular Gai Sheng [1992] No. 31（改生[1992]31號）issued by the State Commission for Restructuring the Economic Systems（國家體改委）in 1992. Total share capital of BYS on its establishment was RMB108,000,000.

(2) The initial public offering and listing

In 1993, as approved by the Circular Zheng Jian Fa Shen Zi (1993) No. 31（證監發審字(1993)31號）issued by China Securities Regulatory Commission and the Circular Shen Zheng Suo Zi No. 265（深證所字第265號）issued by Shenzhen Stock Exchange, BYS issued 36,000,000 A shares to the public, which are listed on the Shenzhen Stock Exchange, and stock code is 000522. After its completion of this public offering, total share capital of BYS increased to 144,000,000 shares, of which 90,000,000 shares were held by the State, 36,000,000 shares were held by the public and 18,000,000 shares were held by its internal staff.

(3) Bonus and dividend payment and allotment of shares

In May 1994, BYS implemented a bonus and dividend payment proposal for 1993, being issue of 10 shares and payment of RMB2 for every 10 shares, and its total share capital increased to 288,000,000 shares.

In April 1995, BYS implemented a share allotment proposal, being allotment of 1.5 shares for every 10 shares at allotment price of RMB3 per share, which resulted in allotment of a total of 21,375,500 shares, and its total share capital increased to 309,375,500 shares.

In July 1995, BYS implemented a bonus proposal for 1994, being issue of 1 share for every 10 shares, and its total share capital increased to 340,313,050 shares.

In July 1997, BYS implemented a bonus proposal for 1996, being issue of 1 share for every 10 shares, and its total share capital increased to 374,344,355 shares.

(4) Custody and reorganization

Approved by the Guangzhou Municipal Government, in November 2000, Baiyunshan Group, the former controlling shareholder of BYS, was first escrowed and then reorganized by GPHL. As approved by the Circular Cai Qi (2001) No. 433（財企(2001)433號）issued by the Ministry of Finance of the PRC, on 2 July 2001, the State-owned Assets Supervision and

Administration Bureau of Guangzhou Municipality transferred all of 108,900,000 state shares in BYS held by it to GPHL, thereby GPHL became the largest shareholder of BYS.

As judged by the First Intermediate People's Court of Beijing Municipality, in May 2004, 57,000,000 shares of 99,000,000 state-owned legal person shares in BYS held by Baiyunshan Group were ordered to be used to set off amounts owed to GPHL. As such, shares in BYS held by GPHL increased to 165,900,000 shares, representing 44.32% of the total share capital of BYS.

(5) Share conversion scheme

Pursuant to the resolution of the first extraordinary general meeting in 2005 and the revised articles of association of BYS, BYS, based on the original 156,544,355 tradable shares, issued new shares 94,709,334 through the conversion for capital reserve and transferred such shares for free to all holders of tradable shares whose name appeared on the register of members on the record date in proportion of 6.05 shares for every 10 shares. In April 2006, after completion of share conversion scheme, total share capital of BYS increased to 469,053,689 shares, of which 165,900,000 shares were held by GPHL, representing 35.37% of the total share capital of BYS.

As of 31 December 2011, the total share capital of BYS was 469,053,689 shares, and its share capital structure was shown in the following table:

Class of shares	Number of shares	Percentage of total share capital
I. GPHL and its related parties		
GPHL	166,900,000	35.58%
II. Public shares	302,153,689	64.42%
Total share capital	**469,053,689**	**100.00%**

2. *Business Scope*

BYS and its subsidiaries are principally engaged in the research and development, manufacture and sales of Chinese and Western patent medicine, active pharmaceutical ingredients, medicine for external use, child medicine and health medicine; commerce and materials supply and sales; import and export of commodities and technologies (other than those restricted or forbidden by the

State); operation of processing imported goods and "Three-plus-one" business (i.e. processing and compensation trade) and manufacture of type II clinical testing and analytical apparatus and diagnosis reagent, etc.

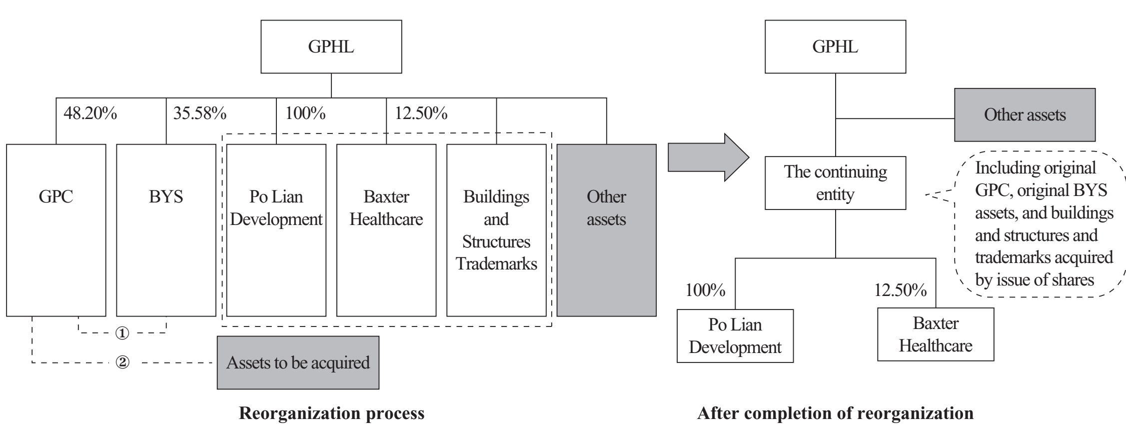
(III) General information on GPHL

GPHL is a major wholly state-owned conglomerate operated by Guangzhou Municipal Government, its business scope include: investment and management of the State-owned assets, sale and manufacturing of pharmaceutical intermediaries, 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, as well as medicine related import and export and real estate development.

II. PROPOSED MAJOR ASSETS REORGANIZATION PLAN

(I) Summary of major assets reorganization plan

This major assets reorganization proposal for GPC includes: (1) GPC will absorb and merge with BYS through share swap. After completion of the transaction, the status of BYS as a legal person will be cancelled, and its assets, liabilities, interests, businesses and staff will all be consolidated into GPC; and (2) GPC will issue its A shares to GPHL as payment of consideration to acquire relevant buildings and structures, trademarks, 100% equity interests in Po Lian Development Company Limited, 12.50% equity interests in Baxter Healthcare (Guangzhou) Company, Ltd. (the assets mentioned above collectively as "Target Assets"). The items of the Target Assets had been finally determined on the second board meeting for consideration of major assets reorganization plan. Through such transaction, GPHL will take GPC as a platform to realize the listing of its principal businesses as a whole. After completion of this reorganization, GPC, as an only listed pharmaceutical company of GPHL, will change its company name. the reorganization process is shown as the following chart:



(II) General information on Target Assets

1. General information on Po Lian Development Company Limited (hereinafter as "Po Lian")

Chinese name:	保聯拓展有限公司
English name:	PO LIAN DEVELOPMENT COMPANY LIMITED
Date of incorporation:	15 January 1988
Registered Address:	Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
Authorized and issued share capital:	HK$5,000,000
Business scope:	operation and investment of state-owned assets contributed by members of GPHL. Its main objective is expanding the import and export of GPHL's pharmaceutical products and developing the international market; operating the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products; introduces foreign capital and advanced technologies for pharmaceutical industry in Guangzhou; conducting compensation trade and processing on customer-supplied materials; providing the economic information on pharmaceutical technologies to facilitate the development of pharmaceutical industry in Guangzhou.

As approved by the Circular Sui Wai Jing Mao [1988] No. 125（穗外經貿[1988]125號）issued by Foreign Economic Relation and Trade Commission of the People's Government of Guangzhou Municipality（廣州市人民政府對外經濟貿易委員）and the Circular Sui Wai Jing Mao Ji Qing (1990) No. 07（穗外經貿(1990)07號）issued by the Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau（廣州市清理整頓駐港澳機構領導小組）, Po Lian is a Hong Kong company wholly-owned, incorporated and operated by GPHL. Po Lian was incorporated as a limited liability company under the Companies Ordinance on 15 January 1988 in Hong Kong. Its authorized and issued share capital was HK$1,000,000. The authorized and issued share capital of Po Lian was increased to HK$5,000,000 in October 1998.

Since its incorporation, GPHL has held 100% equity interest in Po Lian.

2. ***General information on 12.50% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. (hereinafter as "Baxter")***

Chinese name:	廣州百特醫療用品有限公司
English name:	BAXTER HEALTHCARE (GUANG ZHOU) COMPANY, LTD.
Date of registration:	13 August 1993
Address of registration:	Jiaoyuan Road, Dongji Industrial District, Guangzhou Economic and Technological Development Zone
Registered capital:	USD11,000,000
Business scope:	manufacturing large-volume parenteral solution, solution (for external use), certain class II 6845 and class III 6845 extracorporeal circulation and blood processing equipment, class II 6866 and class III 6866 medical polymer materials and products, 3-layer co-extrusion bags, and micro caps for iodine solution, and sales of the products of Baxter

Baxter was established on 13 August 1993 with a registered capital of USD10,000,000. It was jointly founded by Baxter Global Trade Company (美國百特世界貿易公司), Guangzhou Pharmaceutical Development Company and Guangzhou Economic and Technological Development Zone Industrial Development Corporation in proportion of capital contribution of 75%, 12.5% and 12.5% respectively.

In 1999, Guangzhou Pharmaceutical Development Company transferred its entire equity interest amounting to USD1,250,000 in Baxter to GPHL at the same price; Baxter Global Trade Company transferred its entire equity interest amounting to USD7,500,000 in Baxter to its related company, Baxter (China) Investment Company Limited.

In 2000, the registered capital of Baxter has been changed to USD11 million. On 20 May 2002, Guangzhou Economic and Technological Development Zone Industrial Development Corporation and Baxter (China) Investment Company Limited entered into a shareholding transfer agreement, pursuant to which Guangzhou Economic and Technological Development Zone Industrial Development Corporation transferred its 12.5% equity interest in Baxter to Baxter (China) Investment Company Limited, and the parties to the joint venture, Baxter, had been changed to GPHL and Baxter (China) Investment Company Limited, of which GPHL held its 12.5% equity interest, i.e. contributed USD1,375,000; Baxter (China) Investment Limited held its 87.5% equity interest, i.e. contributed USD9,625,000.

As of the issue date of this report, the paid-up capital of Baxter was USD11,000,000, and GPHL held its 12.5% equity interest.

3. Buildings and structures

The general information on the buildings and structures to be acquired by GPC by issue of shares is shown as following table:

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
			(m^2)		
1	45-1 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491222	1,022.97	An office building jointly occupied by GPHL and GPC	yes
2	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036340	3,432.18	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
3	Rear Block, 282 Beijing Road, Yuexiu District	Yue Fang Di Zheng Zi No. C6190029	215.51	Leased to Cai Zhi Lin for sales outlet	Yes
4	45 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491223	2,775.59	An office building jointly occupied by GPHL and GPC	Yes
5	45-2 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491224	1,874.08	An office building jointly occupied by GPHL and GPC	Yes
6	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143847	694.29	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
7	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143846	272.89	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
8	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143845	648.28	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
9	2nd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143849	4,044.32	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
10	1-2/F, 3rd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143848	5,041.21	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
11	1-2/F, 88 Beiyue Paifang Road, Tancun, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036348	2,778.24	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
12	Warehouse of Guangzhou Pharmaceuticals Corporation, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yue Fang Di Zheng Zi No. C5932126	3,524.68	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
13	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942848	684.44	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
14	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942849	414.96	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation

Serial No.	Address/Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
15	2/F of East Tower, Rear Block, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932123	310.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
16	1/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932124	82.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
17	2/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932125	104.07	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
18	1-2/F, 118 West Heping Road, Liwan District	Sui Fang Zheng Zi No. 0059002 Sui Di Zheng Zi No. 0093202	4,224.48	A warehouse occupied by Guangzhou Pharmaceuticals Corporation, intended to be used as office	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
19	Unit 2, 12 Saiba Road, Liwan District	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	2,464.36	Office building for factory of Cai Zhi Lin	Yes
20	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	Yue Fang Di Zheng Zi No. C6465931	293.21	Sales outlet for Cai Zhi Lin	Yes
21	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	99.34	Sales outlet for Cai Zhi Lin	Yes

4. *Trademarks*

In this major assets reorganization, GPHL has a total of 421 registered trademarks, of which 364 trademarks were registered within the PRC, and 57 trademarks were registered overseas. Save for 29 Wang Lao Ji series trademarks and other 4 trademarks exclusively used by Guangzhou Wang Lao Ji

Pharmaceutical Co., Ltd. under certain conditions upon license of GPHL (in aggregate 33 trademarks), all other 388 registered trademarks was included in Target Assets.

Among the domestic trademarks to be injected into the listed company by GPHL, 277 trademarks are associated trademarks or defensive trademarks, only registered for the group's image, defensive purpose, historical development or arisen as derivative registration. They have no direct impact on revenue of products or directly generate any revenue from licensing such trademarks. They only have relatively lower value, and pre-evaluation of value is only registration cost. Their consideration is nil, and not listed in detail herein. For trademarks which GPHL has licensed GPC to use, 54 trademarks of which have higher reputation with higher valuation, including six series being "Chen Li Ji", "Pan Gao Shou", "Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang". The detailed information are shown as the following table:

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
Xing Qun series trademarks					
1	GPHL	155258		Western medicine	28 February 2013
2	GPHL	150105		Ruihuayou	28 February 2013
3	GPHL	150106		Pilulae viticis cannabifolii	28 February 2013
4	GPHL	848199	元 神	Angelica south jujube tea powder	20 June 2016
5	GPHL	256482		Nourishing beverage	19 July 2016
6	GPHL	850196	怡生	Human medicine	27 June 2016
7	GPHL	835119		Bird's nest soup with crystal sugar	27 April 2016

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
Zhong Yi series trademarks					
8	GPHL	781270	中一	Mineral water, chrysanthemum tea, alcohol free beverage, alcohol free fruit juice beverage	6 October 2015
9	GPHL	661178		Guiling Jelly	13 October 2013
10	GPHL	713652		Alcohol free beverage, soda-water, mineral water, solid beverage	6 November 2014
11	GPHL	588610		Human medicine	29 March 2022
12	GPHL	708835		Human medicine	6 October 2014
13	GPHL	170359		Chinese medicine	28 February 2013
14	GPHL	139307		CPM	28 February 2013
15	GPHL	171212		Chinese medicine	28 February 2013
16	GPHL	339914		Chinese and western patent medicine	19 February 2019
Chen Li Ji series trademarks					
17	GPHL	651324		Chinese medicine and patent medicine	27 July 2013
18	GPHL	284093	陳李濟	Chinese medicine and patent medicine	19 April 2017

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
19	GPHL	822299		Medical nutrition beverage, medical nutrition foods, medical nutrition food products, medicated candy, baby foods, sanitary protection, haemostatic ointment, slimming, headache medicine pen	13 March 2016
20	GPHL	605208		CPM	9 August 2012
21	GPHL	147894	杏和堂	Chinese medicine	28 February 2013
22	GPHL	815038		Foods, including Bean products, coffee, and sugar, seasoning	13 February 2016
23	GPHL	807121	星 馬	Foods, including meat, processed meat and fish, can, preserved foods, milk products	13 January 2016
Qi Xing series trademarks					
24	GPHL	145345		Chinese medicine	28 February 2013
25	GPHL	248428		CPM	14 April 2016
26	GPHL	798245	QIXING	CPM for human	13 December 2015
27	GPHL	812250		Human medicine	6 February 2016
28	GPHL	653407		Human medicine	13 August 2013
29	GPHL	653423	天凤	Human medicine	13 August 2013
30	GPHL	652155	奇星	Chinese medicine, patent medicine (Human medicine)	6 August 2013

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
31	GPHL	653424	四方	Human medicine	13 August 2013
32	GPHL	653425	新雪	Human medicine	13 August 2013
33	GPHL	626102		Chinese medicine, patent medicine	19 January 2013
34	GPHL	723369	奇星	Human medicine	6 January 2015
35	GPHL	990820	QIXING	Medical nutrition food products, medical nutrition beverage, medicinal beverage, medical nutrition products, medicine candy, raw medicine (for human), human medicine and herbal tea	27 April 2017
Jing Xiu Tang series trademarks					
36	GPHL	135276		Veterinary medicine and etc., CPM	28 February 2013
37	GPHL	268996		Western medicine	19 November 2016
Pan Gao Shou series trademarks					
38	GPHL	171203	潘高寿	CPM	28 February 2013
39	GPHL	246145	高寿 GAOSHOU	Chinese medicine, patent medicine	14 March 2016
40	GPHL	786868	PGS	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
41	GPHL	717049	PGS	Human medicine	27 November 2014

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
42	GPHL	786867	PGS	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
43	GPHL	689167	PGS 潘高壽	Human medicine	13 May 2014
44	GPHL	782783	潘高壽	Beverage dispenser, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
45	GPHL	782784	潘高壽	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
46	GPHL	786918	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
47	GPHL	786928	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
48	GPHL	795079	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	27 November 2015
49	GPHL	801146	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	20 December 2015
50	GPHL	689166	PGS 潘高壽	Human medicine	13 May 2014
51	GPHL	781193	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015

No.	Registered owner	Trademark registration certificate no.	Trademark name	Products approved to use	Expiration date of registration
52	GPHL	782782		Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, syrup for making beverage, grape juice, lemon juice	13 October 2015
53	GPHL	782781		Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, syrup for making beverage, grape juice, lemon juice	13 October 2015
54	GPHL	780863		Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015

III. BASIS OF PREPARATION AND PRINCIPAL ASSUMPTIONS FOR THE CONSOLIDATED PROFIT FORECAST FOR 2013 OF GPC

According to the requirements of the Administrative Rules on Major Asset Reorganization of Listed Companies (No. 53 Directive of China Securities Regulatory Commission ("CSRC")) and Rule No. 26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly – Application Documents for the Material Asset Reorganisations of Listed Companies issued by CSRC, the Company has prepared 2013 consolidated profit forecast for the major asset reorganization plan as set out in Note II above.

This profit forecast report has been prepared based on the operating results of the audited 2011 pro forma financial statements (including the Company, BYS and the Target Assets) of the Company as audited by BDO China Shu Lun Pan CPAs LLP, in light of 2013 production and operation plan, sales plan of the Company, BYS and the Target Assets as well as the relevant information, including the development of the pharmaceutical market for the period, on the basis of prudent sake and excluding the effect of other factors beyond the control of the Company.

The accounting policies and accounting estimates used in preparing the profit forecast has complied with the existing laws, regulations of the State and the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, and are consistent with the accounting policies and accounting estimates adopted by the Company in all material aspects.

1. Major assumptions in the preparation of profit forecast:

1.1 There will not be any significant changes in the existing government policies and political, legal, fiscal, market or economic conditions in the PRC, Hong Kong Special Administrative Region or any countries/regions in which the Enlarged Group carries on its business, or any other countries/regions that may have significant impact on its businesses.

1.2 There will not be any material adverse changes in the existing state and local laws, rules, or regulations in the PRC, Hong Kong Special Administrative Region or any countries/ regions in which the Enlarged Group carries on its business, or with which the Enlarged Group has any arrangement or agreement with any parties operates therein.

1.3 There will not be significant changes in the prospects of the Enlarged Group and the industry it operates and the market conditions for the sales of product and provisions of services by the Enlarged Group.

1.4 There will not be any material delay in the production schedules, operational projects and capacity expansion projects planned by the Enlarged Group.

1.5 There will not be any material changes in the market prices of the pharmaceutical-related raw materials and the labor cost in the PRC.

1.6 There will be no interruption of operations that will adversely affect the Enlarged Group as a result of shortage of supply of raw materials, which are beyond management's control.

1.7 There will not be any significant change in the current inflation rates, interest rates and foreign currency exchange rates in the business environments that the Enlarged Group operates.

1.8 There will not be any significant changes in the taxation system and relevant tax bases, tax rates and preferential tax applicable to the Enlarged Group in the PRC, Hong Kong Special Administrative Region or any country or territory in which the Enlarged Group carries on its business.

1.9 The Enlarged Group and the operation of the Enlarged Group will not be severely affected or interrupted by any force majeure events or any unpredictable factors, and any unpredictable reasons that are out of the control of the Directors.

1.10 There will be no significant deviation of the weighted average selling price of all types of products offered by the Enlarged Group under normal operations in 2013, after taking into account of the sales discounts and rebates, from that of 2011.

1.11 Assuming the unrealized profits from inter-company transactions and connected transactions of the Enlarged Group included in the inventory balance before elimination for consolidation for the year ending 31 December 2013 will be consistent with those for the year ended 31 December 2011.

1.12 Assuming the Company completed the proposed major assets reorganization transactions before 31 December 2011 in the calculation of the net profit attributable to the owners of the parent company after this time in this profit forecast report.

1.13 Other than such proposed major assets reorganization,, there will be no material changes in the existing structure of the Enlarged Group and the equity interests of the Company in its major subsidiaries, joint ventures and associates for the year ending 31 December 2013.

1.14 Assuming certain subsidiaries of the Enlarged Group will be able to renew their high-tech enterprise certifications which expired in 2011 and 2012 and will continue to calculate and pay the enterprise income tax at a rate of 15% in the PRC in 2013. Please refer to explanation in note (II) 2. Preferential tax treatment and approval documents in Section IV of this report for details.

1.15 Assuming there will be no breaches of laws by the Enlarged Group and the management of the Enlarged Group, which will cause any material adverse impact on the Enlarged Group.

1.16 Assuming that the Company excludes Guangzhou WangLaoJi Great Health Industry Company Limited（廣州王老吉大健康產業有限公司）and any revenue, cost and expenses in relation to the operation of "red can" WangLaoJi herbal tea in 2012 and 2013.

2. The forecast figures of 2012 in the consolidated forecast income statement represented the forecast figures extracted from the consolidated profit forecast report of 2012 issued by BDO China Shu Lun Pan CPAs LLP. For details, please refer to Xin Kuai Shi Bao Zi [2012] No. 410250（信會師報字[2012]410250號）.

IV. EXPLANATIONS ON PROFIT FORECAST

(I) Significant accounting policies, accounting estimates and preparation of consolidated financial statements

1. Accounting period

The accounting year of the Company starts on 1 January and ends on 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

3. Accounting treatments for business combinations involving entities under and not under common control

(1) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(2) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

4. Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Enlarged Company including all subsidiaries.

Subsidiaries are consolidated from the date on which the Enlarged Company obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Enlarged Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Enlarged Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Enlarged Company are recognized as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

5. Determination of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(2) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

7. Financial instruments

(1) Financial Assets

1) Classification of the financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Enlarged Company's intention and ability to hold the financial assets.

① Financial assets carried at fair value through profit or loss for the current period

Financial assets carried at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

② Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

③ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

④ Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

2) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Enlarged Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

3) Impairment of financial assets

The Enlarged Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Enlarged Company shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

In the case of a decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in equity directly.

4) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When the Enlarged Company transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the Enlarged Company substantially retains all the risks and rewards of ownership of the financial asset. If the Enlarged Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to the two circumstances of the derecognition mentioned above, a financial asset shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss.

(2) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Enlarged Company mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized cost using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(3) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Enlarged Company.

8. Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(1) Provision for bad debts of individually significant receivables

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000 thousand (including RMB1,000 thousand) or 10% of total accounts receivable and other receivables are individually more than RMB100 thousand (including RMB100 thousand) or 10% of total other receivables.

Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

(2) *Receivables that are combined into certain groups and subject to provision by groups:*

Basis for determination of groups is as follow:

Group name	**Criteria**
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Enlarged Company determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognized.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	**Method for provision**
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Aging	**Ratios for provision for bad debts**
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

(3) Receivables which are individually insignificant but subject to separate provision:

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

9. Method for Inventories Measurement

(1) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished products, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(2) Cost of inventories

Cost is determined by the cost of commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(3) Basis for the determination of net realizable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(4) Inventory system

The Company adopts the perpetual inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

10. Measurement of Long-term equity investments

(1) Determination of cost of investment

Long-term equity investments comprise the Enlarged Company's long-term equity investments in its subsidiaries, the Enlarged Company's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Enlarged Company does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Enlarged Company is able to control. Jointly controlled entities are the investees over which the Enlarged Company is able to exercise joint control together with other venturers. Associates are all entities over which the Enlarged Company has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Enlarged Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Enlarged Company does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(2) Subsequent measurement and recognition of profit or loss

Under the cost method of accounting, investment income is recognized in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Enlarged Company recognized the investment income based on its share of net profit or loss of the investee. The Enlarged Company discontinues recognizing its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Enlarged Company has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Enlarged Company continues to recognize the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Enlarged Company record directly in capital surplus, provided that the Enlarged Company's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Enlarged Company's share of the profit distribution or cash dividends declared by the investee. The unrealized profits or losses arising from the intra-group transactions amongst the Enlarged Company and its investees are eliminated in proportion to the Enlarged Company's equity interest in the investees, and then based which the investment gain or losses are recognized. The loss on the intra-group transaction amongst the Enlarged Company and its investees, of which the nature is asset impairment, is recognized in full, and the related unrealized loss is not eliminated.

(3) Definition of control, joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Enlarged Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible bonds and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(4) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognized as impairment loss and cannot be reversed once recognized.

11. Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Enlarged Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Enlarged Company adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Enlarged Company adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

12. Initial measurement and depreciation method of fixed assets

(1) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. Fixed assets purchased or constructed by the Enlarged Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(2) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. Depreciation period and annual depreciation rate of each category of the fixed assets are as follows:

Fixed assets category	**Depreciation period**	**Residual value**	**Annual depreciation rate**
Buildings	10-70 years	0-10%	1.29%-10%
Machinery and equipment	4-18 years	0-10%	5%-25%
Motor vehicles	5-10 years	0-10%	9%-20%
Electronic equipment	5-10 years	0-10%	9%-20%
Office equipment	4-8 years	0-10%	11.25%-25%
Decoration and fixtures	5 years	0%	20%

(3) Impairment test for fixed assets and method of provision for asset impairment

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its

carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(4) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded mount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(5) Other specification

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

13. Method of measurement for construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

14. Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalization period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

15. Method of measurement for intangible assets

(1) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Enlarged Company, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(2) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

(3) Basis for judgment on utilization of intangible assets with indefinite useful life

The Enlarged Company owned trademarks of products of Baiyunshan and Dashen, together with trademarks of Xing Qun, Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou and others. The Enlarged Company expects that in the foreseeable future the utilization of such trademarks will bring economic benefit inflow, thus recognized their useful life as indefinite.

After review, the useful life of such intangible assets remains indefinite.

(4) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

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 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 authorities.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

(5) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its

carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

16. Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

17. Provision estimation

Provisions for product warranties, onerous contracts etc. are recognized when the Enlarged Company has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. 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.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

18. Principle of revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Enlarged Company's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Enlarged Company.

(1) Principle and measurement of revenue recognition

The Enlarged Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Enlarged Company's activities as described below. The Enlarged Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(2) Sales of goods

Sales of goods are recognized when an entity of the Enlarged Company has delivered products to the customer and the customer has accepted the goods, the Enlarged Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Enlarged Company and the relevant revenue and costs can be measured reliably.

(3) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

(4) Rendering of services

Income from transfer of asset use rights include:

– Interest income is recognized on a time-proportion basis using the effective interest method;

– Trademark license fee income is recognized when the right to receive payment is established;

– Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(5) Dividend income

Dividend income is recognized when the right to receive payment is established.

19. Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Enlarged Company from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognized when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognized as deferred revenue, and evenly amortized to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognized immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized as deferred revenue; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current year.

20. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Enlarged Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when all of the following conditions are satisfied:

- the deferred taxes are related to the same tax payer within the Enlarged Company and the same taxation authority; and,

- the tax payer within the Enlarged Company has a legally enforceable right to offset current tax assets against current tax liabilities.

21. Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1. Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current year.

2. Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

22. Connected parties

That an entity controlled solely or jointly or material influenced over by another party, or that two or more entities controlled solely or jointly by another party constitutes a connected party. Connected parties may be individuals or corporations. Companies under control of the same government but without any other connected party relation do not constitute a connected party for each other.

Connected parties of the Enlarged Company includes with limitation:

(1) The parent company of the Enlarged Company;

(2) Subsidiaries of the Enlarged Company;

(3) Companies under the control of the same parent company as the Enlarged Company;

(4) Investors jointly imposing influence over the Enlarged Company;

(5) Investors imposing material influence over the Enlarged Company;

(6) Joint ventures of the Enlarged Company, including subsidiaries thereof;

(7) Associated companies of the Enlarged Company, including subsidiaries thereof;

(8) Major investing individuals of the Enlarged Company and their immediate family members;

(9) Key management personnel of the Enlarged Company or its parent company and their immediate family members; and

(10) Other companies controlled or jointly controlled by major investing individuals or key management members of the Enlarged Company or their immediate family members.

23. Segment information

The Enlarged Company identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Enlarged Company that satisfies all of the following conditions:

1. the component is able to earn revenues and incur expenses from its ordinary activities;

2. whose operating results are regularly reviewed by the Enlarged Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and

3. for which the information on financial position, operating results and cash flows is available to the Enlarged Company.

Two or more operating segments sharing similar financial characteristics as well as sameness or similarities in the following aspects may be combined:

(1) Nature of each product or service;

(2) Nature of productive process;

(3) Categories of client receiving products or services;

(4) Manner of sales of products or rendering of services; and

(5) Effect of laws and administrative regulations on products produced and services provided.

24. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Enlarged Company terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognized, with a corresponding charge to profit or loss when the Enlarged Company has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Enlarged Company unilaterally.

Except for offering compensations for terminating the employment relationship with employees, employee benefits are recognized as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

25. Dividend distribution

Cash dividend distribution is recognized as a liability in the period in which it is approved by the shareholders' meeting.

26. Current and deferred income tax

Save for Po Lian Development Company Limited, which is subject to income tax in Hong Kong, other entities of the Enlarged Company are subject to income taxes in the People's Republic of China (the "PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Enlarged Company recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

27. Changes in significant accounting policies and accounting estimates

(1) Changes in accounting policies

There are no changes in accounting policies in the current year.

(2) Changes in accounting estimates

There are no changes in accounting estimates in the current year.

(3) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current year.

(II) Taxation

1. Main types of taxes and tax rates

Taxable item	Type	Tax rate
Income from sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance and construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%
Enterprise income tax	Taxable profit	15%, 16.5%, 25%

2. Preferential tax treatment and approval documents

Seven subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., received the "Certificate of High/New Technology Enterprise", which was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau. A subsidiary of the Group, Guangxi Ying Kang Pharmaceutical Co. Ltd. received the "Certificate of High and New Technology Enterprise", which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau.

The certificates of the six subsidiaries (namely, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GR200844000618, GR200844000446, GR200844000475, GR200844000599, GR200844000937, GR200844001238 respectively, were issued in December 2008 and the effective period is 3 years (2008 to 2010). The six companies above have passed the high/new technology enterprise recognition review in 2011 and on 23 August 2011 obtained new certificates numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144 and GF201144000400. The certificate of Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd., numbering GR201044000004, was issued in 26 September 2010 and the effective period is 3 years. The certificate of subsidiary Guangxi Ying Kang Pharmaceutical Co., Ltd., numbering GR200945000085, was issued in November 2009 and the effective period is 3 years.

Pursuant to the relevant tax preference regulation of the PRC, the recognized New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2008, numbering GR200844000382 and GR200844000381 respectively with effective period of 3 years, from 2008 to 2010, during which their income tax rate was 15%. Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. passed the high/new technology enterprise recognition review in 2011 and obtained certificates numbering GF201144000016 and GF201144000599 respectively with effective period extended for 3 years, from 2011 to 2013, during which their income tax rate was 15%.

Subsidiaries of the Enlarged Company, Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. received the "Certificate of High/New Technology Enterprise" in 2009, numbering GR200944000225 and GR200944000224 respectively with effective period of 3 years, from 2009 to 2011, during which their income tax rate was 15%.

Except for the preferential tax treatment mentioned above, the Enlarged Company pays the enterprise income tax in accordance with "PRC Enterprise Income Tax Law" and "Implementation Rules of PRC Enterprise Income Tax Law" and the applicable enterprise income tax rate of the Enlarged Company is 25%. The applicable enterprise income tax rate of Po Lian, a subsidiary of the Enlarged Company, is 16.5% under the tax law of Hong Kong.

(III) Scope of consolidation

(In the following tables of this section, all amounts are in Renminbi ’0000 unless otherwise stated)

(1) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity interest held by the Company 2011-12-31	% equity interest held by the Company 2012-12-31	% voting rights held 2011-12-31	% voting rights held 2012-12-31	Consolidated or not
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	7,717	Production of CPM	88.99	88.99	88.99	88.99	Yes
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	21,741	Production of CPM	100	100	100	100	Yes
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd	Subsidiary of GPC	Guangzhou	Manufacturing	11,285	Production of CPM	100	100	100	100	Yes
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	24,606	Research and development of medicine and health products	99.49	99.49	99.53	99.53	Yes
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	8,242	Production of CPM	100	100	100	100	Yes
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	8,623	Production of CPM	88.40	88.40	88.40	88.40	Yes
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd	Subsidiary of GPC	Guangzhou	Manufacturing	6,544	Production of CPM	87.77	87.77	87.77	87.77	Yes
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	100	100	100	100	Yes
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Subsidiary of GPC	Guangzhou	Trading	2,400	Import and export trading of medicine	100	100	100	100	Yes
Guangzhou Bai Di Biotechnology Co., Ltd	Subsidiary of GPC	Guangzhou	Manufacturing	13,160	Research and development of medicine	98.48	98.48	98.48	98.48	Yes
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	Subsidiary of GPC’s subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	75	75	75	75	Yes

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capital	Scope of business	% equity interest held by the Company 2011-12-31	% equity interest held by the Company 2012-12-31	% voting rights held 2011-12-31	% voting rights held 2012-12-31	Consolidated or not
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	50	Sales of cosmetic	45.08	45.08	51	51	Yes
Guangzhou Pan Gao Shou Natural Health Products Co., Ltd	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	78.99	78.99	90	90	Yes
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacy	Subsidiary of GPC's subsidiary	Guangzhou	Trading	294	Retailing of Chinese raw medicine and CPM	100	100	100	100	Yes
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	80	Processing of Chinese raw medicine	100	100	100	100	Yes
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	100	100	100	100	Yes
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Subsidiary of GPC's subsidiary	Guangzhou	Trading	668	Trading of medical apparatus	100	100	100	100	Yes
Xizang Lin Zhi Guang Yao Development Co., Ltd	Subsidiary of GPC's subsidiary	Linzhi	Trading	200	Production and trading of local product, and craft	54.74	54.74	55	55	Yes
Guangzhou Pan Gao Shou Food Beverage Co., Ltd	Subsidiary of GPC's subsidiary	Guangzhou	Manufacturing	100	Production and processing of food and health products	87.77	87.77	100	100	Yes

(2) Subsidiaries acquired in a business combination involving enterprises under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capita	Scope of business	% equity Interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	46,905	Research and develop, manufacture and sales of Chinese and western patent medicine	100	100	100	100	Yes
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	4,569	Manufacture, processing and sales of chemical preparation, CPM, bulk medicine and healthcare products	82.49	82.49	82.49	82.49	Yes
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	5,529	Manufacture of active pharmaceutical ingredients, chemical preparation, CPM, veterinary pharmaceutical and cosmetics	84.48	84.48	84.48	84.48	Yes
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Subsidiary of BYS	Guangzhou	Manufacturing	2,649	Manufacture and processing of active pharmaceutical ingredients, chemical preparation, CPM and health care products	100	100	100	100	Yes
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Subsidiary of BYS	Jiexi	Manufacturing	1,179	Tablets, capsules and granules	100	100	100	100	Yes
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Subsidiary of BYS	Guangzhou	Trading	200	Wholesale of Chinese patent medicines, active pharmaceutical ingredients and chemical preparation antibiotics	51	51	51	51	Yes
Bozhou Baiyunshan Pharmaceutical Co., Ltd.	Subsidiary of BYS	Bozhou	Manufacturing	50	Manufacture and sales of tablets and granules	80	80	80	80	Yes
Guangzhou Baiyunshan Pharmacy	Subsidiary of BYS	Guangzhou	Retail	100	Retail of Chinese raw medicine, commonly-used Chinese and Western patent medicines, cigarette and wine, sales of subsidiary foodstuffs and other food as well as general merchandise	100	100	100	100	Yes

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capita	Scope of business	% equity Interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangzhou Pharmaceutical DaJiankang Hotel Co., Ltd	Subsidiary of BYS	Guangzhou	Hospitality	50	Retail trading, hospitality, manufacture and sales of Chinese food	100	100	100	100	Yes
Po Lian Development Company Limited	Subsidiary	Hong Kong	Trading	HK$5 million	Import and export of medicine	100	100	100	100	Yes

(3) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business	Registered capita	Scope of business	% equity Interest held by the Company		% voting rights held		Consolidated or not
						2011-12-31	2012-12-31	2011-12-31	2012-12-31	
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary of GPC	Guangzhou	Manufacturing	3,188	Wholesale of CPM, active pharmaceutical ingredients and chemical preparation antibiotics	51	51	51	51	Yes

(IV) Preparation of profit forecast

This consolidated profit forecast for 2013 was prepared based on operating results of the audited pro forma 2011 financial statements (including the Company, BYS and Target Assets) of the Company as audited by BDO China Shu Lun Pan CPAs LLP, with reference to production and operation plans and sale plan for 2013 of each of the Company, BYS and Target Assets and as well as the relevant information, including the development of the pharmaceutical market for the period, in accordance with the consistent accounting policies and accounting estimates adopted by the Company on basis of prudent sake.

(V) Key items of the profit forecast (amounts in RMB'0000)

1. Revenue forecast from principal operations

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Revenue from principal operations	1,001,303	1,181,586

The revenue forecast of the Company was made based on its projected sales volume and selling price. Among which, the sales volume were estimated based on historical data on actual sales volume for the previous years with reference to production and operation plans during the forecast period and achieved sales volume, taking into account of the changing trend on sales volume during the forecast period; the selling price was estimated based on actual selling price for the previous years with reference to the market price level, the changing trend on supply and demand and pricing strategies of the group.

(1) Macro analysis

According to the "12th Five-Year" Development Planning for Pharmaceutical Industry issued by the Ministry of Industry and Information Technology of the PRC, during the "12th Five-Year" period, the overall international and domestic conditions faced by China pharmaceutical industry is favorable, and it is a critical period for structure adjustment, transformation and upgrading in the industry, but there are more the uncertain factors affecting industry development, bringing both opportunities and challenges.

Internationally, the global pharmaceutical market will continue to grow, this will steadily increase the export of pharmaceutical products and speed up the process of internationalization. With the rapid development of generic medicine and bio-tech medicine, it has provided an opportunity to narrow the gap of China pharmaceutical industry with advanced levels in the world. On the other hand, with the expanding scale and increasing strength of multinational pharmaceutical enterprises, they are strongly entering into the generic medicine field while dominating the patent medicine market, and thus the market competition is more intensifying, China pharmaceutical industry will face a serious challenge.

Domestically, the market demand is increasing rapidly, the central government had further enhanced the support efforts on the pharmaceutical industry, the quality standard system and management standard is continuously improving, and social capital is more abundant. Such factors are favorable for the steady and faster development of the pharmaceutical industry. On the other hand, with increasing environment and resources constraint, the production costs of enterprise are continuously increasing, the price of medicine is tending to decline, which increase the difficulty on the development of new products, and there are still a lot of difficulties and constraints in the development of pharmaceutical industry.

The main development target for the "12th Five-Year" is "To grow the total industrial output value at an average annual growth rate of 20%, and to grow the industrial added value at an average annual growth rate of 16%".

(2) Revenue forecast for 2013

The revenue of the Company is mainly generated from manufacturing and sales of medicine. It is estimated that revenue in 2013 will increase to RMB11,815,860,000 from RMB10,013,030,000 in 2012, representing an increase of approximately 18.00%. The main reasons are as follows:

1) Driven by previous strong investments on advertising and promotion, the product awareness of GPC and BYS is continuously increasing, it is expected that the pharmaceutical manufacturing segment will maintain a faster growth, among which "Cephathiamidine for Injection" (注射用頭孢硫脒) series, "Shi Fu Su" (世福素) series, "Paracetamol, Caffeine and Aspirin Powder" (阿咖酚散) series, "Qing Kai Ling" (清開靈) series, "Huatuo Zaizao Wan" (華佗再造丸) and "Xiao Chai Hu Granules" (小柴胡顆粒) series are expected to achieve a higher growth;

2) Further broaden sales channels, expand sales agency of medicines, and increase sales regions outside Guangdong Province. It is expected the pharmaceutical trading segment will maintain a steady growth;

3) Continue to expand sales of product portfolio in other trading. It is expected that sales revenue from other trading will achieve a higher growth;

2. Cost of sales forecast of principal operations

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Cost of sales of principal operations	698,480	829,856

It is estimated that the operating costs of the Company for 2013 will increase to RMB8,298,560,000 from RMB6,984,800,000 in 2012, representing an increase of approximately 18.81%. It would be mainly due to the expected increase in revenue from principal operations, and the cost of sales of principal operations will be increased accordingly. It is also expected that prices of raw materials will be stable in 2013, and the processing costs and labor costs will increase.

The cost of sales forecast of the Company is made based on unit production cost forecast and sales volume forecast.

Unit production cost forecast is made based on actual cost level for previous years with reference to gross profit margin level for the previous years, taking into account of changing trend in direct materials, direct labor, fuels and energy and manufacturing overhead during the forecast period, and determined after analysis of such factors. Among which, direct materials are estimated mainly based on historical data on costs per unit and market price change of materials; direct labor is estimated mainly based on production and staffing plan and wage rise plan; for manufacturing overhead, the wage of production and management staff and their welfare funds are estimated based on production and management staffing and wage increment plan. The depreciation charge is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and the adopted depreciation policy, and other expenses are estimated based on the historical data and the change trend.

3. Taxes and surcharges forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Taxes and surcharges	9,484	10,547

The taxes and surcharges of the Company mainly include consumption taxes, business taxes, urban maintenance and construction taxes, education surcharges, local education surcharges and real-estate tax. The forecast amount for 2013 will increase by RMB10,630,000 compared to the forecasted amount in 2012, representing an increase of approximately 11.21%. It is mainly due to the increase in revenue, resulting in the increase in estimated taxes and surcharges.

4. Revenue and costs forecasts from other operation

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Revenue from other operation	14,035	14,193
Expenses of other operation	3,645	3,893
Profit from other operation	10,390	10,300

The revenue from other operation of the Company mainly includes rental income, income from sales of raw materials, trademark licensing income and etc. The forecast amounts for 2013 will increase by RMB1,580,000 compared to forecasted amounts in 2012, and it is estimated that the change will be insignificant.

The expenses of other operation of the Company mainly include depreciation charge of the leased properties, cost of raw materials sold and etc. The forecast amounts for 2013 will increase RMB2,480,000 as compared to forecasted amounts in 2012, and increase mainly due to the increase of utilities costs.

5. Selling and distribution expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Selling and distribution expenses	134,058	156,035
The main items are as follows:		
Staff salary	65,341	74,239
Advertising and promotion expenses	33,327	41,981
Transportation expenses	9,751	11,374
Sales-related service expenses	7,977	9,436

The selling and distribution expenses of the Company mainly include staff salary, advertising and promotion expenses, transportation expenses and sales-related service expenses. The selling and distribution expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans of staffing and wage, welfare, social insurance premiums and housing provident funds;

2) The advertising and promotion expenses are estimated based on advertising and promotion launching plan;

3) The transportation expenses are estimated based on the sales volume and the distance to sales regions;

4) The sales service expenses are estimated basined on the sales volume, mainly including sales channel expenses, quality assurance expenses and etc.

It is estimated that the selling and distribution expenses for 2013 will increase to RMB1,560,350,000 from RMB1,340,580,000 in 2012, representing an increase of 16.39%. The main reasons are as follows:

1) Average wage rises in general, and it is estimated that staff salary will increase;

2) Sales volume will increase, and the transportation expenses and sales service charge will increase accordingly.

3) In order to enhance the sales volume, advertisement promotion will be increased. It is estimated that promotion expenses will have larger increase, in which the estimated promotion expenses of "Zhong Yi", "Qi Xing" and: Pan Gao Shou" will rise significantly.

6. General and administrative expenses forecast

Items	**Forecasted amounts for 2012**	**Forecasted amounts for 2013**
General and administrative expenses	106,748	119,243
The main items are as follows:		
Staff salary	46,658	50,788
Research and development expenses	25,318	29,082
Depreciation and amortization expenses	7,014	7,411
Transaction taxes and charges	3,886	4,250

The general and administrative expenses of the Company mainly include staff salary, research and development expenses, depreciation and amortization charge and Transaction taxes and charges. The general and administrative expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans of staffing and wage, welfare, social insurance premiums and housing provident funds;

2) The research and development expenses are estimated based on research and development plan;

3) The depreciation and amortization charge are mainly depreciation of fixed assets and amortization of intangible assets. Amortization of intangible assets is estimated based on the original value of intangible assets, value change of intangible assets during the forecast period and adopted amortization policy; depreciation of fixed assets is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and adopted depreciation policy;

4) The trading taxes and charges is estimated based on land use rights, building ownerships and execution of contracts.

It is estimated the general and administrative expenses for 2013 will increase to RMB1,192,430,000 from RMB1,067,480,000 in 2012, representing an increase of 11.71%. The main reasons are as follows:

1) Average wage rises in general, and it is estimated that staff salary will increase;

2) Increase investment in new medicine, and it is estimated that research and development expenses will increase;

3) Increase in fixed assets resulted in higher depreciation charge;

4) Trading amounts will rise, and it is estimated that transaction taxes and charges will increase.

7. *Financial expenses forecast*

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Financial expenses	6,733	6,841
The main items are as follows:		
Interest expenses	6,683	7,158
Interest income	-529	-905
Exchange gains and losses	-45	-52

The financial expenses of the Company mainly include interest expenses, interest income and exchange gains and losses. Among which,

1) The interest expenses are estimated based on the interest-bearing liabilities including bank borrowings during the forecast period, interest rate and term;

2) The interest income is estimated based on the average balance of bank deposits during the forecast period and bank demand deposit interest rate;

3) The exchange gains and losses are estimated based on actual situation in 2011 and estimated business operation during the forecast period.

It is estimated that the financial expenses for 2013 will increase to RMB68,410,000 from RMB67,330,000 in 2012, representing an increase of 1.60%. It is estimated that the changes in expenses will be insignificant.

8. Assets impairment losses forecast

Items	**Forecasted amounts for 2012**	**Forecasted amounts for 2013**
Bad debt	485	403
Losses on declines in value of inventory	271	237
Total	756	640

The assets impairment losses are estimated inaccordance with the accounting policies of the Company, among which,

1) The bad debt are estimated based on the expected amounts receivable with reference to the bad debt provision policy;

2) The losses on decline in value of inventory is estimated based on the lower of book value of inventory as at the end of the year and the recoverable amount.

It is estimated that the assets impairment losses for 2013 will decrease to RMB6,400,000 from RMB7,560,000 in 2012. The main reasons include:

1) Strengthen the management of the receivables and accelerate the capital Turnover, it is estimated that the loss of bad debts will decrease.

2) Sales platform will be integrated in 2013 that the Company can response quickly to the market. It is estimated that the losses on declines in value of inventory will be decreased.

9. Investment income forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Income from investment in jointly controlled entities and associates	24,497	31,524
Of which: income from investments in Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng	19,090	25,305
Income from long-term equity investment under cost method	625	625
Other investment income	78	78
Total	25,200	32,227

Most of investment income of the Company is mainly derived from the joint ventures, being Wang Lao Ji, Guangzhou Pharmaceuticals Corporation, Nuo Cheng, and BYS Whampoa. It is estimated that total investment income for 2013 will increase to the forecast amount of RMB322,270,000 from RMB252,000,000 in 2012. Of which, investment income from the joint ventures being Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng for 2013 will increase to RMB253,050,000 from RMB190,900,000 in 2012, the main reasons include:

1) It is estimated that there is a supply shortage in the sales volume of the rabies vaccine of Nuo Cheng, and the Company will have higher production capacity to increase the profit. The Company will recognize its investment income based on its equity interest.

2) Guangzhou Pharmaceuticals Corporation experienced a fast growth with increasing profitability in recent years, while increasing the efforts in external merger and acquisition. The newly acquired company will contribute to the profit of the Guangzhou Pharmaceuticals Corporation. On the other hand, it is estimated that in 2013 the interest rate per annum is decreasing which brings a positive effect to Guangzhou Pharmaceuticals Corporation. It is estimated that Guangzhou Pharmaceuticals Corporation will achieve certain growth, and the Company will recognize its investment income based on its equity interest.

3) Wang Lao Ji experienced a fast growth with increasing profitability and profit level. It is estimated that Wang Lao Ji will have normal business growth in 2013, and the Company will recognize its investment income based on its equity interest.

10. Non-operating income forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Non-operating income	3,242	2,453

The non-operating income of the Company is mainly government subsidy. Such government subsidy is the government's subsidy to the expenses and charges incurred on independent innovation and pharmaceutical research.

11. Non-operating expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Non-operating expenses	1,547	1,311

The non-operating expenses of the Company for the year 2013 are mainly donations and losses on disposal of fixed assets.

12. Income tax expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Income tax expenses	11,690	14,354

It is estimated that the income tax expenses for 2013 will increase to a forecast amount of RMB143,540,000 from RMB116,900,000, representing an increase of 22.79%. The main reasons include the increase of the Company's profit, thereby resulting in the increase of enterprise income tax required to be paid.

(VI) Main issues affecting achievement of profit forecast and measures to be taken

The profit forecast of the Company has been taken into account of factors in all respects on basis of prudent sake. However, given that the assumptions upon which the profit forecast is based are uncertain, the Company would like to remind that investors should not place undue reliance on such information when making their investment decisions and it is advised to pay attention to the following issues:

1. Policy risk

Medicines are special type of consumer goods relating to the people's life health and security. There are a variety of medicines in category with a higher science and technology barrier in the industry. The manufacture, circulation and consumption of medicine have been strictly supervised by the State. Therefore, the pharmaceutical industry has been considered as one of main industries which has an important effect on the national economy development, and being largely affected by change of national policy. On 7 April 2009, the State Council issued "Recent Key Implementation Program for the Medical and Health System Reform" (2009-2011), in which it has determined a reform direction for national medical security system and its implementation steps in future years, which will bring a profound effect on the development of the pharmaceutical industry. On 18 August 2009, China officially released "Implementation Opinions Regarding Establishment of National Essential Medicines System" and "National Essential Medicines List", thereby formally commencing the construction work for National Essential Medicines List. It has created a good policy environment for continuous and fast development of the pharmaceutical market.

Therefore, if the national macro economic situation, the industrial policies in pharmaceutical industry and national and local regulations have been changed, they will directly affect pharmaceutical industry sentiment, and thus may impact on the Company's operating results in future.

2. Internal integration risk

After completion of this major assets reorganization, the Company will have more complete operation from research and development, manufacture to marketing, and benefiting from the synergistic effect generating from the internal integration, the profitability and core competitiveness of the Company will be strengthened. However, after completion of this major assets reorganization, the business scope and industrial types of the Company will be substantially increased, and its business segments are distributed into various geographical regions. Its internal organization structure will be more complex, and subsequent integration will be more difficult, the completion of integrating its procurement, production, sale, research and development, and management and etc. will take some time. As such, there is a risk that the profit level of the Company may be difficult to achieve the expected level after taking into account of the synergistic effect in short term.

3. Corporate governance and internal control risk

(1) Internal control risk

After completion of this transaction, it will require some time to establish the internal control system for the continuing entity, and prior to establishment of its new internal control system with normal operation, there is a risk that the continuing entity may suffer loss arisen from imperfection of its internal control system.

(2) Investee enterprise risk

After completion of this transaction, some enterprises under the Company are investee enterprises, and the Company has no control on such enterprises. If the Company has dispute or disagreement with the controlling shareholder of such enterprises, it may have an impact on the operation of such investee enterprise. In addition, profit distribution of such investee enterprise also will affect the cash flows of the Company, thus affecting the operation of the Company.

4. Operation risk

(1) Market competition risk

After completion of this reorganization, the Company will become a pharmaceutical conglomerate covering the whole industry chain in the pharmaceutical industry in the PRC. The Company has an obvious competitive advantage in the manufacturing and trading of pharmaceutical, but the pharmaceutical industry in which the Company operates is a perfect market competitive industry. There are a variety of medicines types and categories, with high research and development expenses, long cycle and being a fully competitive market; and currently, there are a number of issues in the pharmaceutical industry, such as low level redundant construction in manufacture of medicines, low product technology, uneven quality of operators and complex of medicines circulation channels. If some enterprises take a substantial incentive or price reduction measures for surviving, it will have an impact on the operating results of the Company. At the same time, if the Company can't continuously rationalize its product mix, expand its distribution networks, enhance its technology level and strengthen its comprehensive competitive capacity, it will be in an unfavorable position under a keen competitive environment.

(2) Product price limitation risk

The prices of medicines are controlled by the State. The State often makes new requirements in medicine price policy and medicine price control to restrict medicine pricing. The prices of medicines manufactured and distributed by the Company are mostly within price range controlled by the State, and the corresponding change on price policy will have an impact on the operation and profit of the Company. The National Development and Reform Commission has adjusted prices of medicines in several times since 1998, covering a variety of common medicines, mainly Chinese and western medicines. The price reduction trend will continue to remain for a considerable period in the PRC in the future, and the overall profit margin of the industry may be continuously declined, so the profitability of the Company's pharmaceutical operation will also be reduced.

(3) Raw materials price fluctuation risk

The main raw materials of the Company include various bulk pharmaceuticals and Chinese raw medicine, and it requires procurement of about 1,000 species of bulk pharmaceuticals and Chinese raw medicine each year. The unit price of bulk pharmaceuticals is mainly affected by domestic ex-factory price, while the unit price of Chinese raw medicine is affected by the domestic prices of agricultural products. The price fluctuation of raw materials increases the Company's difficulties on control of production costs and management, thus increasing its operation risk.

(4) Medicines life-cycle risks

The research and development cycle of medicines is relative long, the life cycle of medicines is gradually shortened as affected by various factors like pharmacological value, side effect, the human body resistance time and development and launching cycle of similar new medicines. At the same time, once a protection period for new medicines had expired after launching, they will be affected by a plenty of generic medicines. Therefore, various medicines currently manufactured by the Company are affected by each of its product life cycles.

(5) Risk for research and development of new specie of medicine

The State has made strict requirements on research and development of new medicines. The development of new medicines generally divides into four stages, being preclinical study, application of clinical approval, clinical study and new medicine certificate, and application of production approval. Each stage is subject to strict requirements of laws and regulations. Among the four stages, the preclinical studies for new medicine include preparation technique, physical and chemical properties, purity, method of assay, prescription selection, form of medicine, stability, quality standard, pharmacology, toxicology and pharmacokinetics. It will be generally obtained a new medicine certificate for medicine upon approval from the State Food and Drug Administration after completion of phase III clinical trials. However, enterprise or workshop will be permitted to produce new medicine only after it obtained Pharmaceutical Production Enterprise License and met the GMP related requirements with issue of approval number. As such, the development of new medicine has characteristics of long cycle, greater difficulty and high risk. If the development of new medicine is unsuccessful, it will have an impact on production of subsequent new products.

5. Risk for reliance on joint ventures

One fourth of profit of the Company is derived from its investment income from Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng. In 2013, its investment income under equity method in Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng accounted for 25% of total profit of the Company. Therefore, if the business operation for any of Wang Lao Ji, Guangzhou Pharmaceuticals Corporation and Nuo Cheng encounters a serious difficulty or fails to achieve the expected goal, it will have an adverse impact on the financial condition and results of operation of the Company.

6. Other risks

The Company might have an adverse impact arisen from other factors which are beyond the control of the Company like politics, economy and natural disasters.

For the above issues, the Company will take the following measures accordingly:

(1) Keep up with the national macro policy trend, study in-depth the industry development trend, promptly obtain the market information, fully understand the consumer demand, establish a rapid response mechanism, improve market analysis and response ability, really focus on customer demand, speed up the development and launching of new products, further rationalize the Company's product mix, and increase the market competitive capacity of the Company.

(2) The investment of project will adhere to the principle of acting according to its ability and measuring expenditure according to its income, overall planning, emphasis on key aspects, focus of quality, pursuit of efficiency, rational investment; fully make investigation and study, and feasibility demonstration to increase the scientific decision-making ability.

(3) Actively introduce advanced technologies and train management personnel, increase the investment in research and development, and continuously enhance the Company's independent research and development capacity and technology innovation ability.

(4) Proactively expand the market, enhance marketing service ability and level, rationalize sale networks, innovate marketing mode, strengthen efforts on brand promotion, strive for improving the image of the Company and its brands, increase market share of the Company's products.

(5) Improve the Company's corporate governance level, strengthen internal management, increase overall operational efficiency of the Company, enhance the ability to avoid risk.

(VII) Other significant events description

This consolidated profit forecast report is solely to be used by GPC for the major assets reorganization in respect of its absorption and merger of BYS by share swap and acquisition of assets of GPHL, which was compiled under the requirements of Administrative Rules on Major Asset Reorganization of Listed Companies issued by the China Securities Regulatory Commission. It is solely to be used by GPC for application and approval of such matters with the China Securities Regulatory Commission and disclosed on the website of The Stock Exchange of Hong Kong Limited.

Guangzhou Pharmaceutical Company Limited
24 August 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

立信会计师事务所(特殊普通合伙)
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BDO CHINA SHU LUN PAN CPAS LLP
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Comfort Letter for Profit Forecast

Xin Kuai Shi Bao Zi [2012] 410319
(信會師報字[2012]第410319號)

24 August 2012

To Guangzhou Pharmaceutical Company Limited

We have been engaged to review the calculations and accounting policies adopted in the consolidated profit forecast report (hereinafter the "Profit Forecast") of Guangzhou Pharmaceutical Company Limited (hereinafter the "Company", together with its subsidiaries, the "Group") for the year ending 31 December 2013. The Profit Forecast is set out in the announcement of the Company dated 24 August 2012 (hereinafter the "Announcement"), for which the Directors of the Company are solely responsible.

We conducted our work in accordance with the "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the Directors of the Company based on the audited pro forma financial information of the Enlarged Group as at 31 December 2011.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the Directors of the Company as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Group in its financial statements for the year ended 31 December 2011.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Huang Weicheng

Certified Public Accountant of China: Wu Changhua

Shanghai, the PRC

(b) Letter from the financial advisers

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

24 August 2012

The Board of Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
The PRC

Dear Sirs,

Re: Guangzhou Pharmaceutical Company Limited (the "Company")
Very substantial acquisitions and connected transactions – Profit forecast in relation to the Major Assets Reorganization prepared under CASBE for the year ending 31 December 2013

We refer to the profit forecast of the Enlarged Group for the year ending 31 December 2013 (the "**2013 Enlarged Group Profit Forecast**") prepared by the Company and reviewed by BDO China Shu Lun Pan CPAs LLP ("**BDO**") in relation to the Major Assets Reorganization as set out in the announcement dated 24 August 2012 issued by the Company (the "Announcement"). Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the 2013 Enlarged Group Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the 2013 Enlarged Group Profit Forecast has been made. We have also considered the letter addressed to the Directors from BDO dated 24 August 2012 regarding the accounting policies and calculations upon which the 2013 Enlarged Group Profit Forecast has been made.

On the basis of the foregoing, we are of the opinion that the 2013 Enlarged Group Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Celestial Capital Limited
Daphne Ng
Managing Director

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Richard Campbell-Breeden
Managing Director

This report is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) 2013 PROFIT FORECAST OF THE TARGET ASSETS

Target Assets by Guangzhou Pharmaceutical Company Limited through issue of shares
The Audit Report of Profit Forecast and the Consolidated Profit Forecast Statement
For the year ending 31 December 2013

Contents Page

a. THE AUDIT REPORT OF PROFIT FORECAST

立信会计师事务所(特殊普通合伙) BDO CHINA SHU LUN PAN CPAS LLP
地址: 上海南京东路61号4楼 4F.No.61 Nan Jing Dong Road
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Ref. No.: Xin Kuai Shi Bao Zi [2012] 410318
(信會師報字[2012]第410318號)

24 August 2012

THE AUDIT REPORT OF PROFIT FORECAST

To All Shareholders of Guangzhou Pharmaceutical Company Limited:

We have audited the accompanying consolidated profit forecast report for 2013 of assets to be acquired (the "Target Assets") through issue of shares prepared by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of GPC is responsible for this forecast and the assumptions upon which it was based. Such assumptions have been disclosed in "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2013 of Target Assets by GPC through issue of shares".

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the forecast. Also, we believe this forecast has been properly compiled based on such assumptions, which has been presented in accordance with the requirements of basis of preparation in the section "Basis of Preparation and Principal Assumptions for the Consolidated Profit Forecast Report for 2013 of Target Assets by GPC through issue of shares".

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information.

This report is solely for the information of GPC in connection with its submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the major assets reorganization involving the absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap and acquisition of the Target Assets of Guangzhou Pharmaceutical Holdings Limited by GPC, and should not be used for any other purposes.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Huang Weicheng

Certified Public Accountant of China: Wu Changhua

Shanghai, the PRC

b. THE CONSOLIDATED PROFIT FORECAST STATEMENT

Consolidated Forecasted Income Statement of Target assets

Prepared by Guangzhou Pharmaceutical Company Limited *Unit: RMB'0000*

ITEMS	*Notes*	Forecasted amounts for 2012	Forecasted amounts for 2013
I. Revenue from principal operations	*(IV)1*	**12,292**	**14,082**
Less: Cost of sales of principal operations	*(IV)2*	11,787	13,498
Less: Taxes and surcharges of principal operations	*(IV)3*	133	143
II. Profit from principal operations		**372**	**441**
Add: Revenue from other operation	*(IV)4*	1,355	1,471
Less: Expenses of other operation	*(IV)4*	105	106
Less: Selling and distribution expenses	*(IV)5*	5	5
Less: General and administrative expenses	*(IV)6*	353	366
Less: Financial expenses	*(IV)7*	14	15
Less: Assets impairment losses	*(IV)8*	0	0
Add: Profit arising from changes in fair value		0	0
Add: Investment income	*(IV)9*	625	625
III. Operating profit		**1,875**	**2,045**
Add: Non-operating income		0	0
Less: Non-operating expenses		0	0
IV. Total profit		**1,875**	**2,045**
Less: Income tax expenses	*(IV)10*	261	321
V. Net Profit		**1,614**	**1,724**
(1) Attributable to owners of the parent company		1,614	1,724
(2) Minority interest		0	0

c. THE CONSOLIDATED PROFIT FORECAST REPORT

Target Assets by Guangzhou Pharmaceutical Company Limited through issue of shares The Consolidated Profit Forecast Report For 2013

NOTE: The consolidated profit forecast report for 2013 of the Target Assets by Guangzhou Pharmaceutical Company Limited (hereinafter as "GPC" or the "Company") through issue of shares was prepared based on the best estimates and assumptions, and there are no intentional uses of unreasonable assumptions, misleading statements and material omissions.

The preparation of this profit forecast report was made on prudent sake, but since the assumptions upon which the profit forecast is based are uncertain, investors should not place undue reliance on such information when making their investment decisions.

I. GENERAL INFORMATION ON TARGET ASSETS

1. *General information on Po Lian Development Company Limited (hereinafter as "Po Lian")*

Chinese name:	保聯拓展有限公司
English name:	PO LIAN DEVELOPMENT COMPANY LIMITED
Date of incorporation:	15 January 1988
Registered address:	Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
Authorized and issued share capital:	HK$5,000,000
Business scope:	operation and investment of state-owned assets contributed by the corporation. Its main objective is expanding the import and export of GPHL's pharmaceutical products and developing the international market; operating the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products; introducing foreign capital and advanced technologies for pharmaceutical industry in Guangzhou; conducting compensation trade and processing on customer-supplied materials; providing the economic information on pharmaceutical technologies to facilitate the development of pharmaceutical industry in Guangzhou.

As approved by the Circular Sui Wai Jing Mao [1988] No.125（穗外經貿[1998]125號）issued by Foreign Economic Relation and Trade Commission of the People's Government of Guangzhou Municipality（廣州市人民政府對外經濟貿易委員）and the

Circular Sui Wai Jing Mao Ji Qing (1990) No. 07（穗外經貿際清(1990)07號）issued by the Guangzhou Municipal Leading Group for Clean-up and Rectification of Companies in Hong Kong and Macau（廣州市清理整頓駐港澳機構領導小組), Po Lian is a Hong Kong company wholly-owned, incorporated and operated by GPHL. Po Lian was incorporated as a limited liability company under the Companies Ordinance on 15 January 1988 in Hong Kong. Its authorized and issued share capital was HK$1,000,000. The authorized and issued share capital of Po Lian was increased to HK$5,000,000 in October 1998.

Since its incorporation, GPHL has held 100% equity interest in Po Lian.

2. *General information on 12.50% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd. (hereinafter as "Baxter")*

Chinese name:	廣州百特醫療用品有限公司
English name:	BAXTER HEALTHCARE (GUANG ZHOU) COMPANY, LTD.
Date of registration:	13 August 1993
Address of registration:	Jiaoyuan Road, Dongji Industrial District, Guangzhou Economic and Technological Development Zone
Registered capital:	USD11,000,000
Business scope:	manufacturing large-volume parenteral solution, solution (for external use), certain class II 6845 and class III 6845 extracorporeal circulation and blood processing equipment, class II 6866 and class III 6866 medical polymer materials and products, 3-layer co-extrusion bags, and micro caps for iodine solution, and sales of the products of Baxter

Baxter was established on 13 August 1993 with a registered capital of USD10,000,000. It was jointly founded by Baxter Global Trade Company（（美國百特世界貿易公司）), Guangzhou Pharmaceutical Development Company and Guangzhou Economic and Technological Development Zone Industrial Development Corporation in proportion of capital contribution of 75%, 12.5% and 12.5% respectively.

In 1999, Guangzhou Pharmaceutical Development Company transferred its entire equity interest amounting to USD1,250,000 in Baxter to GPHL at the same price; Baxter Global Trade Company transferred its entire equity interest amounting to USD7,500,000 in Baxter to its related company, Baxter (China) Investment Company Limited.

In 2000, the registered capital of Baxter had been changed to USD11 million. On 20 May 2002, Guangzhou Economic and Technological Development Zone Industrial Development Corporation and Baxter (China) Investment Company Limited entered into a shareholding transfer agreement, pursuant to which Guangzhou Economic and Technological Development Zone Industrial Development Corporation transferred its 12.5% equity interest in Baxter to Baxter (China) Investment Company Limited, and the parties to the joint venture, Baxter, had been changed to GPHL and Baxter (China) Investment Company Limited, of which GPHL held its 12.5% equity interest, i.e. contributed USD1,375,000; Baxter (China) Investment Limited held its 87.5% equity interest, i.e. contributed USD9,625,000.

As of the issue date of this proposal, the paid-up capital of Baxter was USD11,000,000, and GPHL held its 12.5% equity interest.

3. Buildings and structures

The general information on the buildings and structures to be acquired by GPC by issue of shares is shown as following table:

Serial No.	Address/ Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
1	45-1 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491222	1,022.97	An office building jointly occupied by GPHL and GPC	yes
2	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036340	3,432.18	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture Guangzhou Pharmaceuticals Corporation
3	Rear Block, 282 Beijing Road, Yuexiu District	Yue Fang Di Zheng Zi No. C6190029	215.51	Leased to Cai Zhi Lin for sales outlet	Yes
4	45 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491223	2,775.59	An office building jointly occupied by GPHL and GPC	Yes
5	45-2 Sha Mian North Street, Liwan District	Yue Fang Di Zheng Zi No. C1491224	1,874.08	An office building jointly occupied by GPHL and GPC	Yes
6	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143847	694.29	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation

Serial No.	Address/ Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area *(m^2)*	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
7	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143846	272.89	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
8	Warehouse, 3-5 Floors, 4th Block, 28 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143845	648.28	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
9	2nd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143849	4,044.32	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
10	1-2/F, 3rd Block, 30 Zengcha Road, Baiyun District	Yue Fang Di Zheng Zi No. C6143848	5,041.21	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
11	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yue Fang Di Quan Zheng Sui Zi No. 1050036348	2,778.24	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
12	Warehouse of Guangzhou Pharmaceuticals Corporation, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yue Fang Di Zheng Zi No. C5932126	3,524.68	A warehouse occupied by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
13	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942848	684.44	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation

Serial No.	Address/ Lot No.	Land Use Rights Certificate/ Building Ownership Certificate No.	Land area (m^2)	Actual Usage	Whether constitute a connected transaction between the reorganization parties or not
14	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5942849	414.96	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
15	2/F of East Tower, Rear Block, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932123	310.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
16	1/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932124	82.37	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
17	2/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yue Fang Di Zheng Zi No. C5932125	104.07	An office used by Guangzhou Pharmaceuticals Corporation	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
18	1-2/F, 118 West Heping Road, Liwan District	Sui Fang Zheng Zi No. 0059002 Sui Fang Zheng Zi No. 0093202	4,224.48	A warehouse occupied by Guangzhou Pharmaceuticals Corporation, intended to be used as office	Leased to the Company's joint venture being Guangzhou Pharmaceuticals Corporation
19	Unit 2, 12 Saiba Road, Liwan District	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	2,464.36	Office building for factory of Cai Zhi Lin	Yes
20	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	Yue Fang Di Zheng Zi No. C6465931	293.21	Sales outlet fro Cai Zhi Lin	Yes
21	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	99.34	Sales outlet for Cai Zhi Lin	Yes

4. Trademarks

In this major assets reorganization, save for the 29 Wang Lao Ji series trademark and other 4 trademarks exclusively used by Wang Lao Ji Pharmaceutical under certain conditions upon license of GPHL (in aggregate 33 trademarks), all other 388 registered trademarks were included in Target Assets.

Amongst of the domestic trademarks to be injected into the listed company by GPHL, 277 trademarks are associated trademarks or defensive trademarks, only registered for the group's image, defensive purpose, historical development or arisen as derivative registration. They have no direct impact on revenue of products or directly generate any revenue from licensing such trademarks. They only have relatively lower value, and the pre-evaluation of value is only registration cost. Their consideration is nil, and not listed in detail herein. For trademarks which GPHL has licensed GPC to use, 54 trademarks of which have higher reputation with higher appraised value, including six major series being "Chen Li Ji", "Pan Gao Shou", "Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang". The detailed information are shown as the following table:

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
Xing Qun series trademarks					
1	GPHL	155258		Western medicine	28 February 2013
2	GPHL	150105		Ruihuayou	28 February 2013
3	GPHL	150106		Pilulae viticis cannabifolii	28 February 2013
4	GPHL	848199	元 神	Angelica south jujube tea powder	20 June 2016
5	GPHL	256482		Nourishing beverage	19 July 2016
6	GPHL	850196	怡生	Human medicine	27 June 2016
7	GPHL	835119		Bird's nest soup with crystal sugar	27 April 2016

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
Zhong Yi series trademarks					
8	GPHL	781270		Mineral water, chrysanthemum tea, alcohol free beverage, alcohol free fruit juice beverage	6 October 2015
9	GPHL	661178		Guiling Jelly	13 October 2013
10	GPHL	713652		Alcohol free beverage, soda-water, mineral water, solid beverage	6 November 2014
11	GPHL	588610		Human medicine	29 March 2022
12	GPHL	708835		Human medicine	6 October 2014
13	GPHL	170359		Chinese medicine	28 February 2013
14	GPHL	139307		CPM	28 February 2013
15	GPHL	171212		Chinese medicine	28 February 2013
16	GPHL	339914		Chinese and western patent medicine	19 February 2019

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
Chen Li Ji series trademarks					
17	GPHL	651324		Chinese medicine and patent medicine	27 July 2013
18	GPHL	284093	陳李濟	Chinese medicine and patent medicine	19 April 2017
19	GPHL	822299		Medical nutrition beverage, Medical nutrition foods, medical nutrition food products, medicated candy, baby foods, sanitary napkins, haemostatic ointment, Yaotiao, Headache medicine pen	13 March 2016
20	GPHL	605208		CPM	9 August 2012
21	GPHL	147894	杏和堂	Chinese medicine	28 February 2013
22	GPHL	815038		Foods, including Bean products, coffee, and sugar, seasoning	13 February 2016
23	GPHL	807121	星 馬	Foods, including meat, processed meat and fish, can, preserved foods, milk products	13 January 2016
Qi Xing series trademarks					
24	GPHL	145345		Chinese medicine	28 February 2013
25	GPHL	248428		CPM	14 April 2016
26	GPHL	798245	QIXING	CPM for human	13 December 2015
27	GPHL	812250		Human medicine	6 February 2016

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
28	GPHL	653407		Human medicine	13 August 2013
29	GPHL	653423	天凤	Human medicine	13 August 2013
30	GPHL	652155	奇星	Chinese medicine, patent medicine (Human medicine)	6 August 2013
31	GPHL	653424	四方	Human medicine	13 August 2013
32	GPHL	653425	新雪	Human medicine	13 August 2013
33	GPHL	626102	赛力格	Chinese medicine, patent medicine	19 January 2013
34	GPHL	723369	奇星	Human medicine	6 January 2015
35	GPHL	990820	奇星 QIXING	Medical nutrition food products, medical nutrition beverage, medicinal beverage, medical nutrition products, medicine candy, raw medicine (for human), human medicine and herbal tea	27 April 2017
Jing Xiu Tang series trademarks					
36	GPHL	135276	[illegible]田牌	Veterinary medicine and etc., CPM	28 February 2013
37	GPHL	268996	[illegible]田牌	Western medicine	19 November 2016
Pan Gao Shou series trademarks					
38	GPHL	171203	潘高寿	CPM	28 February 2013

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
39	GPHL	246145	高壽 GAO SHOU	Chinese medicine, patent medicine	14 March 2016
40	GPHL	786868	PGS	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
41	GPHL	717049	PGS	Human medicine	27 November 2014
42	GPHL	786867	PGS	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
43	GPHL	689167	PGS 潘高壽	Human medicine	13 May 2014
44	GPHL	782783	潘高壽	Beverage dispenser, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
45	GPHL	782784	潘高壽	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
46	GPHL	786918	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
47	GPHL	786928	潘高壽	Candy, syrup, molasses, menthol candy, edible flavor, plant extract sweetener, tea	27 October 2015
48	GPHL	795079	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	27 November 2015

Serial No.	Registered owner	Trademark registration no.	Trademark name	Products approved to use	Expiration date of registration
49	GPHL	801146	潘高壽	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	20 December 2015
50	GPHL	689166	PGS潘高壽	Human medicine	13 May 2014
51	GPHL	781193	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015
52	GPHL	782782	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
53	GPHL	782781	PGS	Beverage preparation, beverage flavor, fruit juice beverage, fruit juice, lemon syrup, mineral water for meal, grape juice, lemon juice	13 October 2015
54	GPHL	780863	PGS	Jam, edible jelly, frozen fruit, jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup agent, edible protein	6 October 2015

II. BASIS OF PREPARATION AND PRINCIPAL ASSUMPTIONS FOR THE CONSOLIDATED PROFIT FORECAST FOR 2013 OF TARGET ASSETS BY GPC THROUGH ISSUE OF SHARES

According to the requirements of the Administrative Rules on Major Asset Reorganization of Listed Companies (No. 53 Directive of China Securities Regulatory Commission("CSRC")) and Rule No. 26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly – Application Documents for the Material Asset Reorganisations of Listed Companies issued by CSRC, the Company has prepared 2013 consolidated profit forecast of Target Assets as set out in Section I above.

This profit forecast report has been prepared based on the operating results of the audited 2011 financial statements of the Company as audited by BDO China Shu Lun Pan CPAs LLP, in light of 2013 production and operation plan, sales plan of the Company as well as the relevant information, including the situation of the pharmaceutical market for the period, on the basis of prudent sake.

The accounting policies and accounting estimates used in preparing the profit forecast has complied with the existing laws, regulations of the State and the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, and are consistent with the accounting policies and accounting estimates adopted by the Company in all material aspects.

1. Major assumptions in the preparation of profit forecast:

1.1 There will not be any significant changes in the existing government policies and political, legal, fiscal, market or economic conditions in the PRC, Hong Kong Special Administrative Region or any countries/regions in which the Target Assets carry on its business, or any other countries/regions that may have significant impact on the businesses.

1.2 There will not be any material adverse changes in the existing state and local laws, rules, or regulations in the PRC, Hong Kong Special Administrative Region or any countries/ regions in which the Target Assets carry on its business, or with which the Target Assets have any arrangement or agreement with any parties operates therein.

1.3 There will not be significant changes in the prospects of the Target Assets and the industry it operates and the market conditions for the sales of product and provisions of services by the Target Assets.

1.4 There will not be any material delay in the production schedules, operational projects and capacity expansion projects planned by the Target Assets.

1.5 There will not be any material changes in the market prices of the pharmaceutical-related raw materials and the labor cost in the PRC,

1.6 There will be no interruption of operations that will adversely affect the Target Assets as a result of shortage of supply of raw materials, which are beyond management's control.

1.7 There will not be any significant change in the current inflation rates, interest rates and foreign currency exchange rates in the business environments that the Target Assets operate.

1.8 There will not be any significant changes in the taxation system and relevant tax bases, tax rates and preferential tax applicable to the Target Assets in the PRC, Hong Kong Special Administrative Region or any country or territory in which the Target Assets carry on its business.

1.9 The Target Assets and the operation of the Target Assets will not be severely affected or interrupted by any force majeure events or any unpredictable factors, and any unpredictable reasons that are out of the control of the Directors.

1.10 There will be no significant deviation of the weighted average selling price of all types of products offered by the Target Assets under normal operations, after taking into account of the sales discounts and rebates, from that of 2011.

2. The forecast figures of 2012 in the consolidated forecast income statements of Target Assets represented the aggregate audited figures extracted from the audit reports issued by BDO China Shu Lun Pan CPAs LLP (Xin Kuai Shi Bao Zi [2012] 410251（信會師報字[2012]第410251號）).

III. EXPLANATIONS ON PROFIT FORECAST

(I) Significant accounting policies, accounting estimates, preparation of consolidated financial statements

1. Accounting period

The accounting year of the Company starts on 1 January and ends on 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

3. Accounting treatments for business combinations involving entities under and not under common control

(1) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(2) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

4. Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Enlarged Company and all subsidiaries.

Subsidiaries are consolidated from the date on which the Enlarged Company obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Enlarged Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Enlarged Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Enlarged Company are recognized as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

5. Determination of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(2) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the rate which is confirmed according to the systematic and rational method and similar to the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

7. Financial instruments

(1) Financial Assets

1) Classification of the financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Enlarged Company's intention and ability to hold the financial assets.

① Financial assets carried at fair value through profit or loss for the current period

Financial assets carried at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

② Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

③ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

④ Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

2) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Enlarged Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

3) Impairment of financial assets

The Enlarged Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Enlarged Company shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

In the case of a significant or prolonged decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in equity directly.

4) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When the Enlarged Company transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the Enlarged Company substantially retains all the risks and rewards of ownership of the financial asset. If the Enlarged Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to the two circumstances of the derecognition mentioned above, a financial asset shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss for the current period.

(2) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Enlarged Company mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized costs using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(3) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Enlarged Company.

8. Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(1) Provision for bad debts of individually significant receivables

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1 million (including RMB1,000 thousand) or 10% of total accounts receivable and other receivables are individually more than RMB100 thousand (including RMB100 thousand) or 10% of total other receivables.
Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

(2) *Receivables that are combined into certain groups and subject to provision by groups:*

Basis for determination of groups is as follow:

Group name	**Criteria**
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Enlarged Company determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognized.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	**Method for provision**
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Aging	**Ratios for provision for bad debts**
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

(3) *Receivables which are individually insignificant but subject to separate provision:*

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of its present value of the future cash flows below the carrying amount.

9. Method for Inventories Measurement

(1) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished products, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(2) Cost of inventories

Cost is determined by the cost of commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(3) Basis for the determination of net realizable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(4) Inventory system

The Company adopts the perpetual inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

10. Measurement of Long-term equity investments

(1) Determination of cost of investment

Long-term equity investments comprise the Enlarged Company's long-term equity investments in its subsidiaries, the Enlarged Company's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Enlarged Company does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Enlarged Company is able to control. Jointly controlled entities are the investees over which the Enlarged Company is able to exercise joint control together with other venturers. Associates are all entities over which the Enlarged Company has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Enlarged Company's financial statements and adjusted using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Enlarged Company does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Enlarged Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(2) Subsequent measurement and recognition of profit or loss

Under the cost method of accounting, investment income is recognized in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Enlarged Company recognized the investment income based on its share of net profit or loss of the investee. The Enlarged Company discontinues recognizing its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Enlarged Company has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Enlarged Company continues to recognize the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Enlarged Company record directly in capital surplus, provided that the Enlarged Company's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Enlarged Company's share of the profit distribution or cash dividends declared by the investee. The unrealized profits or losses arising from the intra-group transactions amongst the Enlarged Company and its investees are eliminated in proportion to the Enlarged Company's equity interest in the investees, and then based which the investment gain or losses are recognized. The loss on the intra-group transaction amongst the Enlarged Company and its investees, of which the nature is asset impairment, is recognized in full, and the related unrealized loss is not eliminated.

(3) Definition of joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Enlarged Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible bonds and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(4) Method of impairment test and recognition of provision

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognized as impairment loss and cannot be reversed once recognized.

11. Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Enlarged Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Enlarged Company adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Enlarged Company adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

12. Initial measurement and depreciation method of fixed assets

(1) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. Fixed assets purchased or constructed by the Enlarged Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Enlarged Company and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalization is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(2) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. Depreciation period and annual depreciation rate of each category of the fixed assets are as follows:

Fixed assets category	Depreciation period	Residual value	Annual depreciation rate
Buildings	10-70 years	0-10%	1.29%-10%
Machinery and equipment	4-18 years	0-10%	5%-25%
Motor vehicles	5-10 years	0-10%	9%-20%
Electronic equipment	5-10 years	0-10%	9%-20%
Office equipment	4-8 years	0-10%	11.25%-25%
Decoration and fixtures	5 years	0%	20%

(3) Impairment test for fixed assets and method of provision for asset impairment

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

(4) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded mount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Enlarged Company adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(5) Other specification

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

13. Method of measurement for construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

14. Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalization period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

15. Method of measurement for intangible assets

(1) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Enlarged Company, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(2) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

(3) Basis for judgment on utilization of intangible assets with indefinite useful life:

The Enlarged Company owned trademarks of products of Baiyunshan and Dashen, together with trademarks of Xing Qun, Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou and others. The Enlarged Company expects that in the foreseeable future the utilization of such trademarks will bring economic benefit inflow, thus recognized their useful life as indefinite.

After review, the useful life of such intangible assets remains indefinite.

(4) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

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 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 authorities.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

(5) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

16. Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

17. Provision estimation

Provisions for product warranties, onerous contracts etc. are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. 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.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

18. Principle of revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Enlarged Company's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Enlarged Company.

(1) Principle and measurement of revenue recognition

The Enlarged Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Enlarged Company's activities as described below. The Enlarged Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(2) Sales of goods

Sales of goods are recognized when an entity of the Enlarged Company has delivered products to the customer and the customer has accepted the goods, the Enlarged Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Enlarged Company and the relevant revenue and costs can be measured reliably.

(3) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

(4) Rendering of services

Income from transfer of asset use rights include:

– Interest income is recognized on a time-proportion basis using the effective interest method;

– Trademark license fee income is recognized when the right to receive payment is established;

– Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(5) Dividend income

Dividend income is recognized when the right to receive payment is established.

19. Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Enlarged Company from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognized when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognized as deferred revenue, and evenly amortized to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognized immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current year.

20. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets arising from deductible temporary differences are recognized to the extent of probable taxable profit against which the deductible temporary differences may be applied.

Deferred tax liabilities are recognized for taxable temporary differences relating to investments in subsidiaries, jointly controlled entities and associates, except where the Enlarged Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences relating to investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when all of the following conditions are satisfied:

- the deferred taxes and liabilities are related to the income tax of the same tax payer within the Enlarged Company imposed by the same taxation authority; and,

- the tax payer within the Enlarged Company has a legally enforceable right to offset current tax assets against current tax liabilities.

21. Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1. Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current period.

2. Finance leases

The leased asset is initially recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

22. Connected parties

That an entity controlled solely or jointly or material influenced over by another party, or that two or more entities controlled solely or jointly by another party constitutes a connected party. Connected parties may be individuals or corporations. Companies under control of the same government but without any other connected party relation do not constitute a connected party for each other.

Connected parties of the Enlarged Company includes without limitation:

(1) The parent company of the Enlarged Company;

(2) Subsidiaries of the Enlarged Company;

(3) Companies under the control of the same parent company as the Enlarged Company;

(4) Investors jointly imposing influence over the Enlarged Company;

(5) Investors imposing material influence over the Enlarged Company;

(6) Joint ventures of the Enlarged Company, including subsidiaries thereof;

(7) Associated companies of the Enlarged Company, including subsidiaries thereof;

(8) Major investing individuals of the Enlarged Company and their immediate family members;

(9) Key management personnel of the Enlarged Company or its parent company and their immediate family members; and

(10) Other companies controlled or jointly controlled by major investing individuals or key management members of the Enlarged Company or their immediate family members.

23. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Enlarged Company terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognized, with a corresponding charge to current expenses when the Enlarged Company has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Enlarged Company unilaterally.

Except for offering compensations for terminating the employment relationships with employees, employee benefits are recognized as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

24. Current and deferred income tax

Save for Po Lian Development Company Limited, which is subject to income tax in Hong Kong, other entities of the Enlarged Company are subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Enlarged Company recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets and tax provision in the period in which such estimate is changed.

25. Changes in significant accounting policies and accounting estimates

(1) Changes in accounting policies

There are no changes in accounting policies in the Reporting Period.

(2) Changes in accounting estimates

There are no changes in accounting estimates in the Reporting Period.

(3) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the Reporting Period.

(II) Taxation

1. Main types of taxes and tax rates

Taxable item	Type	Tax rate
Income from sales of goods	Value-added (“VAT”)	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance and construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%
Enterprise income tax	Taxable profit	15%, 16.5%, 25%

2. Preferential tax treatment and approval documents

Enterprises in the PRC pays the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate is 25%. The applicable enterprise income tax rate of Po Lian, a subsidiary of the Enlarged Company, is 16.5% under the tax law of Hong Kong.

(III) Preparation of the profit forecast

This consolidated profit forecast for 2013 was prepared based on operating results of the audited 2011 financial statements as audited by BDO China Shu Lun Pan CPAs LLP, with reference to production and operation plans and sale plan for 2013 of the Company as well as relevant information, including the development of the pharmaceutical market for the period in accordance with accounting policies and accounting estimates consistent with those adopted by the Company on prudent sake.

(IV) Key items of the profit forecast (amounts in RMB'0000)

1. Revenue forecast from principal operations

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Revenue from principal operations	12,292	14,082

The revenue forecast from principal operations of the Target Assets was made based on the projected sales volume and selling price of Po Lian. Among which, the sales volume were estimated based on historical data on actual sales volume for the previous years with reference to operation plans during the forecast period and achieved sales volume, taking into account the change trend on sales volume during the forecast period; the selling price was estimated based on actual selling price for the previous years with reference to the market price level, the change trend on supply and demand and pricing strategies of the group.

The revenue from principal operations of the Target Assets is mainly generated from trading of medicine. It is estimated that revenue in 2013 will increase to a forecast amount of RMB140,820,000 from RMB122,920,000 in 2012, representing an increase of 14.56%. It is estimated that sales volume of the products of White Flower Embrocation（百花油）series will increase.

2. Cost of sales forecast of principal operations

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Cost of sales of principal operations	11,787	13,498

The cost of sales forecast of principal operations of the Target Assets was made based on cost of sales forecast of purchase per unit and sales volume forecast.

It is estimated that the costs of sales of principal operations for 2013 will increase to RMB134,980,000 from RMB117,870,000 in 2012, representing an increase of 14.52%. It will be mainly due to that the expected increase in the revenue from principal operations, and the cost of sales of principal operations will increase accordingly.

3. Taxes and surcharges forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Taxes and surcharges	133	143

The taxes and surcharges of the Target Assets mainly include consumption taxes, business taxes, urban maintenance and construction taxes, education surcharges, local education surcharges and real-estate tax. The forecast amount for 2013 will increase by RMB100,000 compared to the forecasted amount in 2012, representing an increase of 7.38%. It is mainly due to the increase in operating revenue, resulting in the increase in estimated taxes and surcharges.

4. Revenue and costs forecasts from other operation

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Revenue from other operation	1,355	1,471
Expenses of other operation	105	106
Profit from other operation	1,250	1,365

The revenue from other operation of the Target Assets mainly include rental income, trademark licensing income and custody income of Wang Lao Ji Trademarks. The forecast amount for 2013 will increase by RMB1,160,000 compared to the forecasted amount in 2012, representing an increase of 8.53%, mainly due to: GPC expected its sales income will increase and the trademark licensing fee will increase accordingly.

The expenses of other operation of the Target Assets mainly represent depreciation charge of the leased properties. The forecast amount for 2013 will increase RMB10,000, representing an increase of 1.78%.

5. Selling and distribution expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Selling and distribution expenses	5	5

The selling and distribution expenses of the Target Assets mainly represent the expenses of Po Lian from sales of goods. As the forecast revenue from principal operations of sales will have no significant fluctuation to that predicted in 2012, forecast selling and distribution expenses for 2013 will be basically the same as that predicted in 2012.

6. General and administrative expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
General and administrative expenses	353	366
The main items are as follows:		
Staff salary	131	138
Depreciation and amortization expenses	81	82
Transaction taxes and charges	46	46

The general and administrative expenses of the Target Assets mainly include staff salary, depreciation and amortization charge and taxes and charges. The general and administrative expenses forecast are made based on the expenses level for the latest year and the change trend during the forecast period. Among which,

1) The staff salary is estimated based on salary increment plans from staffing and wage, welfare, social insurance premiums and housing provident fund;

2) The depreciation and amortization charge are mainly depreciation of fixed assets and amortization of intangible assets. Amortization of intangible assets is estimated based on the original value of intangible assets, value change of intangible assets during the forecast period and adopted amortization policy; depreciation of fixed assets is estimated based on the original book value of fixed assets as at end of the previous year, value change of fixed assets during the forecast period and adopted depreciation policy;

3) The transaction taxes and charges is estimated based on land use rights, building ownerships and execution of contracts.

4) It is estimated the general and administrative expenses for 2013 will increase to RMB3,660,000 from RMB3,530,000 in 2012, representing an increase of 3.59%. The main reasons are as follows: average wage rises in general, and it is estimated that staff salary will increase; Entertainment expenses and travelling expenses are to be controlled within RMB1,000,000.

7. Financial expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Financial expenses	14	15
The main items are as follows:		
Interest income	-5	-5
Exchange gains and losses	19	20

The financial expenses of the Target Assets mainly represent interest income and exchange gains or losses generated or incurred by Po Lian.

1) The interest income is estimated based on the average balance of bank deposits during the forecast period and bank demand deposit interest rate;

2) The exchange gains and losses are estimated based on forecasted situation in 2012 and actual business operation during the forecast period. It is estimated that exchange rate of Renminbi will increase in 2013 and exchange losses will be increased.

8. Assets impairment losses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Bad debt	0	0
Total	0	0

The assets impairment losses are estimated in accordance with the accounting policies of Po Lian, among which,

The bad debt are estimated based on the expected amounts receivable with reference to the bad debt provision policy.

As accounts receivable at end of 2013 is estimated to have no significant fluctuation to that of 2012, no additional bad debt is estimated for 2013.

9. Investment income forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Income from long-term equity investment under cost method	625	625
Total	625	625

Investment income of the Target Assets represents cash dividends distributed by Baxter, which is estimated to be the same in 2013 as that of 2012.

10. Income tax expenses forecast

Items	Forecasted amounts for 2012	Forecasted amounts for 2013
Income tax expenses	261	321

It is estimated that the income tax expenses for 2013 will increase to RMB3,210,000 from RMB2,610,000 in 2012, representing an increase of 23.16%. The main reasons include the increase of the Company's profit, thereby resulting in the increase of enterprise income tax required to be paid.

(VI) Main issues affecting achievement of profit forecast and measures to be taken

The profit forecast of the Company has been taken into account of factors in all respects on basis of prudent sake. However, given that the assumptions upon which the profit forecast is based are uncertain, the Company would like to remind that investors should not place undue reliance on such information when making their investment decisions and it is advised to pay attention to the following issues:

1. Policy risk

Medicines are special type of consumer goods relating to the people's life, health and security. There are a variety of medicines in category with a higher science and technology barrier in the industry. The manufacture, circulation and consumption of medicine have been strictly supervised by the State. Therefore, the pharmaceutical industry has been considered as one of main industries which has an important effect on the national economy development, and being largely affected by change of national policy. On 7 April 2009, the State Council issued "Recent Key Implementation Program for the Medical and Health System Reform"(2009-2011), in which it has determined a reform direction for national medical security system and its implementation steps in future years, which will bring a profound effect on the development of the pharmaceutical industry. On 18 August 2009, China officially released "Implementation Opinions Regarding Establishment of National Essential Medicines System" and "National Essential Medicines List", thereby formally commencing the construction work for National Essential Medicines List. It has created a good policy environment for continuous and fast development of the pharmaceutical market.

Therefore, if the national macro economic situation, the industrial policies in pharmaceutical industry and national and local regulations have been changed, they will directly affect pharmaceutical industry sentiment, and thus may impact on operating results of the Target Assets in future.

2. Operation risk

(1) Market competition risk

The pharmaceutical industry in which the Company operates is a perfect market competitive industry. There are a variety of medicines types and categories, with high research and development expenses, long cycle and being a fully competitive market; and currently, there are a number of issues in the pharmaceutical industry, such as low level redundant construction in manufacture of medicines, low product technology, uneven quality of operators and complex of medicines circulation channels. If some enterprises take a substantial incentive or price reduction measures for surviving, it will have an impact on the operating results of the Company. At the same time, if the Company can't continuously rationalize its product mix, expand its distribution networks, enhance its technology level and strengthen its comprehensive competitive capacity, it will be in an unfavorable position under a keen competitive environment.

(2) Product price limitation risk

The prices of medicines are controlled by the State. The State often makes new requirements in medicine price policy and medicine price control to restrict medicine pricing. The prices of medicines manufactured and distributed by the Company are mostly within price range controlled by the State, and the corresponding change on price policy will have an impact on the operation and profit of the Company. The National Development and Reform Commission has adjusted prices of medicines in several times since 1998, covering a variety of common medicines, mainly Chinese and western medicines. The price reduction trend will continue to remain for a considerable period in the PRC in the future, and the overall profit margin of the industry may be continuously declined, so the profitability of the Company's pharmaceutical operation will also be reduced.

(3) Raw materials price fluctuation risk

The main raw materials of the Company include various bulk pharmaceuticals and Chinese raw medicine, and it requires procurement of about 1,000 species of bulk pharmaceuticals and Chinese raw medicine each year. The unit price of bulk pharmaceuticals is mainly affected by domestic ex-factory price, while the unit price of Chinese raw medicine is affected by the domestic prices of agricultural products. The price fluctuation of raw materials increases the Company's difficulties on control of production costs and management, thus increasing its operation risk.

(4) Medicines life-cycle risks

The research and development cycle of medicines is relative long, the life cycle of medicines is gradually shortened as affected by various factors like pharmacological value, side effect, the human body resistance time and development and launching cycle of similar new medicines. At the same time, once a protection period for new medicines had expired after launching, they will be affected by a plenty of generic medicines. Therefore, various medicines currently manufactured by the Company are affected by each of its product life cycles.

(5) Risk for research and development of new specie of medicine

The State has made strict requirements on research and development of new medicines. The development of new medicines generally divides into four stages, being preclinical study, application of clinical approval, clinical study and new medicine certificate, and application of production approval. Each stage is subject to strict requirements of laws and regulations. Among the four stages, the preclinical studies for new medicine include preparation technique, physical and chemical properties, purity, method of assay, prescription selection, form of medicine, stability, quality standard, pharmacology, toxicology and pharmacokinetics. It will be generally obtained a new medicine certificate for medicine upon approval from the State Food and Drug Administration after completion of phase III clinical trials. However, enterprise or workshop will be permitted to produce new medicine only after it obtained Pharmaceutical Production Enterprise License and met the GMP related requirements with issue of approval number. As such, the development of new medicine has characteristics of long cycle, greater difficulty and high risk. If the development of new medicine is unsuccessful, it will have an impact on production of subsequent new products.

3. *Other risks*

The Company might have an adverse impact arisen from other factors which are beyond the control of the Company like politics, economy and natural disasters.

For the above issues, the Company will take the following measures accordingly:

(1) Keep up with the national macro policy trend, study in-depth the industry development trend, promptly obtain the market information, fully understand the consumer demand, establish a rapid response mechanism, improve market analysis and response ability, really focus on customer demand, speed up the development and launching of new products, further rationalize the Company's product mix, and increase the market competitive capacity of the Company.

(2) The investment of project will adhere to the principle of acting according to its ability and measuring expenditure according to its income, overall planning, emphasis on key aspects, focus of quality, pursuit of efficiency, rational investment; fully make investigation and study, and feasibility demonstration to increase the scientific decision-making ability.

(3) Actively introduce advanced technologies and train management personnel, increase the investment in research and development, and continuously enhance the Company's independent research and development capacity and technology innovation ability.

(4) Proactively expand the market, enhance marketing service ability and level, rationalize sale networks, innovate marketing mode, strengthen efforts on brand promotion, strive for improving the image of the Company and its brands, increase market share of the Company's products.

(5) Improve the Company's corporate governance level, strengthen internal management, increase overall operational efficiency of the Company, enhance the ability to avoid risk.

(VII) Other significant events description

This consolidated profit forecast report is solely to be used by GPC for the major assets reorganization in respect of its absorption and merger of BYS by share swap and acquisition of assets of GPHL, which was compiled under the requirements of Administrative Rules on Major Asset Reorganization of Listed Companies issued by the China Securities Regulatory Commission. It is solely to be used by GPC for application and approval of such matters with the China Securities Regulatory Commission and disclosed on the website of The Stock Exchange of Hong Kong Limited.

Guangzhou Pharmaceutical Company Limited
24 August 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

立信会计师事务所(特殊普通合伙)
地址: 上海南京东路61号4楼
邮编: 200002
电话: 86-21-63391166
传真: 86-21-63392558

BDO CHINA SHU LUN PAN CPAS LLP
4F.No.61 Nan Jing Dong Road
Shanghai China.200002
Tel: 86-21-63391166
Fax:86-21-63392558

Comfort Letter for Profit Forecast

Xin Kuai Shi Bao Zi [2012] 410320
(信會師報字[2012]第410320號)

24 August 2012

To Guangzhou Pharmaceutical Company Limited

We have been engaged to review the calculations and accounting policies adopted in the consolidated profit forecast report for the year ending 31 December 2013 (hereinafter the "Profit Forecast of Target Assets") of Target Assets through issuance of shares by Guangzhou Pharmaceutical Company Limited (hereinafter the "Company", together with its subsidiaries, the "Group") for the year ending 31 December 2013. The Profit Forecast of Target Assets is set out in the announcement of the Company dated 24 August 2012, for which the directors of the Company are solely responsible.

We conducted our work in accordance with the "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast of Target Assets is prepared by the directors of the Company based on the financial information of Target Assets as at 31 December 2011.

In our opinion, the Profit Forecast of Target Assets, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the Directors of the Company as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Group in its financial statements for the year ended 31 December 2011.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Huang Weicheng

Certified Public Accountant of China: Wu Changhua

Shanghai, the PRC

(b) Letter from the financial advisers

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

24 August 2012

The Board of Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
The PRC

Dear Sirs,

Re: Guangzhou Pharmaceutical Company Limited (the "Company")
Very substantial acquisitions and connected transactions – Profit forecast in relation to the Major Assets Reorganization prepared under CASBE for the year ending 31 December 2013

We refer to the profit forecast of the Target Assets for the year ending 31 December 2013 (the "**2013 Target Assets Profit Forecast**") prepared by the Company and reviewed by BDO China Shu Lun Pan CPAs LLP ("**BDO**") in relation to the Major Assets Reorganization as set out in the announcement dated 24 August 2012 issued by the Company (the "Announcement"). Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the 2013 Target Assets Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the 2013 Target Assets Profit Forecast has been made. We have also considered the letter addressed to the Directors from BDO dated 24 August 2012 regarding the accounting policies and calculations upon which the 2013 Target Assets Profit Forecast has been made.

On the basis of the foregoing, we are of the opinion that the 2013 Target Assets Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of	For and on behalf of
Celestial Capital Limited	**Goldman Sachs (Asia) L.L.C.**
Daphne Ng	**Richard Campbell-Breeden**
Managing Director	*Managing Director*

The following is the text of a valuation report together with its explanations prepared for the purpose of inclusion in this circular received from China Valuer International Co., Ltd, an independent valuer in the PRC, in connection with its valuation as at 31 December 2011 of the Target Properties and Target Trademarks.

This report together with its explanations is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) VALUATION REPORT ON THE TARGET PROPERTIES AND TRADEMARKS

Asset valuation on the properties and trademarks held by Guangzhou Pharmaceutical Holdings Limited intended to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited

Asset Valuation Report

Zhong Tian Heng Ping Ping Zi [2012] No. 026

China Valuer International Co., Ltd.

CONTENT

DECLARATION OF THE REGISTERED ASSET VALUER

1. When executing the asset valuation, we comply with relevant laws and regulations and asset valuation standards and adhere to the principle of independence, objectivity and fairness. According to the information we collected during the execution process, the content stated in the valuation report is objective, we assume the corresponding liability on the reasonableness of the conclusion of the valuation.

2. The list of subjects and scope for valuation involved in this report were declared with the signature confirmation by the entrusting party and the parties under valuation (or the parties holding the proprietary right). The essential information required for the valuation and its truthfulness, legality and completeness were provided and ensured by them.

3. We have no existing or anticipated interest with the valuation objects in the valuation report. We have no existing or anticipated interest with the relevant parties, there is no prejudice on the relevant parties.

4. We have conducted on-site investigation on the valuation objects and the assets involved in the valuation report. We have paid necessary attention to the status of legal ownership of the valuation objects and its assets involved and inspected on the information of the legal ownership of the valuation objects and the assets involved. We have also truthfully disclosed the issue discovered and presented to the entrusting party and relevant parties for ameliorating proprietary right in order to fulfill the requirement in issuing the valuation report. However, the statement to the legal ownership in the valuation report did not represent the provision of assurance or forensic opinion by the valuer.

5. The analysis, judgment and conclusion in the valuation report issued by us are subject to the assumptions and restrictions of the valuation report. The users of the valuation report shall fully consider the assumptions, restrictions, special matters and their impact on the conclusion of valuation as set out in the valuation report.

6. The users of the valuation report should comprehend the use of the valuation report correctly and that the registered valuer and valuation institution shall not be liable to the consequences resulting from the misuse of the valuation report by the entrusting party and other users of the valuation report.

7. Except for the requirement of laws and regulations and otherwise agreed upon by the relevant parties, the whole or part of the content in the valuation report shall not be extracted, copied, quoted or disclosed in the public media.

EXTRACT OF THE ASSET VALUATION REPORT

The content below was extracted from the main body of the asset valuation report. For the understanding of the overall condition of this valuation project and reasonable comprehension of the conclusion of valuation, you should read the full text of the asset valuation report.

China Valuer International Co., Ltd. was entrusted by Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation on the market value as at 31 December 2011, the valuation date of the assets of GPHL intended to be acquired through private placement of additional shares of Guangzhou Pharmaceutical Company Limited ("GPC"), in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the market approach, the income approach and cost approach. The subjects for the valuation are the 21 properties and contributions to the patent rights of 388 trademarks from GPHL.

Market value refers to the estimated amount of the value of the valuation object in a normal and fair transaction on the valuation date under the condition that the voluntary buyer and the voluntary seller acted rationally without being forced.

China Valuer International Co., Ltd. performed appropriate valuation procedure and the valuation conclusion is as follows:

The total market value including 21 properties of the assets of GPHL and contributions to 388 patent rights of trademarks from GPHL on 31 December 2011, the valuation date is RMB281.8812 million and the particulars are as follows:

1. The market value of the 21 properties held by GPHL was RMB230.7396 million;

2. The market value of the contributions of the patent rights of 388 trademarks from GPHL was RMB51.1416 million;

According to provision of Article 11 of "Asset Valuation Standard – Valuation Report" and Article 21 of "Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises" (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12), the validity period for the use of valuation report is usually one year since the valuation date (31 December 2011 to 30 December 2012).

The users of the valuation report should pay special attention to the impact of the followings when using this valuation report:

1. Among the 21 properties included in the scope of valuation, the land use right obtained for 16 properties are allotted land use rights, the ownership certificates of 3 properties remain the affiliates of GPHL on the valuation date. According to the preliminary proposal published, the subject for this valuation is such 21 properties after the completion of the procedures of land transferring and changing ownership and property rights, this valuation report is concluded in accordance with the pre-conditions assuming that the procedures of land transferring and changing ownership and property rights have been made in a timely manner and all the fees and expenses have been paid by GPHL, the conclusion of this valuation report has not deducted the premium of granted State-owned Land Use Rights and relevant taxes which have to be paid by GPHL when carrying out the procedures of land transferring and changing ownership and property rights;

2. Among the 21 properties included in the scope of valuation, there are unauthorized and untreated construction of total gross floor area of 951,618 sq.m. in 5 properties. Such unauthorized and untreated construction of the properties are not included in the scope of valuation and their values are not included in the appraised value in this valuation report;

3. Among the 21 properties included in the scope of valuation, 2-3/F., Office Building, 45-1 Sha Mian North Street, Liwan District is leased by GPC with prepaying rental to GPHL. As at the valuation date, the balance of prepaid rental is RMB1.032 million and has not been deducted from the appraised value of such properties;

4. The percentage of contributions to 388 patent rights of trademarks from GPHL involved in the subject of this valuation is 53% which was determined by GPHL in the "Confirmation of Trademarks Contributions Percentages" (關於商標價值貢獻份額確認書);

5. The scope of valuation of trademarks in this valuation did not include the trademarks of Wanglaoji series (including the other trademarks which used with the trademarks of Wanglaoji series and the trademark used by Guangzhou Wanglaoji Pharmaceutical Company Limited as authorized by GPHL).

ASSET VALUATION REPORT (MAIN BODY)

To: Guangzhou Pharmaceutical Holdings Limited

China Valuer International Co., Ltd. was entrusted by Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation with necessary valuation procedures on the market value as at 31 December 2011 of the assets involving the 21 properties and contributions to the patent rights of 388 trademarks from GPHL which Guangzhou Pharmaceutical Holdings Limited intended to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited ("GPC") in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the market approach, the income approach and cost approach, and reports the asset valuation as follows:

I. ENTRUSTING PARTY, PROPRIETOR AND OTHER USERS OF THE VALUATION REPORT

Guangzhou Pharmaceutical Holdings Limited is both the entrusting party and the proprietor of this report, the users of this valuation report are the entrusting party and other users of the valuation report as required by the laws and regulations of the State.

Guangzhou Pharmaceutical Holdings Limited ("GPHL") was established on 7 August 1996, the address is 45 Sha Mian North Street, Liwan District, Guangzhou. The legal representative is Yang Rongming. The registered capital is Renminbi One Billion Two Hundred Fifty Two Million Eight Hundred Ten Thousand Nine Hundred Eighty Four Yuan. The nature of enterprise is company with limited liability (wholly State-owned) and its main scope of business is the operation and investment of State-owned assets; manufactured and sales of pharmaceutical intermediates, Chinese and western medicine, Chinese herbs, biotechnical products, medical devices, pharmaceutical machinery, pharmaceutical packaging materials, healthcare food and beverage products, hygiene materials and products wholly related to pharmaceutical within the scope authorized by the People's Government of Guangzhou Municipality, import and export of products related to pharmaceutical products, real estate development and leasing of self-owned properties.

GPHL is a large scale State-owned enterprise group authorized by Guangzhou municipal government with the integration of science, industry and trade. It is mainly engaged in the research and development as well as the manufacturing and operation businesses in fields such as Chinese medicine, herbal medicine, chemical raw materials, formulation and biological and pharmaceutical preparations. GPHL owns Guangzhou Pharmaceutical Company Limited ("GPC"), with its H shares listed in Hong Kong and A shares listed in Shanghai) and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan"), with its A shares listed in Shenzhen), two listed companies and six enterprises wholly controlled by them, which is the largest production base of Chinese medicine in China, the largest logistics centre of modern medicine in southern China region and one of the largest production enterprises for anti-infective preparations in the whole country.

II. OBJECTIVE OF VALUATION

Pursuant to the "Resolutions Passed at the 13th Meeting of the Fifth Session of the Board of Guangzhou Pharmaceutical Company Limited" and the "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited", GPC intended to acquire 21 properties, 388 patent rights of trademarks through private placement of additional shares. This asset valuation report from a pricing basis for the relevant parties' reference.

III. SUBJECTS AND SCOPE OF VALUATION

According to the commission of the entrusting party, the subjects for this valuation are (1) 21 properties in GPHL, (2) contributions of 388 patent rights of trademarks from GPHL.

(I) Properties

The 21 properties included in the scope of valuation are the properties in Guangzhou for the use of production and operation which are owned by GPHL (or with the right of disposal). The total gross floor area is 34,906.94 square meters, the original book value in aggregate is RMB54.7067 million, and the net book value in aggregate is RMB32.8499 million.

The particulars of the 21 properties are as follows:

Serial No.	No. of the Property ownership certificate	Property	Owner of the certificate	Gross Floor Area	Certificate purpose		Existing Use	Original book value	Net book value	Remarks
					Building	Land				
				(m^2)				*(RMB)*	*(RMB)*	
1	Yue Fang Di Zheng Zi Di No. C1491223 (粵房地證字第C1491223號)	45 Sha Mian North Street, Liwan District (荔灣區沙面北街45號)	Guangzhou Pharmaceutical Holdings Limited	2,775.59	Office	Office	Office	8,698,303.50	5,885,587.49	Allotted land use rights, part of it was leased
2	Yue Fang Di Zheng Zi Di No. C1491222 (粵房地證字第C1491222號)	45-1 Sha Mian North Street, Liwan District (荔灣區沙面北街45-1號)	Guangzhou Pharmaceutical Holdings Limited	1,022.97	Archives, office	Office	Office	7,516,011.15	5,263,896.05	Granted land use right, part of it was leased
3	Yue Fang Di Zheng Zi Di No. C1491224 (粵房地證字第C1491224號)	45-2, Sha Mian North Street, Liwan District (荔灣區沙面北街45-2號)	Guangzhou Pharmaceutical Holdings Limited	1,874.08	Office	Office	Office	406,466.14	154,453.80	Allotted land use right
4	Yue Fang Di Zheng Zi Di No. C5932126 (粵房地證字第C5932126號)	Warehouse, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District (白雲區江村公路平沙蛤乸氹1號倉庫)	Guangzhou Pharmaceutical Holdings Limited	3,429,768	Warehouse	Warehouse	Warehouse	1,400,065.73	932,372.04	Excluding the unauthorized construction area, allotted land use right, lease
5	Yue Fang Di Zheng Zi Di No. C6143847 (粵房地證字第C6143847號)	1/F, 4th Block, 28 Zengcha Road, Baiyun District (白雲區增槎路28號4棟首層)	Guangzhou Pharmaceutical Holdings Limited	694.29	Warehouse	Warehouse	Warehouse office	1,138,901.50	224,427.54	Allotted land use right, lease

Serial No.	No. of the Property ownership certificate	Property	Owner of the certificate	Gross Floor Area (m^2)	Certificate purpose Building	Certificate purpose Land	Existing Use	Original book value (RMB)	Net book value (RMB)	Remarks
6	Yue Fang Di Zheng Zi Di No. C6143846 (粵房地證字第C6143846號)	2/F, 4th Block, 28 Zengcha Road, Baiyun District (白雲區增槎路28號4棟二樓)	Guangzhou Pharmaceutical Holdings Limited	272.89	Warehouse	Warehouse	Warehouse			Allotted land use right, lease
7	Yue Fang Di Zheng Zi Di No. C6143845 (粵房地證字第C6143845號)	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District (白雲區增槎路28號4棟3-5層倉庫)	Guangzhou Pharmaceutical Holdings Limited	648.28	Warehouse	Warehouse	Warehouse			Allotted land use right, lease
8	Yue Fang Di Zheng Zi Di No. C6143849 (粵房地證字第C6143849號)	2nd Block, 30 Zengcha Road, Baiyun District (白雲區增槎路30號自編2棟)	Guangzhou Pharmaceutical Holdings Limited	4,044.32	Warehouse	Warehouse	Warehouse	5,781,200.81	826,057.75	Excluding the unauthorized construction area, allotted land use right, lease
9	Yue Fang Di Zheng Zi Di No. C6143848 (粵房地證字第C6143848號)	3rd Block, 30 Zengcha Road, Baiyun District 白雲區增槎路30號自編3棟	Guangzhou Pharmaceutical Holdings Limited	5,041.21	Warehouse	Warehouse	Warehouse		1,589,201.94	Excluding the unauthorized construction area, allotted land use right, lease
10	Yue Fang Di Zheng Sui Zi Di No. 1050036348 (粵房地權證穗字第1050036348號)	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District (白雲區石井街潭村北約牌坊路88號1-2層)	Guangzhou Pharmaceutical Holdings Limited	2,778.24	1/F is for bike garage and garage, 2/F is for residential use	Without certificate	Warehouse	17,457,021.29	13,102,745.92	Granted land use right, lease
11	Yue Fang Di Zheng Sui Zi Di No. 1050036340 (粵房地權證穗字第1050036340號)	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District (白雲區石井街潭村北約牌坊路86號1-3層)	Guangzhou Pharmaceutical Holdings Limited	3,432.18	Warehouse	Without certificate	Warehouse			Granted land use right, lease
12	Yue Fang Di Zheng Zi Di No.C5932124 (粵房地證字第C5932124號)	1/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街19-1號首層)	Guangzhou Pharmaceutical Holdings Limited	82.3669	Warehouse		Warehouse auxiliary facilities	26,425.15	792.75	Allotted land use right, lease
13	Yue Fang Di Zheng Zi Di No. C5932125 (粵房地證字第C5932125號)	2/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街19-1號二層)	Guangzhou Pharmaceutical Holdings Limited	104.0703	Warehouse	Complex	Warehouse auxiliary facilities			Allotted land use right, lease
14	Yue Fang Di Zheng Zi Di No. C5942848 (粵房地證字第C5942848號)	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街4號八至九樓)	Guangzhou Pharmaceutical Holdings Limited	684.4436	Office	Complex	Office	754,747.11	233,559.20	Allotted land use right, lease
15	Yue Fang Di Zheng Zi Di No. C5932123 (粵房地證字第C5932123號)	2/F of East Tower, 6 Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街6號二樓東樓)	Guangzhou Pharmaceutical Holdings Limited	310.3719	Commercial	Commercial	Office	214,637.60	43,121.67	Allotted land use right, lease
16	Yue Fang Di Zheng Zi Di No. C5942849 (粵房地證字第C5942849號)	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街6號後座三層)	Guangzhou Pharmaceutical Holdings Limited	414.9626	Commercial		Office	185,468.67	37,261.22	Allotted land use right, lease

Serial No.	No. of the Property ownership certificate	Property	Owner of the certificate	Gross Floor Area	Certificate purpose: Building	Certificate purpose: Land	Existing Use	Original book value	Net book value	Remarks
				(m^2)				(RMB)	(RMB)	
17	Sui Fang Zheng Zi Di No.0059002 / Sui Di Zheng Zi Di No.0093202 (穗房證字第0059002號 / 穗地證字第0093202號)	1-2/F, 118 West Heping Road, Liwan District (荔灣區和平西路118號首二層)	Guangzhou Pharmaceutical Corporation	4,224.48	Warehouse	Without Certificate	Warehouse office	2,171,979.46	380,521.54	Allotted land use right, lease
18	Yue Fang Di Zheng Zi Di No. C6190029 (粵房地證字第C6190029號)	Rear Block, 282 Beijing Road, Yuexiu District (越秀區北京路282號後座)	Guangzhou Pharmaceutical Holdings Limited	215.51	Factory/plant	Industrial, mining, warehousing land	Commercial	381,776.57	381,776.57	Excluding the unauthorized construction area, allotted land use right, lease
19	Yue Fang Di Quan Zheng Sui Zi Di No. 0150088038 粵房地權證穗字第0150088038號	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District (海珠區寶崗大道路246號首層5號)	Guangzhou Chinese Medicine Corporation	99.34	Commercial	Without certificate	Commercial			Granted land use right
20	Yue Fang Di Zheng Zi Di No. C6465931 (粵房地證字第C6465931號)	Shop No.2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District (荔灣區花地大道紅棉苑丹輝閣首層2號鋪)	Guangzhou Chinese Medicine Corporation	293.2134	Shopping centre	Commercial and residential	Mall	3,705,934.00	1,818,687.03	Granted land use rights, lease
21	Yue Fang Di Quan Zheng Sui Zi No. 0140082868 (粵房地權證穗字第0140082868號)	Unit 2, 12 Saiba Road, Liwan District (荔灣區塞壩路12號自編2號)	Guangzhou Pharmaceutical Holdings Limited	2,464.36	Office	Office	Office	4,867,794.20	1,975,470.95	Excluding the unauthorized construction area, allotted land use right, lease
	Fixed Assets — Property Total			**34,906.94**				**54,706,732.88**	**32,849,933.46**	

For the 21 properties included in the scope of valuation as set out in the table above, a total of 16 properties, namely property 1, 3-9, 12-18 and 21, have not applied for the granted land use right, a total of 3 properties, namely property 17 and 19-20, have not applied for the transfer of ownership. According to the preliminary proposal published, the subject for this valuation is such 21 properties after the procedures of land transferring and changing ownership and property rights, this valuation report is concluded in accordance with the pre-conditions assuming that the completion of procedures of land transferring and changing ownership and property rights have been made in a timely manner and all the fees and expenses have been paid by GPHL, the appraised value has not deducted the premium of granted State-owned Land Use Rights and relevant taxes which have to be paid by GPHL when carrying out the procedures of land transferring and changing ownership and property rights; in addition, the original book value and net value above does not include the amount of land premium and transfer of ownership fee which were intended to pay.

Among the 21 properties included in the scope of valuation, as at 31 December 2011, save for certain of which leased to usage of GPC (including its subsidiaries) and its associate Guangzhou Pharmaceuticals Corporation (including its subsidiaries), and Block 3, Baiyun District was sized by court (as at the date of this valuation report, the seizure was lifted), there is no other rights thereof including any pledge and guarantee. Besides, the total gross floor area of 34,906.94 sq.m. of the 21 properties included in the scope of valuation is that of authorized area and takes no account of unauthorized gross floor area of properties 4, 8-9, 18 and 21, which are in aggregate of 951,618 sq.m.

(II) Exclusive right for the use of 388 trademarks

1. Determination of the subjects and scope of valuation

The valuation of trademarks commissioned in this project involves 388 trademarks of GPHL. According to the actual use of and revenue derived from those 388 trademarks, the trademarks can be divided into two categories:

Trademarks in category (1): the 54 exclusive rights for the use of trademarks authorized by GPHL to GPC and its subsidiaries, which are the principal trademarks GPC and its subsidiary use in their production and operation.

Trademarks in category (2): the 334 exclusive rights for the use of the remaining trademarks, including the 57 trademarks registered abroad by GPHL which are pending for valuation and the 277 trademarks registered in China by GPHL, which are mainly for associated or defensive purpose.

The contributions percentage to 388 patent rights of trademarks included in the scope of valuation was determined according to "Confirmation of Trademarks Contributions Percentages" (關於商標價值貢獻份額確認書) by GPHL, and the contributions percentage to those 388 patent rights of trademarks from GPHL is 53%.

2. The basic information of Guangzhou Pharmaceutical Holdings Limited, the registered owner of trademarks

For details of the basic information of Guangzhou Pharmaceutical Holdings Limited, the registered owner of trademarks, please refer to the introduction of the profile of Guangzhou Pharmaceutical Holdings Limited, the entrusting party in this report.

3. *The registration of 388 trademarks*

(1) The detailed information of the 54 exclusive rights for the use of trademarks authorized by GPHL to GPC and its subsidiaries are set out in the table below:

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
Trademarks of Xing Qun series					
1	GPHL	155258		Western Medicine	30 March 1982 to 28 February 2013
2	GPHL	150105		Ruihua You（瑞花油）	15 September 1981 to 28 February 2013
3	GPHL	150106		Pilulae viticis cannabifolii（牡荊丸）	15 September 1981 to 28 February 2013
4	GPHL	848199	元 神	Danggui Nanzao Tea Granule（當歸南棗茶沖劑）	21 June 1996 to 20 June 2016
5	GPHL	256482		Tonic drink	20 July 1986 to 19 July 2016
6	GPHL	850196	怡生	Medicine for human use	28 June 1996 to 27 June 2016
7	GPHL	835119		Bird nest with rock sugar	28 April 1996 to 27 April 2016
Trademarks for Zhong Yi series					
8	GPHL	781270	中一	Mineral water, chrysanthemum tea, non-alcoholic drink, non-alcoholic fruit juice drink	7 October 1995 to 6 October 2015
9	GPHL	661178		Herbal jelly	14 October 1993 to 13 October 2013
10	GPHL	713652		Non-alcoholic drink, soft drink, mineral water and solid drink	7 November 1994 to 6 November 2014

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
11	GPHL	588610		Medicine for human use	30 March 1992 to 29 March 2022
12	GPHL	708835	紫地	Medicine for human use	7 October 1994 to 6 October 2014
13	GPHL	170359		Chinese Medicine	30 February 1983 to 28 February 2013
14	GPHL	139307		Chinese Patent Medicine	5 August 1980 to 28 February 2013
15	GPHL	171212		Chinese Medicine	15 February 1983 to 28 February 2013
16	GPHL	339914		Chinese and Western Patent Medicine	20 February 1989 to 19 February 2019
Trademarks for Chen Li Ji series					
17	GPHL	651324		Chinese Patent Medicine	28 July 1993 to 27 July 2013
18	GPHL	284093	陳李濟	Chinese Patent Medicine	20 April 1987 to 19 April 2017
19	GPHL	822299		Medical nutritional drink, medical nutritional food, nutritional food products, medicated candy, baby food, sanitary napkins, haemostatic tube, slimming, headache pills	14 March 1996 to 13 March 2016
20	GPHL	605208		Chinese patent medicine	10 August 1992 to 9 August 2012
21	GPHL	147894	杏和堂	Chinese medicine	30 June 1981 to 28 February 2013

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
22	GPHL	815038		Food products, seasoning like soy products, coffee, sugar	14 February 1996 to 13 February 2016
23	GPHL	807121		Meat, processed meat, fish, canned food, preserved food and dairy products	14 January 1996 to 13 January 2016

Trademarks for Qi Xing series

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
24	GPHL	145345		Chinese medicine	15 March 1981 to 28 February 2013
25	GPHL	248428		Chinese patent medicine	15 April 1986 to 14 April 2016
26	GPHL	798245		Chinese patent medicine for human use	14 December 1995 to 13 December 2015
27	GPHL	812250		Medicine for human use	7 February 1996 to 6 February 2016
28	GPHL	653407		Medicine for human use	14 August 1993 to 13 August 2013
29	GPHL	653423	天凤	Medicine for human use	14 August 1993 to 13 August 2013
30	GPHL	652155	奇星	Chinese patent medicine (medicine for human)	7 August 1993 to 6 August 2013
31	GPHL	653424	四方	Medicine for human use	14 August 1993 to 13 August 2013
32	GPHL	653425	新雪	Medicine for human use	14 August 1993 to 13 August 2013
33	GPHL	626102		Chinese patent medicine	20 January 1993 to 19 January 2013
34	GPHL	723369	奇星	Medicine for human use	7 January 1995 to 6 January 2015

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
35	GPHL	990820		Medical nutritional food, medical nutritional drink, medical drink, nutritional products for medical use, medicated candy, active pharmaceutical ingredients (for human), medicine for human use, herbal tea	28 April 1997 to 27 April 2017
Trademarks for Jing Xiu Tang series					
36	GPHL	135276		Veterinary medicine, Chinese patent medicine	5 February 1980 to 28 February 2013
37	GPHL	268996		Western medicine	20 November 1986 to 19 November 2016
Trademarks for Pan Gao Shou series					
38	GPHL	171203		Chinese patent medicine	15 February 1983 to 28 February 2013
39	GPHL	246145		Chinese medicine, patent medicine	15 March 1986 to 14 March 2016
40	GPHL	786868		Candy, syrup, molasses, peppermint, edible spice, plant extract sweetener, tea	28 October 1995 to 27 Ocotober2015
41	GPHL	717049		Medicine for human use	28 November 1994 to 27 November 2014
42	GPHL	786867		Candy, syrup, molasses, peppermint, edible spice, plant extract sweetener, tea	28 October 1995 to 27 October 2015
43	GPHL	689167		Medicine for human use	14 May 1994 to 13 May 2014
44	GPHL	782783		Beverage machine, flavours for drink production, fruit drink, fruit juice, lemon syrup, dietary mineral water, syrup for drink production, grape juice, lemonade	14 October 1995 to 13 October 2015

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
45	GPHL	782784	潘高壽	Beverage formulation, fruit juice drink, fruit juice, lemon syrup, dietary mineral water, syrup for drink production, grape juice, lemonade	14 October 1995 to 13 October 2015
46	GPHL	786918	潘高寿	Candy, syrup, honey, peppermint, edible spice, plant extract sweetener, tea	28 October 1995 to 27 October 2015
47	GPHL	786928	潘高壽	Candy, syrup, honey, peppermint, edible spice, plant extract sweetener, tea	28 October 1995 to 27 October 2015
48	GPHL	795079	潘高寿	Jam, edible fruit jelly, frozen fruits, fruit jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup, dietary protein	28 November 1995 to 27 November 2015
49	GPHL	801146	潘高壽	Jam, edible fruit jelly, frozen fruits, fruit jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup, dietary protein	21 December 1995 to 20 December 2015
50	GPHL	689166	PGS 潘高壽	Medicine for human use	14 May 1994 to 13 May 2014
51	GPHL	781193	PGS	Jam, edible fruit jelly, frozen fruits, fruit jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup, dietary protein	7 October 1995 to 6 October 2015
52	GPHL	782782	PGS	Beverage formulation, flavours for drink production, fruit juice drink, fruit juice, lemon syrup, dietary mineral water, syrup for drink production, grape juice, lemonade	14 October 1995 to 13 October 2015

No.	Registered owner	Trademark Registration Certificate No.	Name of Trademark	Products approved to use	Valid registration period
53	GPHL	782781		Beverage formulation, flavours for drink production, fruit juice drink, fruit juice, lemon syrup, dietary mineral water, syrup for drink production, grape juice, lemonade	14 October 1995 to 13 October 2015
54	GPHL	780863		Jam, edible fruit jelly, frozen fruits, fruit jelly, milk, milk beverage, edible aquatic plant extracts, vegetable soup, dietary protein	7 October 1995 to 6 October 2015

(2) The detailed information of the 57 exclusive rights registered abroad by GPHL are set out in the table below:

Serial No.	Registered owner	Place of registration	Name of Trademark	Trademark Registration Certificate No.	Category of registration	Date of registration	Validity period
1	GPHL	Macau	GPC and Logo	N/011113	5	2003/7/9	2017/7/9
2	GPHL	Hong Kong	GPC and Logo	B15216/ 2003	32	2003/12/10	2019/10/18
3	GPHL	Hong Kong	GPC and Logo	B15118/ 2003	30	2003/12/9	2019/10/18
4	GPHL	Taiwan	GPC and Logo	01062855	5	2003/11/1	2013/10/31
5	GPHL	Australia	GPC and Logo	933916	5	2002/11/12	2012/11/11
6	GPHL	Cambodia	GPC and Logo	KH18083/ 03	5	2003/3/21	2013/3/20
7	GPHL	New Zealand	GPC and Logo	673344	5	2003/2/17	2020/2/17
8	GPHL	Thailand	GPC and Logo	TM200961	5	2004/8/16	2013/3/11
9	GPHL	Canada	GPC and Logo	TMA662841	5	2006/4/19	2021/4/19
10	GPHL	Malaysia	GPC and Logo	O2014235	5	2002/11/15	2012/11/15

Serial No.	Registered owner	Place of registration	Name of Trademark	Trademark Registration Certificate No.	Category of registration	Date of registration	Validity period
11	GPHL	Russia, Vietnam and Japan	GPC and Logo (Madrid)	809104	5	2003/8/22	2013/8/22
12	GPHL	Macau	Guangzhou Pharmaceutical	N/011112	5	2003/7/9	2017/7/9
13	GPHL	Hong Kong	Guangzhou Pharmaceutical	B08398/ 2004	5	2002/11/7	2019/11/7
14	GPHL	Taiwan	Guangzhou Pharmaceutical	01073937	5	2003/12/1	2013/11/30
15	GPHL	Great Britain and North Ireland	Guangzhou Pharmaceutical	2325346	5	2003/3/4	2013/3/4
16	GPHL	Cambodia	Guangzhou Pharmaceutical	KH18274/ 03	5	2003/3/21	2013/3/20
17	GPHL	Vietnam	Guangzhou Pharmaceutical	51658	5	2002/12/4	2012/12/3
18	GPHL	Singapore	Guangzhou Pharmaceutical	T02/ 17470A	5	2002/11/11	2012/11/11
19	GPHL	New Zealand	Guangzhou Pharmaceutical	673345	5	2004/3/29	2020/2/17
20	GPHL	Russia	Guangzhou Pharmaceutical	253671	5	2002/11/18	2012/11/18
21	GPHL	Japan	Guangzhou Pharmaceutical	4760804	5	2004/4/2	2014/4/2
22	GPHL	Korea	Guangzhou Pharmaceutical	40200456070	5	2005/12/15	2015/12/15
23	GPHL	Canada	Guangzhou Pharmaceutical	TMA662413	5	2006/4/10	2021/4/10
24	GPHL	Malaysia	Guangzhou Pharmaceutical	O2014236	5	2002/11/15	2012/11/15
25	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01034482	33	2003/2/16	2012/11/15

Serial No.	Registered owner	Place of registration	Name of Trademark	Trademark Registration Certificate No.	Category of registration	Date of registration	Validity period
26	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01022026	5	2002/11/16	2012/11/15
27	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01022027	5	2002/11/16	2012/11/15
28	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01030080	10	2003/1/16	2013/1/15
29	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01032185	30	2003/2/1	2013/1/31
30	GPHL	Taiwan	Guangzhou Pharmaceutical and GPC sphere	01030933	32	2003/1/16	2013/1/15
31	GPHL	Taiwan	Yuan Tian brand and logo	01022110	5	2002/11/16	2012/11/15
32	GPHL	Taiwan	Yuan Tian brand and logo	01024459	32	2002/11/16	2012/11/15
33	GPHL	Taiwan	Yuan Tian brand and logo	01022105	5	2002/11/16	2012/11/15
34	GPHL	Taiwan	Jing Xiu Tang and logo	01022111	5	2002/11/16	2012/11/15
35	GPHL	Taiwan	Jing Xiu Tang and logo	01022101	5	2002/11/16	2012/11/15
36	GPHL	Taiwan	Jing Xiu Tang and logo	01024457	32	2002/11/16	2012/11/15
37	GPHL	Australia	Qixing logo	845227 (1051389)	5	2004/8/23	2014/8/23

Serial No.	Registered owner	Place of registration	Name of Trademark	Trademark Registration Certificate No.	Category of registration	Date of registration	Validity period
38	GPHL	U.S.A., Singapore and Australia	Qixing logo (Madrid)	845227	5	2004/8/23	2014/8/23
39	GPHL	Vietnam, Korea	En Tong Zai Zao and logo	902276	5	2006/10/25	2016/10/25
40	GPHL	Hong Kong	Qi Xing	300174429	5	2004/3/10	2014/3/9
41	GPHL	U.S.A., Singapore and Australia	Qi Xing (Madrid)	856337	5	2004/8/23	2014/8/23
42	GPHL	Korea, Belarus, Russian Federation and Vietnam	Qi Xing (Madrid)	902107	5	2006/10/25	2016/10/25
43	GPHL	Taiwan	Xing brand and logo	01024458	32	2002/11/16	2012/11/15
44	GPHL	Taiwan	Xing brand and logo	01022109	5	2002/11/16	2012/11/15
45	GPHL	Taiwan	Xing brand and logo	01022104	5	2002/11/16	2012/11/15
46	GPHL	Taiwan	Xing Qun and logo	01024461	32	2002/11/16	2012/11/15
47	GPHL	Taiwan	Xing Qun and logo	01022114	5	2002/11/16	2012/11/15
48	GPHL	Taiwan	Xing Qun and logo	01022106	5	2002/11/16	2012/11/15
49	GPHL	Taiwan	Xing He Tang logo	01022107	5	2002/11/16	2012/11/15
50	GPHL	Taiwan	Xing He Tang logo	010124460	32	2002/11/16	2012/11/15
51	GPHL	Laos	Zhong Yi and logo	12896	5	2006/3/10	2015/9/16
52	GPHL	Australia	Zhong Yi and logo	1073498	5	2005/9/2	2015/9/2

Serial No.	Registered owner	Place of registration	Name of Trademark	Trademark Registration Certificate No.	Category of registration	Date of registration	Validity period
53	GPHL	Cambodia	Zhong Yi and logo	22915/05	5	2005/12/9	2015/9/16
54	GPHL	Russia	Zhong Yi brand and logo	236310	5	2001/9/19	2021/9/19
55	GPHL	Thailand	Zhong Yi brand and logo	TM184722	5	2001/10/25	2021/10/24
56	GPHL	Canada	Zhong Yi brand and logo	TMA662216	5	2006/4/5	2021/4/5
57	GPHL	England	Cai Zhi Lin and logo	2313685	5, 40, 41	2003/3/21	2012/10/20

(3) For details of the other 277 trademarks registered in China by GPHL, please refer to the appendix of this report.

4. *The ownership of 388 trademarks and other legal matters*

The registered owner of all 388 trademarks included in the scope of valuation is Guangzhou Pharmaceutical Holdings Limited, the owner of the exclusive right for the use of trademarks is also Guangzhou Pharmaceutical Holdings Limited.

The exclusive right to use the above 388 patent rights of trademarks has no restriction in other rights such as pledge, no trademark infringement and other relevant litigation.

5. *The licensing for part of the trademarks*

Among the 388 trademarks included in the scope of valuation, the licensing for part of the trademarks is as follow:

On 1 September 1997, GPC signed a trademark licensing agreement with GPHL: GPHL allowed GPC to enjoy the right of exclusive use of 38 trademarks of “Qun Xing” etc. and GPC may license its subsidiaries to use the 38 trademarks of “Qun Xing” etc. without the consent of GPHL. The trademark licensing period was 10 years. The Agreement was automatically renewed for another 10 years upon expiry in 2007, effective until September 2017.

On 8 November 2004, GPC signed a supplementary agreement of trademark licensing agreement with GPHL in order to revise and supplement the previous trademark licensing agreement: 5 licensed trademarks of “Wang Lao Ji” etc. were deleted from and 36 licensed trademarks of "Zi Di" etc. were added to the trademarks licensing agreement signed in 1997 which should be performed pursuant to the agreement signed in 1997 and the supplementary agreement signed in 2004.

The licensing fee of the trademarks licensing contract was agreed that "the licensee shall pay one thousandth (1‰) of the net amount of sales as shown on the financial statements prepared according to the requirement of the Chinese Accounting Standard as the licensing fee to the licensor. The licensing fee shall be paid based on the actual days of licensing when the licensing period is less than 1 year. The licensor agreed that when the licensee license the use of the licensed trademarks to the subsidiaries listed in the appendix of the agreement, the above licensing fee can be paid directly by such subsidiaries to the licensor."

Among the trademarks set out in appendices of the trademark license agreement and supplemental agreement to the trademark license agreement, 7 trademarks were declared invalid due to expiration of original term without renewal and were excluded from the scope of this valuation, and 8 trademarks were authorized to pharmaceutical trading companies including Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., Guangzhou Pharmaceuticals Corporation, Guangzhou Pharmaceutical Import & Export Co., Ltd. and others without actual application, thus were excluded in the scope of major trademarks of GPC and classified as category (2) trademarks in this valuation.

6. The application of part of the trademarks

(1) The trademarks for Xing Qun series

The trademarks for Xing Qun series are mainly the characters of "Qun Xing"（群星）and the logo of "Qun Xing" and trademark of "Yi Sheng"（怡生）etc. Trademarks for such series were authorized by GPHL for Guangzhou Xing Qun Pharmaceutical Co., Ltd., a subsidiary of GPC to use. The characters of "Qun Xing"（群星）and the logo of "Qun Xing" are mainly used on its products.

Guangzhou Xing Qun Pharmaceutical Co., Ltd. was commissioned by Premier Zhou Enlai (周恩來總理) and developed "Maitong" (脈通), the first medicine developed in China to cure vascular sclerosis (血管硬化症) in 1971, which established Xing Qun's status as the "originator" in the production of soft capsule. Mujingyou Diwan（牡荊油滴丸）, Vitamin E Soft Capsules（維E膠丸）and Xin Nao Qing Ruan Jiao Nang（心腦清軟膠囊）which are the pharmaceuticals in curing the cardiovascular and cerebrovascular (心腦血管) diseases were developed and launched one after another and won wide recognition by the consumers. With the joining of the well known embrocation factory like Er Tian Tang (二天堂) and Tong Ren (同仁堂) etc. at the early construction of plant, Xing Qun inherited various "classical formula" and improved and developed a number of embrocation products like Er Tian You,（二天油）, Tongqiao Jiuxin You（通竅救心油）, Hong Hua You（紅花油）etc. in which Xing Qun has become a veritable "family of embrocation" (藥油世家). In late 1960s, Xing Qun developed the instant granule (顆粒沖劑) successfully, and innovated Xiasangju granule (夏桑菊顆粒) in 1985 which brought the product of granule to prosperous times, the instant granule well known by the majority of consumers also includes Pediatric Paracetamol Atificial Cow-bezoarand Chlorphenamine Maleate（小兒氨酚黃那敏）and Zhi Yan Xiao（痔炎消）etc. Xing Qun also has a long history in producing tincture syrup (酊水糖槳) and oral liquid (口服液), the famous products include An Shen Bu Nao Oral Liquid（安神補腦液）and Compound Glycyrrhiza Oral Solution（複方甘草口服溶液）etc.

In January 2009, all the 9 dosage forms including capsule, soft capsule, granule, dripping pills, oral solution, mixture (oral liquid), syrup, tincture and liniment have passed the GMP authentication of State Food and Drug Administration. In May 2006, Xiasangju (夏桑菊) of Xing Qun was recognized as the secret herbal tea formula of intangible cultural heritage. In March 2009, the secret formula of Er Tian You (二天油) (contained the preparation of process of hei you (黑油)) was recognized as the cultural heritage of Chinese medicine in Chinese Medicine Cultural Heritage of Lingnan, Guangdong Province. In September 2006, the Xiasangju granule (夏桑菊顆粒) and An Shen Bu Nao Oral Liquid (安神補腦液) were recognized as the renowned brand name products in Guangdong Province. In September 2008, Guangzhou Municipality Bureau of Tourism and Guangzhou Economic and Trade Commission entitled Xiasangju granule (夏桑菊顆粒) of Xing Qun as "My favorite top ten souvenirs in Guangzhou". Guangzhou Xing Qun Pharmaceutical Co., Ltd. (with Qun Xing as registered trademark) was also recognized as "China Time-honoured Brand" (中華老字號) by Ministry of Commerce.

As of May 2012, after the valuation date, Guangzhou Xin Qun Pharmaceutical Co., Ltd. was renamed as Guangzhou Baiyunshan Xin Qun Pharmaceutical Co., Ltd..

(2) Trademarks for Zhong Yi serie

The trademarks for Zhong Yi series are mainly the characters of "Zhong Yi"（中一）and the derivative graphic trademark of Zhong Yi brand（中一牌）, logo on the product package etc. as well as "Golden Carp brand and logo" (鯉魚牌及圖), "Ju Xian brand and logo" (橘仙牌及圖), "Zhen Hai Lou brand and logo" (鎮海樓及圖), " Zi Di" (紫地), "Zhong Sheng brand and logo" (眾勝牌及圖) etc. The trademarks for such series were authorized by GPHL for Guangzhou Zhong Yi Pharmaceutical Co., Ltd., a subsidiary of GPC to use. The characters of "Zhong Yi" and the derivative graphic trademark of Zhong Yi brand as well as the logo on the product package are mainly used on its products.

Zhong Yi was formerly known as Huang Zhonghuang pharmacy (黃中璜藥店). After over 300 years since 1662. Huang Zhonghuang pharmacy (黃中璜藥店) became Zhong Yi of which Bao Zi Tang (保滋堂) was the main body and merged with 37 pharmacies and pharmaceutical factories like Guang Zi Guan, Ji Lan Guan (集蘭館), Liang Cai Xin (梁財信) and Liu Yi Zhai (劉貽齋), both were the time-honored brands.

Guangzhou Zhong Yi Pharmaceutical Co., Ltd. formed the product series that led by 5 major product lines including curing diabetes (糖尿病), digestive tract (消化病), gynecology (婦科), surgery (外科) and ENT medicine (五官科), with 6 dosage forms and over 130 categories. It formed a systematic mechanism of protection of intellectual property right and owned over 100 patents. "Xiaoke Wan" (消渴丸), the national new key product was awarded the China Patent Excellence Award. The innovation foundational platform of enterprise technology was established in which "Guangdong Province Center for Diabetes Drug Technological Research and Development" was the principal body. The evidence-based medical research of Xiaoke Wan (National 863 program project), research on pharmaceutical economics and re-evaluation after product launch were commenced, high and innovative technology such as automatic production system and online monitoring and controlling were widely applied in the production process, the eco-industrial chain of the integration of the construction of herb base, R&D in technology and production and sales was formed.

In November 2010, Zhong Yi was selected as the Top Ten Brands of reliable pharmaceutical quality in China of 2010（消費者信賴的中國十大藥業品質品牌）, Top 500 Quality Companies in China（中國品質500強）. In September 2010, the secret formula of Angong Niuhuang Wan (安宮牛黃丸) and Bao Ying Dan (保嬰丹) of Bao Zi Tang (保滋堂) were recognized as the cultural heritage of Chinese medicine in Chinese Medicine Cultural Heritage of Lingnan, Guangdong Province. In December 2009, the Patent No. ZL200610075069.6 held by Guangzhou Zhong Yi Pharmaceutical Co., Ltd. (a compound medicine to cure diabetes and its preparation) was awarded China invention Patent Award of Excellence（中國發明專利優秀獎）. In December 2003, Zhong Yi was awarded the honorary medal of "the top ten best selling brands of pharmaceutical products in China market. In November 2001, the trademark of Zhong Yi was recognized as the "renowned trademarks in Guangzhou" by Administration of Industry and Commerce of Guangzhou Municipality. Weinaian Capsules（胃乃安膠囊）, Xiaoke Wan（消渴丸）, Zhangyanming Pian（障眼明片）won the title of "Renowned products of Guangdong Province" for multiple times. Xiaoke Wan, Weinaian Capsules, Zhangyanming Pian and Jiaweihuoxiang Zhenqi Wan（加味霍香正氣丸）won the "Reliable pharmaceutical brand"（百姓放心藥品牌）and "consumers' favourite brand"（消費者喜愛的知名品牌）. Guangzhou Zhong Yi Pharmaceutical Co., Ltd. was also recognized as "China Time-honoured Brand" by Ministry of Commerce. After the valuation date, the State Administration for Industry and Commerce Trademark Office issued

"The 150 well-known trademarks recognized by the Trademark appeal Board in review of Trademark Oppositions, dispute cases"（商標評審委員會在商標異議複審、爭議案件中認定的150件馳名商標）, the trademark of "Zhong Yi" was recognized as "Well-known trademark".

As of May 2012, after the valuation date, Guangzhou Zhong Yi Pharmaceutical Co., Ltd. was renamed as Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd..

(3) Trademarks for Chen Li Ji series

The trademarks for Chen Li Ji series are mainly the characters of "Chen Li Ji"（陳李濟）and the derivative graphic trademark as well as the characters of Tong Zhi Tang（同治堂）and Xing He Tang（杏和堂）and the derivative graphic trademarks. The trademarks for such series were authorized by GPHL for Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd., a subsidiary of GPC. The characters of "Chen Li Ji" and the derivative graphic trademark and of Chen Li Ji brand are mainly used its products.

Chen Li Ji was established in AD 1600 (during the reign of Wanli (萬曆) Emperor of the Ming Dynasty (明朝)), which has a history of over 400 years up till now. Chen Li Ji is one of the oldest time-honored brands existing in pharmaceutical industry of China and it is also recognized as "China Time-honoured Brand" by the State and "Time-honored enterprise of Guangzhou" by the People's Government of Guangzhou Municipality. The traditional Chinese medicine culture of Chen Li Ji was selected in the list of National Intangible Cultural Heritage in June 2008 as well. In September 2010, Chen Li Ji was recognized as the oldest pharmaceutical company in the world in the Guinness Record of UK.

Currently, Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. mainly produces Chinese medicine in oral solid dosage forms, the dosage forms include the traditional pills and the modern capsules, tablets, granules and dripping pills. The six product series include the cardiovascular and cerebrovascular (心腦血管), rheumatism (風濕骨痛), gynecologic (婦科), nourishment and healthcare (滋補保健), respiratory (呼吸) and digestive (消化) category. The key products include Zhuangyao Jianshen Wan（壯腰健腎丸）, Wu Chi Pai Feng Wan（烏雞白鳳丸）, Bu Pi Yi Chang Wan（補脾益腸丸）, Hou ji ling capsules（喉疾靈膠囊）and Kechuanshun Wan（咳喘順丸）etc. A number of products obtained the invention patent of the State and titles of "brand name products", "quality products" of the state, the provinces and the municipalities. Zhuangyao Jianshen Wan (壯腰健腎丸), the leading product has been sold all over the country while it has a market share of over 50% and surpassed all the products with the same name in China. The Bu Pi Yi Chang Wan (補脾益腸丸) developed by the "double-layer pills", an innovative processing, benefit the patients of colitis in the continuously expanded area in China, the product series of Wu Chi Pai Feng Wan (烏雞白鳳丸) which is renowned in Southern China and the Hou ji ling capsules (喉疾靈膠囊) which cure "sore throat" are gradually expanded to other regions in China.

Kun Xian Capsules（昆仙膠囊）, the national new key product produced by Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. was launched in 2006. The product is mainly for curing the autoimmune diseases (重大疑難疾病) like Rheumatoid Arthritis (類風濕關節炎) (RA), which are difficult to cure as recognized internationally. The product is the only successful compound Chinese medicine project in the key scientific and technological research project of the Ninth Five-Year Plan and is listed as the "National hi-tech industrialization project". In 2008, Chen Li Ji herbal drink produced by unique processing and the secret formula of 100-year entered the domestic market of health-care drinks. In 2008, Chen Li Ji was recognized as the "enterprise of high and new technology" and undertook the drafting of the standard of 21 medicines in the National Medicine Standards Enhancement Programme. The technology and innovation provide an effective guarantee for the continuous development of Chen Li Ji.

In 1993, Guangzhou Chen Li Ji Pharmaceutical Factory obtained the certificate of China Time-honoured Brand issued by Ministry of Domestic Trade of the People's Republic of China. In 2003, Guangzhou Chen Li Ji Pharmaceutical Factory was recognized as the time-honored brand in Guangzhou by the People's Government of Guangzhou Municipality. In 2004, the pills (honeyed pills, small honeyed pills and water pills) have passed the national GMP authentication. In 2005, the capsule preparations (including the preprocessing extract of Chinese herb) passed the National GMP examination and authentication. In 2001, Guangzhou Chen Li Ji Pharmaceutical Factory obtained the GMP authentication of TGA, Australia. In 2005, Guangzhou Chen Li Ji Pharmaceutical Factory was awarded the " Most Consumers' Choice Award"（消費者推薦獎）by Guangzhou Consumer's Council. In 2008, Kun Xian Capsules (昆仙膠囊) of Guangzhou Chen Li Ji obtained the invention patent in Russia. In 2005, the trademark of "Chen Li Ji" won the title of "renowned brand of Guangzhou". In 2008, the trademark of "Chen Li Ji" won the title of "renowned trademark of Guangdong Province". In 2005, Wu Chi Pai Feng Wan (烏雞白鳳丸) was entitled "the renowned products of Guangdong Province". In November 2011, "Chen Li Ji" was recognized as the famous Chinese trademark by the Trademark Office of the State Administration for Industry & Commerce of the People's Republic of China (recognized in the opposition procedures).

As of May 2012, after the valuation date, Guangzhou Chen Li Ji Pharmaceutical Co., Ltd. was renamed as Guangzhou Baiyunshan Chen Li Ji Yi Pharmaceutical Co., Ltd..

(4) The trademarks for Qi Xing series

The trademarks for Qi Xing series are mainly the characters of "Qi Xing"（奇星）and the derivative graphic trademark, En Tong Zai Zao (恩同再造) graphic trademark (the image of Hua Tuo (華佗)) and "star brand and logo" (星牌及圖). The trademarks for such series were authorized by GPHL for Guangzhou Qi Xing Pharmaceutical Co., Ltd., a subsidiary of GPC, to use. The characters of "Qi Xing" and the derivative graphic trademark are used on all the products of the enterprise and En Tong Zai Zao (恩同再造) graphic trademark (the image of Hua Tuo (華佗)) is used in Huatuo Zaizao Wan（華佗再造丸）, the renowned product of the enterprise.

The products of Guangzhou Qi Xing Pharmaceutical Co., Ltd. are mainly the cardiovascular and cerebrovascular (心腦血管) pharmaceutical while pediatric (兒科) pharmaceutical as supplementary. It possessed nearly over 80 categories of the six major dosage forms which include pills, tablets, capsules, granules, powder and mixture. Xuhanting granule（虛汗停顆粒）, Xin Xue granules（新雪顆粒）, Hou Zao Niu Huang San（猴棗牛黃散）, Sifangwei Pian（四方胃片）and Yifu Zhixue Wan（益婦止血丸）, the five products are listed as the National Protected Traditional Chinese Medicinal Products and in which Xin Xue granules (新雪顆粒) and Hou Zao Niu Huang San (猴棗牛黃散) are the essential Chinese patent medicine for the emergency department in all the Chinese medicine hospital in China and the products are sold in both domestic and foreign markets.

Huatuo Zaizao Wan (華佗再造丸) which is exclusively produced by Guangzhou Qi Xing Pharmaceutical Co., Ltd. is the first achievement in the technological research of Chinese patent medicine by National Science Council since the founding of New China. It was awarded with "National S&T Progress Award", "Golden Great Wall and International Award for World Traditional Medicine"（世界傳統藥長城國際金獎）and was recognized as the renowned Chinese medicine products in China and renowned products in Guangdong Province and Guangzhou. It is a famous drug for curing the cerebrovascular disease (腦血管疾病) and the prevention of stroke paralysis (中風癱瘓) and was exported to 29 countries and regions like Russia and Vietnam etc as a drug or traditional medicine. Huatuo Zaizao Wan (華佗再造丸) is regarded as the only Chinese patent medicine in curing stroke. It was included in the catalog of national essential medicine in the primary medical units of the State and it was also included in the catalog of National medical insurance of category A（國家醫保甲類目錄）. The project of "Secondary development of Chinese medicine modernization in Huatuo Zaizao Wan" (華佗再造丸) was appraised by the experts from Provincial Science & Technology Department and Provincial Economic Commission. The project was recognized as the key breakthrough project in key fields of Guangdong Province and was granted with the subsidy by Provincial and municipal government in scientific and technological projects. In 2008, the clinical trials in increasing the use of Huatuo Zaizao Wan in curing coronary heart disease (冠心病) and angina pectoris (心絞痛) with the approval by the State Food and Drug Administration.

In 2002, after the multi-levels assessment and on-site evaluation by Guangdong Province Economic and Trade Commission, Guangdong Province Science and Technology Commission and Guangdong Provincial Planning Commission, Guangzhou Qi Xing Pharmaceutical Co., Ltd. was recognized as the "Enterprise of technological innovation advantage". In December 2008, Science and Technology Department of Guangdong Province, Department of Finance of Guangdong Province and Local Taxation Bureau of Guangdong Province jointly recognized Qi Xing as the Enterprise of high and new technology in Guangdong Province. In January 2003, the five major dosage forms which include pills, powder, granules, hard capsules, oral liquid have passed the GMP authentication by State Drug Administration. The five major dosage forms passed the GMP re-authentication in November 2007. The trademark of "Qi Xing" was recognized as "China Time-honoured Brand" by Ministry of Commerce in April 2011. Qi Xing was recognized as the "China Time-honored Brand of 100-year for Chinese medicine" by The Organizational Committee for Shennong Chinese Medicine Development Forum（炎帝神農中醫藥發展論壇組委會）in May 2007. Qi Xing was recognized as "Proprietary Brand of Excellence in Guangdong Province" in April 2007. In November 2001, the trademark of "Xing Brand" was recognized as the renowned trademark in Guangzhou by Administration of Industry and Commerce of Guangzhou Municipality. In December 2002, the Trademark of "QIXING" was recognized as the renowned trademark in Guangzhou by Administration of Industry and Commerce of Guangzhou Municipality. In February 2009, after the consideration of the Committee of Renowned Trademarks Certification of Guangzhou Municipality（廣州市著名商標認定委員會）, the trademark of "QIXING" was continued to be recognized as the renowned trademark of Guangzhou. In December 2008 and March 2004, the trademark of "QIXING" was recognized as the renowned trademark in Guangdong Province by Guangdong Provincial Administration for Industry and Commerce. In August 2006, the trademark of "QIXING" was recognized as the renowned trademark in Guangzhou by Administration of Industry and Commerce of Guangzhou.

On 15 September 2002, Huatuo Zaizao Wan (華佗再造丸) was recognized as brand name products of Guangdong Province by Administration of Quality and Technology Supervision of Guangdong Province again. In December 2002, Huatuo Zaizao Wan (華佗再造丸) of Xing Brand (星牌) was recognized as renowned products in China again. On 11 May 2003, the provincial and municipal department of health were informed by the Ministry of Health and The State Administration of Traditional Chinese Medicine to list Xing Xue Granules (新雪顆粒) of Qi Xing as the antipyretic pharmaceutical of Chinese patent medicine in combating SARS. Xuhanting granule was recognized as the most trusted family standing drug of 2007".

(5) Trademarks of Jing Xiu Tang series

Trademarks of Jing Xiu Tang series are mainly combinations of a graphical trademark of "園田" with the characters "敬修堂". The series of trademarks were authorized by GPHL for Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd., a subsidiary of GPC to use, products of which are dominated by the combinations of a graphical trademark of "園田" with the characters "敬修堂".

Jing Xiu Tang was established in 1790, being the 54th year of Emperor Qian Long of Qing Dynasty and was recognized by the Ministry of Commerce as an enterprise of the "China Time-honored Brand". In December 1992, it was converted into a joint stock company with limited liabilities among the first batch of Guangzhou state-owned industrial companies changing their form of ownership. The company obtained TGA certification of Australia and was one of the first Guangdong CPM manufacturing companies which passed the national GMP certification.

Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. manufactures in aggregate over 140 types of various CPM, chemically synthesized medicine and health supplements in 10 forms. Zhui Feng Tou Gu Wan (追風透骨丸), Zhong Feng Hui Chun Wan (中風回春丸), Qing Re Xiao Yan Ning Jiao Nang (清熱消炎寧膠囊), Hua Zhi Shuan (化痔栓), Die Da Wan Hua You (跌打萬花油) and Yang Xie Sheng Fa Jiao Nang (養血生髮膠囊) were included in the list of national medicine species for protection and over 10 products were recognized as quality brand products of provinces and cities. The secret formula of Hua Zhi Shuan (化痔栓) and Die Da Wan Hua You (跌打萬花油) were included in Guangdong's first list of Lingnan Chinese medicine cultural heritage for protection. The company embarked on the production of consumer chemicals in 2004, which mainly include Chinese medicine cosmetics and oral products. In January 2003, the brand of "Yuan Tian" ("園田牌") was awarded by Guangzhou Administration of Industry & Commerce as "Well-known brand of Guangdong". In 2008, Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. was recognized as High/New Technology Enterprise of Guangdong Province.

Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. attaches great importance in investment in technology and treats quality as its life. It established a raw medicine GAP base to study on technology including finger print graphical quality testing and critical purification of CO_2 technology, where "finger print graphical quality testing and establishment of raw medicine GAP base (指紋圖譜質量檢測研究及其孳材GAP示範基地建設)" was awarded the Guangdong Provincial Second Prize in Technological

Advancement. The company proactively cooperates with universities and science research institutions to continuously research on new technologies for Chinese medicine and development of new products. One of its achievements is the breakthrough of "research on mechanism and effect of Qing Re Xiao Yan Ning material" (清熱消炎寧物質基礎與作用機理研究), deemed one of the most important research projects of modernization of Chinese medicine in Guangzhou, in 2007. It was the first project that found out, other than general anti-bacteria, the effect of Qing Re Xiao Yan Ning (清熱消炎寧) to enhance human body's immunity. In 2008, the company was recognized as one of the first batch of High/New Technology Enterprises, where Qing Re Xiao Yan Ning Jiao Nang (清熱消炎寧膠囊), Zhui Feng Tou Gu Wan (追風透骨丸) and Die Da Wan Hua You (跌打萬花油) were recognized as High/New Technology Products.

As of May 2012, after the valuation date, Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. was renamed as Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd..

(6) Trademarks of Pan Gao Shou series

Trademarks of Pan Gao Shou series are mainly those with the characters "潘高壽" and the derivative graphic (graph of Pan Gao Shou coin (潘高壽金錢)) trademark, of which a total of 32 are domestically registered and none are foreign registered. The series of trademarks are authorized by GPHL for Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd., a subsidiary of GPC to use, products of which are dominated by the characters "潘高壽" and the derivative graphic trademarks.

Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. was established in the 16th year of Emperor Guangxu (光緒) of the Qing Dynasty (清朝) (AD 1890), which is 121 years ago. The company is principally engaged in production of over 40 types of products including decocted paste, oral intakes, capsules, syrup, mixed dosage and other medical products for respiratory system, women, children, tumor supplementary medicine and others, of which the pioneering Zhi Ke Chuan Bei Pi Pa Lu (治咳川貝枇杷露), She Dan Chuan Bei Ye (蛇膽川貝液), She Dan Chuan Bei Pi Pa Gao (蛇膽川貝枇杷膏) and Mi Lian Chuan Bei Pi Pa Gao (蜜煉川貝枇杷膏) are the 4 principal products of the company. These four products have been with "Pan Gao Shou" for over a century and have been sold both domestically and overseas.

"Pan Gao Shou" was included in the first batch of "China Time-honoured Brands". The "Chinese medical culture of Pan Gao Shou", secret formula and terminology of Pan Gao Shou herbal tea were respectively recognized as National Intangible Cultural Heritage. Mi Lian Chuan Bei Pi Pa Gao (蜜煉川貝枇杷膏), She Dan Chuan Bei Pi Pa Gao (蛇膽川貝枇杷膏)and Dan Bie Jiao Nang (丹鱉膠囊) were awarded Guangzhou's

Self-developed Innovation Products (廣州市自主創新產品). In December 2008, Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. was recognized jointly by Guangdong Science and Technology Department, Finance Department, Guangdong Provincial Office SAT and Guangdong Local Taxation Bureau as Guangdong High/New Technology Enterprise. In December 2010, Pan Gao Shou Company's Mi Lian Chuan Bei Pi Pa Gao (蜜煉川貝枇杷膏), She Dan Chuan Bei Pi Pa Gao (蛇膽川貝枇杷膏), Zhi Ke Chuan Bei Pi Pa Lu (治咳川貝枇杷露) and She Dan Chuan Bei Ye (蛇膽川貝液) were ranked in "Guangzhou top 10 souvenirs" and became a must-buy in the "commercial hub for ten-centuries (廣州十大手信)" of Guangzhou. Meanwhile, Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. was selected in the list of manufacturing companies of "Guangzhou top 10 souvenirs".

As of May 2012, after the valuation date, Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. was renamed as Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd..

IV. TYPE OF VALUE AND DEFINITION

The type of value for this valuation engagement is market value.

Market value means the estimated amount of appraisal target on the valuation date in an arm's length transaction between a willing buyer and a willing seller, each acting rationally free from duress.

V. VALUATION DATE

According to the principle of selection that the valuation date should be as close as possible to the implementation date of the valuation of the target economic behavior, and taking into account the time arrangement for the whole plan regarding the valuation of the target economic behavior and time needed for the preparation of data and information for the assets appraisal, the benchmark date of this asset valuation was determined by the entrusting party as at 31 December 2011.

VI. BASIS OF VALUATION

(I) Behaviour basis

1. "Resolutions Passed at the 13th Meeting of the Fifth Session of the Board of Guangzhou Pharmaceutical Company Limited";

2. "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited";

3. Assets Valuation Engagement Agreement.

(II) Relevant laws, regulations, criteria and standards relating to assets appraisal

1. Property Law of the People's Republic of China;

2. Company Law of the People's Republic of China;

3. Administrative Measures for the Valuation of State-owned Assets (Order No. 91 of the State Council, 1991);

4. Several Issues Concerning the Administration of the Valuation of State-owned Assets (Order No. 14 issued by the Ministry of Finance);

5. Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council);

6. Asset Valuation Standards – Basic Standards (Ministry of Finance Cai Qi [2004]No. 20);

7. Asset Valuation Standards – Valuation Report, Asset Valuation Standards – Valuation Procedures, Guidance Opinion on the Type of Valuation in Asset Valuation (China Appraisal Society, Zhong Ping Xie [2007] No. 189);

8. Guide on Valuation Report of Enterprise State-owned Assets (China Appraisal Society, Zhong Ping Xie [2008] No. 218);

9. the Administrative Rules on Major Asset Restructuring of Listed Companies (No. 53 Directive of China Securities Regulatory Commission("CSRC"))

10. the Provisions on Certain Issues concerning the Regulation of Major Assets Restructuring by Listed Companies (CSRC Announcement [2008] No.14);

11. Administrative Measures on Acquisitions of Listed Companies (No. 77 Directive of China Securities Regulatory Commission);

12. Guiding Opinions for Registered Valuer on Legal Ownership of Subject under Appraisal) (Chinese Institute of Certified Public Accountants, Hui Xie [2003] No. 18);

13. Guiding Opinion on the Appraisal of Investment Properties (Pilot) (China Appraisal Society, Zhong Ping Xie [2009] No. 211);

14. System of Accounting Standards for Business Enterprises issued by the Ministry of Finance;

15. Trademark Law of the People's Republic of China;

16. Notice on Several Issues Regarding Strengthening the Administration of Intellectual Property Asset Valuation(Ministry of Finance, State Intellectual Property Office, Cai Qi [2006] No. 109);

17. Asset Valuation Standards -Intangible Assets (China Appraisal Society, Zhong Ping Xie [2008]No.217);

18. Guiding Opinion on the Appraisal of Trademark Assets (China Appraisal Society, Zhong Ping Xie [2011]No.228);

19. Administration Law of the Urban Real Estate of the People's Republic of China;

20. Land Administration Law of the People's Republic of China and Implementation Regulations for Land Administration Law of the People's Republic of China;

21. Asset Valuation Standards -Immovable Properties (China Appraisal Society, Zhong Ping Xie [2007] No.189);

22. Regulatory Standard of Property Valuation (PRC National Standard GB/T 50291-1999);

23. Valuation Procedures of Land in Urban and Town Areas (PRC National Standard GB/T 18508-2001);

24. Forwarded Notice in Relation to Adjustment of Calculating and Charging Standards on Charges for Land Use Right Transfer of State-owned Construction Land in the City from the Municipal Land Resources and Housing Administrative Bureau (Sui Fu Ban [2010] No.35);

25. Notice in Relation to the Announcement of State-owned Land Use Right Benchmark Price of Guangzhou City (Sui Guo Fang Zi No. (1318));

(III) Information provided by the entrusting party or third parties

1. "Statement of appraised enterprise for valuation issues"（"企業關於進行資產評估有關事項的說明"）by GPHL;

2. Detailed list of evaluation and declaration in relation to assets provided by the enterprises involved in the appraisal target;

3. Business licenses for the enterprises involved in the appraisal target;

4. Financial information and other corporate operation information of enterprises involved in the appraisal target as at the valuation date;

5. "Confirmation of Trademarks Contributions Percentages"（關於商標價值貢獻份額確認書）by GPHL;

6. Property right documents and other relevant documents of assets involved in the appraisal target including Trademark Registration Certificate and Trademark Licensing Agreement;

7. Property right documents and other relevant documents of assets involved in the appraisal target including Real Estate Title Certificate, Building Ownership Certificate, and State-owned Land Use Rights Certificate;

(IV) Other relevant information

1. Property market transaction price information and benchmark land-price standard of the location of the property;

2. Project cost information including budget quota of building installation engineering and quota of building installation engineering expenses of the place of the property;

3. Common Data and Parameter Manual for Assets Appraisal (Beijing Science and Technology Press);

4. National macro-economy, industry, regional market and corporate statistics;

5. Corporate Performance Appraisal Benchmark Value (Appraisal Bureau of SASAC and Economics and Science Press);

6. Statistics issued by National Bureau of Statistics of China;

7. Public information of relevant listed companies;

8. CCER (China Center for Economic Research) Chinese securities market database and Wind Information database;

9. Bond trading information posted on www.chinabond.com.cn;

10. Financial institutions' deposit and loan interest rates quoted by the People's Bank of China;

11. Other relevant information collected by the valuer.

VII. METHODS OF APPRAISAL

(I) Basic methods of assets appraisal

In accordance with China's appraisal standards, regulations and international practices, basic methods of assets appraisal include market approach, income approach and cost method. It is necessary to properly select one or more basic methods by analyzing the availability of the three basic methods based on relevant conditions including appraisal target, value type and information collection situation in the appraisal process.

1. Market approach

Market approach represents the appraisal method of estimating the asset value through direct comparison or analogical analysis of recent transaction prices of the same or similar assets. Basic prerequisites for adopting the market approach: ① an active open market is available; ② comparable assets and their trading activities are available in the open market.

2. Income approach

Income approach represents the appraisal method of judging the asset value through the present value of future expected earnings of the appraised asset. Basic prerequisites for adopting the income approach: ① future expected earnings of the appraised asset can be forecasted and measured in monetary terms; ② risks assumed by the asset owner to obtain expected earnings can be forecasted and measured in monetary terms; ③ number of years to generate expected earnings of the appraised asset can be forecasted.

3. Cost method

Cost method is an appraisal method that firstly use the existing reacquisition cost (replacement cost) of the assets being valued, and then estimates various depreciation factors prevailing in those assets and deduct them from the replacement cost to derive the value of such assets. Basic prerequisite for adopting the cost method are: ①the assets being valued are under use on an ongoing basis or set as under use on an ongoing basis; ② the existing source to acquire and construct such assets and the information on corresponding average social cost can be accessed through investigation.

(II) Selection of Appraisal Methods for Real Estate of the Appraisal Target

1. Technical Process for the Appraisal

As at the valuation date, among the 21 properties included in the scope of appraisal, some are for the own use of property owners (or used by the subsidiaries of GPC at nil consideration), and some are leased by the property owners to GPC and Guangzhou Pharmaceuticals Corporation, being an associate of GPC (same below), or their subsidiaries for use. The following methods are adopted for estimating the appraised value of the properties in this appraisal, based on whether they are used for lease as at the valuation date:

(1) Properties for own use (or used by the subsidiaries of GPC at nil consideration)

As for the properties for own use (or used by the subsidiaries of GPC at nil consideration) as at the valuation date, their market value will be appraised by directly adopting market approach, income approach or cost method.

(2) Properties leased by property owner

As for the properties leased by the property owners to GPC and Guangzhou Pharmaceuticals Corporation or their subsidiaries for use as at the valuation date, the following formula will be adopted to estimate the appraised value of such rental properties considering the effect of the level of rentals and the remaining leasing terms in the leasing agreements on the value of the leased properties:

Appraised value of leased properties = discounted value of rentals during the leasing term + market value when leasing term expires ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$

The discounted value of the rentals during the leasing term: it is arrived at by predicting the net income of such properties during the leasing term based on the signed leasing agreements of the appraisal target provided by the entrusting party and in accordance with the parameters as stipulated in the agreement, including level of rental, mode of rental increment and the remaining leasing term from the valuation date, then discounting such net income to the valuation date using a reasonable discount rate.

Since the remaining leasing term from the valuation date of these properties is relatively short (other than the remaining leasing term of the property at Rear Block, 282 Beijing Road, Yuexiu District which is 2.33 years, the remaining leasing terms for the other leased properties is 2.0 years) and at present the development of the real estate market in Guangzhou is relatively stable, it is expected that the change of price in the real estate market will not be significant in the next two years, therefore, the market value as at the valuation date (i.e. the market value without considering the limitation of leasing agreement) is directly taken as the market value of such rental properties when their leasing agreements expire.

2. *Selection of Appraisal Methods for the Market Value of Properties*

As for the appraisal methods of the market value of properties, there are three basic appraisal methods, namely market approach, income approach and cost method. In addition, there are also other appraisal methods derived from the basic appraisal methods, such as assumed development method (residual method), long-term trend method, valuation method of roadmap value for land use rights and benchmark land price coefficient correction method of land use rights. It is necessary to properly select one or more appraisal methods of properties by analyzing the suitability of the methods based on relevant conditions including appraisal target, value type and information collection when performing the valuation.

Since there are many examples of leasing similar properties in the locations of the 21 properties included in the scope of appraisal, and the second floor of Property No. 1 and the second and third floor of Property No. 2, Properties Nos. 4-18 and Properties Nos. 20-21 have leasing agreements, such 21 properties can generate income by leasing out to the outside parties and their operating income and cost can be reasonably predicted, income approach was adopted to appraise their market value as at the valuation date for such 21 properties.

Among the 21 properties included in the scope of appraisal, of which:

(1) the real estate market is active and there are many transaction examples of similar properties in the locations of Properties Nos. 1-3, Properties Nos. 14-16, Properties Nos. 18-21 and the second floor of Property No. 10, the market value of these properties as at the valuation date is appraised using both the market approach in addition to the income approach, and the arithmetic mean of the two valuation methods is used to derive the final appraised value;

(2) Properties Nos. 4-13, Property No. 17 and the first floor of Property No. 10 are properties located in the city center and set out as "warehouse" or "industrial" use in the certificate, similar properties in the locations of these properties are generally acquired through self-development, which satisfies the condition of using cost method for appraisal, the market value of these properties as at the valuation date is appraised using both the cost method in addition to the income approach while the benchmark land price coefficient correction method is also adopted to appraise the land use rights there of, however the benchmark land price of warehouse/industrial properties are relatively lagging behind, and is difficult to reflect the market value of the land objectively, as a result, the appraised value arising from the income approach is used as the final appraised value.

Results of selection of the appraisal methods for properties are as follows:

Serial Number	Number of Certificate	Property	Whether leased or not	Method of calculation for appraised value	The method in which the market value as at the valuation date (or at the expiry of the leasing term) is arrived at: Method 1	Method 2
1	Yue Fang Di Zheng Zi No. C1491223	45 Sha Mian North Street, Liwan District	Partially leased	For the part with leasing agreement, discounted value of rentals during the leasing term + market value at the expiry of the leasing term÷(1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$; for the part without leasing agreement, market value as at the valuation date	Income approach	Market approach
2	Yue Fang Di Zheng Zi No. C1491222	45 -1 Sha Mian North Street, Liwan District	Partially leased	For the part with leasing agreement, discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$; for the part without leasing agreement, market value as at the valuation date	Income approach	Market approach
3	Yue Fang Di Zheng Zi No. C1491224	45-2 Sha Mian North Street, Liwan District	No	Market value as at the valuation date	Income approach	Market approach
4	Yue Fang Di Zheng Zi No. C5932126	Warehouse, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
5	Yue Fang Di Zheng Zi No. C6143847	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
6	Yue Fang Di Zheng Zi No. C6143846	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
7	Yue Fang Di Zheng Zi No. C6143845	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method

Serial Number	Number of Certificate	Property	Whether leased or not	Method of calculation for appraised value	The method in which the market value as at the valuation date (or at the expiry of the leasing term) is arrived at	
					Method 1	Method 2
8	Yue Fang Di Zheng Zi No. C6143849	2nd Block, 30 Zengcha Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
9	Yue Fang Di Zheng Zi No. C6143848	3rd Block, 30 Zengcha Road, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
10	Yue Fang Di Quan Zheng Sui Zi No. 1050036348	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach(for the warehouse on the first floor, income approach, for the residential unit on the second floor, market approach)	Cost method(for the warehouse on the first floor, cost method, for the residential unit on the second floor, income approach)
11	Yue Fang Di Quan Zheng Sui Zi No. 1050036340	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
12	Yue Fang Di Zheng Zi No. C5932124	1/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
13	Yue Fang Di Zheng Zi No. C5932125	2/F, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
14	Yue Fang Di Zheng Zi No. C5942848	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach

Serial Number	Number of Certificate	Property	Whether leased or not	Method of calculation for appraised value	The method in which the market value as at the valuation date (or at the expiry of the leasing term) is arrived at	
					Method 1	Method 2
15	Yue Fang Di Zheng Zi No. C5932123	2/F of East Tower, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach
16	Yue Fang Di Zheng Zi No. C5942849	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach
17	Sui Fang Zheng Zi No. 0059002/ Sui Di Zheng Zi No. 0093202	1-2/F, 118 West Heping Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Cost method
18	Yue Fang Di Zheng Zi No. C6190029	Rear Block, 282 Beijing Road, Yuexiu District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach
19	Yue Fang Di Quan Zheng Sui Zi No. 0150088038	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	No	Market value as at the valuation date	Income approach	Market approach
20	Yue Fang Di Zheng Zi No. C6465931	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach
21	Yue Fang Di Quan Zheng Sui Zi No. 0140082868	Unit 2, 12 Saiba Road, Liwan District	Yes	Discounted value of rentals during the leasing term + market value at the expiry of the leasing term ÷ (1 + discount rate) $^{\text{remaining leasing term of the leasing agreement}}$	Income approach	Market approach

3. Specific Methods of Properties Appraisal

(1) Market Approach

Appraising the market value of the subject properties using market approach represents comparing such properties to similar properties that have had transactions about the valuation date and estimating the market value of such properties by making transaction situation, transaction date, geographical location, physical condition and equity condition adjustments to the known transaction prices of the similar properties.

(2) Income approach

Appraising the market value of the subject properties using income approach represents discounting the expected normal net income of the subject properties for future period to the valuation date using the appropriate discount rate and aggregated to arrive at the market value of such properties.

(3) Cost Method

Appraising the subject properties using cost method represents arriving at the replacement cost of such properties based on the summation of necessary costs, including the acquisition price of land use rights, construction and installation engineering costs, taxes and charges, miscellaneous charges of engineering and construction required in the development and construction of assets similar to or the same with such properties, necessary deferred pre-investment cost of fixed assets and management cost, as well as interest on funds utilized and reasonable profits. After that, its physical depreciation and possible functional depreciation or economical depreciation and others are deducted accordingly according to the properties' existing status of operation and maintenance, thereby determining the appraised value of such properties.

Basic formula for the cost method: Value of properties = Re-acquisition price – Depreciation

Cost of land use rights involved in the re-acquisition price is calculated using benchmark land price coefficient correction method.

Benchmark land price coefficient correction method represents arriving at the market value of land use rights by correcting the benchmark price of the land for the same purpose or in the same area issued by each city and town through analyzing the factors which will influence the price of the subject land and utilizing the land price correction coefficient.

(III) Selection of Appraisal Method for the Right to Exclusive Use of Trademarks of the Subjects for Valuation

The following formula is adopted for the calculation of the market value of the contributions to 388 patent rights of trademarks from GPHL:

Appraised value = market value of the patent rights of trademark X contribution percentage of patent rights of trademarks from GPHL

In which, according to "Confirmation of Trademarks Contributions Percentages" (關於商標價值貢獻份額確認書) by GPHL, the contribution percentage of 388 patent rights of trademarks from GPHL is 53%.

The valuation methods of the market value of 388 patent rights of trademarks are selected as follow:

1. Selection of appraisal method for category (1) trademarks: 54 trademarks which GPHL has licensed GPC to use

(1) Analysis of suitability to adopt the market approach

Market approach represents estimating the value through the transactions of other assets similar to the appraised assets. When using the market approach, the value of the intangible assets has been obtained with reference to the price in the recent acquisition or transaction activity of comparable intangible assets. Due to the uniqueness of the intangible assets, it is not easy to find comparable cases. In addition, the specific conditions for the relevant transactions are generally not available publicly. Generally speaking, if an enterprise creates a renowned/famous trademark through efforts, it will not easily transfer its ownership interest to the outside parties. Therefore, the market of the transfer of the ownership of the trademarks is generally very inactive.

In addition, from the comparability of the transactions, we generally require the trademarks that can be used as reference should be:

a. trademarks in the same industry;

b. the scope of the products and services using the trademarks is basically the same;

c. in case there is trademark license, the limiting conditions of license are clear and they have no essential differences and can be compared with each other, for example, the form of license, license fee and license period are consistent, either solely granted, exclusive or ordinarily licensed for use;

d. there are similarities in the development potential of the trademarks.

As described above, all the trademarks in this appraisal are either renowned trademarks in China or famous trademarks in Guangdong Province, and have a long history of use. Chen Li Ji has the longest history of several hundred years, and history of the use or registration of other trademarks is also over several decades or even a hundred years. In addition, these trademarks are subject to license agreements (licensed to GPC for use until 2017), and have strong uniqueness.

Considering the specific circumstances of relevant trademarks and the limitations of market environment and information conditions, it is very difficult for us to find references and transactions similar to the trademarks that we analyze on the market. Therefore, we are unable to conduct this appraisal using market approach.

(2) Analysis of suitability to adopt the Income Approach

Income approach is the most popular international appraisal method for the appraisal of sophisticated trademarks.

Certain rights to exclusive use of trademarks involved in this appraisal are held by GPHL, which have been licensed to the subsidiaries under GPC for use. Since the future expected earnings of the trademarks can be forecasted and measured in monetary terms; risks assumed by the asset owner to obtain expected earnings can be forecasted and measured in monetary terms; number of years expected earnings of the asset can be forecasted, which satisfy the appraisal conditions for the income approach, these trademarks are appraised using income approach.

(3) Analysis of suitability to adopt the Cost Method

Because the acquisition cost of intangible assets, including trademarks is loosely correlated to their intrinsic value, therefore, on the condition that other appraisal methods are applicable, cost method is not generally used to appraise the assets of trademarks. The right to exclusive use of trademarks in category (1) to be appraised in this appraisal satisfy the appraisal conditions of income approach, and adopt income approach can be used for appraisal, therefore, the cost method is not considered.

2. ***Selection of Appraisal Methods for Trademarks in Category (2)***

(1) Analysis of suitability to adopt Market Approach

For details, please refer to the analysis of suitability to adopt the market approach regarding the selection of appraisal method for 54 trademarks which GPHL has licensed GPC to use.

(2) Analysis of suitability to adopt Income Approach

Mainly for the defensive consideration, GPHL registered 277 trademarks domestically and 57 trademarks overseas. These trademarks represent the Group's image, mainly played a defensive role, or came into as derivative registration during the historical development. They have no direct impact on revenue of products nor generate any direct revenue from license of these trademarks, or have little revenue which is impossible to identify separately and reasonably. Prerequisites for the appraisal of income approach cannot be met, therefore income approach is not applicable use for appraisal of these trademarks.

(3) Analysis of suitability to adopt the Cost Method

Cost method is a valuation technique that firstly the existing reacquisition cost (replacement cost) of the assets being valued, and then estimates various depreciation factors prevailing in those assets and deduct them from the replacement cost to derive the value of such assets.

Category (2) trademarks involved in this appraisal include the 57 overseas trademarks and 277 domestic associated or defensive trademarks registered by GPHL. These rights to exclusive use of trademarks are within the validity period and the existing source to replace such trademarks and the information on corresponding average social cost can be accessed through investigation. Costs of replacing such trademarks using the existing source can be reliably measured, so prerequisites of appraisal of cost method are met. Under the condition that income approach and market approach are unable to be adopted, the cost method is adopted in this appraisal to appraise the value of the right to exclusive use of the trademarks.

3. *Appraisal of Category (1) Right to Exclusive Use of Trademarks Using Income Approach*

Appraising the value of the intangible assets using income approach represents estimating the future expected earnings of the intangible assets, discounting them using the appropriate discount rate to the present value and aggregating to determine the market value of the subject intangible assets.

(1) Calculation formula adopted in the income approach is:

$$PV = \sum_{i=t_0}^{t_n} \frac{R_i}{(1+r)^i}$$

Where:

PV Appraised value of the subject using income approach

i Time interval from the valuation date, unit: year

t_0 Time interval between the starting point of the existence of expected earnings for the subject equity and the valuation date

t_n Time interval between the ending point of the existence of expected earnings for the subject equity and the valuation date

R_i Estimated value of expected earnings at the point of i years from the valuation date

r Discount rate applicable to the expected earnings

(2) *Selection of Major Parameters in the Application of Income Approach*

① Continuing Time for Expected Earnings of the Subject Intangible Assets

The earnings period of the right to use of trademarks is determined comprehensively based on factors, including the statutory useful life, product life cycle of trademarks. The valuer considers that, under normal conditions, trademarks will continue to be used, therefore, the valuer sets the ending point for the existence of future earnings for the subject equity as $t_n = \infty$.

② Determination of Expected Earnings

According to the specific situations of the appraisal target in this appraisal, the valuer predicts and determines the expected earnings of the subject trademarks, R_i, through the following formula:

Expected earnings R_i = (royalty calculation base×trademark royalty rate) – business tax and surcharges -enterprise income tax

a. Royalty Calculation Base

Pursuant to the Trademark License Agreement, the licensee shall pay to the licensor royalty based on one thousandth (1‰) of the net sales as shown in the financial statements prepared under the PRC accounting standards, therefore, the royalty calculation base shall take the revenue from principal operations of the companies using each series of trademarks.

b. Royalty Rate

Pursuant to the Trademark License Agreement, the licensee shall pay to the licensor royalty based on one thousandth (1‰) of the net sales as shown in the financial statements prepared under the PRC accounting standards, one thousandth (1‰) will be taken as the royalty rate of trademarks over the license period of the existing trademarks (until September 2017); after the expiry of the trademarks license, layer analysis method will be adopted to analyze the factors affecting the revenue of the trademark products to determine the ratio of contribution of the right to trademarks to the revenue of the product, which will be used as the royalty rate of trademarks.

③ Discount Rate of the Expected Earnings of the Subject

The valuer adopts the following formula to estimate the discount rate applicable to the expected earnings:

Discount rate applicable to the expected earnings= risk-free rate of return+ rate of risk return

Where:

As for the risk-free rate of return, we select the yield of the treasury with term of earnings similar to the subject assets as the risk free rate of return with reference to the data of the yields in the PRC bond trading market around the valuation date.

As for the rate of risk return, it will be determined with reference to the interest rate of RMB loans published by the People's Bank of China, yield of the enterprises in the same industry taking into account the risk factors, including the risks of industry of the subject assets, operating risks and financial risks of the enterprise of the subject assets and the operating risks of the subject intangible assets.

4. Appraising the Value of Right to Exclusive Use of Category (2) trademarks Using Cost Method

To appraise the right to exclusive use of trademarks using cost method, it is necessary to firstly determine the measurable cost of related items for replacement of the right to trademarks, then aggregate such costs to arrive the replacement cost of such right to exclusive use of trademarks. Because there are no depreciation or depletion for these rights to exclusive use of the subject trademarks under the present status, the aggregate amount of the replacement cost of each trademark is taken as the appraised value of the subject trademarks.

Major parameters for appraisal using cost method are as follows:

① *Application and registration fee*

Pursuant to the PRC Trademark Law, application for the registration of trademarks and dealing with other trademark-related issues requires payment of the corresponding costs according to the law. In this appraisal, such cost is estimated according to the Notice on Charging Standards for Trademark Business (Ji Jia Ge (1995) No. 2404) (計價格(1995) 2404號文《關於商標業務收費標準的通知》) issued by the NDRC and the Ministry of Finance.

② *Design Cost*

The design cost of the subject trademarks is determined based on the types of relevant trademarks and the standard design cost charged for different types of trademarks in the present market.

③ *Registration Related Labour Cost*

Registration related labour cost of the subject trademarks is determined with reference to the standard cost charged by the agency.

④ *Trademark Extension Cost*

Trademark extension cost is estimated according to the Notice on Charging Standards for Trademark Business (Jia Ge (1995) No. 2404) (計價格(1995) 2404號文《關於商標業務收費標準的通知》)issued by the NDRC and the Ministry of Finance.

VIII. APPRAISAL PROCEDURES

The valuer has executed the following basic appraisal procedures and submitted this report:

1. defined basic matters of assets appraisal including appraisal purpose, appraisal target and scope, valuation date, value type, key assumptions of appraisal and limitations;

2. entered into assets appraisal engagement agreement;

3. prepared assets appraisal plan;

4. the valuer investigated assets, underwent on-site inspection on the relevant assets at the locations of various assets, obtained or had access to necessary documents and information, and made necessary verification and inspection on relevant information from 13 March to 25 March 2012.

   As to non-current assets, records were investigated on site and property rights were verified; visits were made to the corporate management, finance department and assets management department of the enterprise to understand corporate management, financial position and assets management and use; surveyed land, buildings and main equipment on site.

   The valuer also interviewed with the corporate management to understand the future business plan and expected earnings of the enterprise.

5. collected assets appraisal information;

6. appraised and estimated;

7. prepared and submitted assets appraisal report.

IX. ASSUMPTIONS OF APPRAISAL

(I) General assumptions

1. Assuming the appraisal target is in the course of transaction, the estimation of the valuer is based on simulated market including terms of trade of the appraisal target, and the appraisal result is the estimation of the transaction prices for the appraisal target to be most possibly arrived at.

2. Assuming the assets of appraisal target are traded in the open market, the buyer and seller are on equal position in the market, and both buyer and seller have ample opportunity and time to acquire market information and complete a deal on a willing, rational, and uncompulsory basis.

3. Assuming after implementation of the economic behaviour of the appraisal purpose, the appraisal target and assets involved in will be continuously used at the original location according to the purpose and usage as at the valuation date.

(II) Assumptions of Appraisal Target as at the Valuation Date

1. Assuming purchase, acquisition and construction and development process of the appraisal target and assets involved in are in compliance with national laws and regulations concerned.

2. According to the published assets proposal on GPHL to be acquired by GPC, the subjects for this valuation are such 21 properties after the procedures of land transferring and changing ownership and property rights, assuming procedures of land transferring and changing ownership and property rights of such properties have been completed by GPHL on the valuation date, so that none of the appraisal target and assets involved in is subject to rights defect, liabilities and restrictions, and that grant premium, taxes and all payables of state-owned land use rights of the appraisal target and assets involved in are paid off.

3. Assuming the appraisal target and tangible assets including property and equipment involved have no key technological failure that would affect their continuous operation, and such assets are free from harmful substances adverse to their value, and the location of such assets are free from hazardous objects and other harmful environment conditions which have adverse impacts on such assets.

(III) Forecast Assumptions

1. Assuming that the companies involved in the appraisal will continue their business operation in the same way as before the economic behavior that is set out in the appraisal purpose is performed and their earnings can be forecasted.

2. Assuming the assets involved in the appraisal target are still developed or operated pursuant to the scheduled development and operation plan and operation model after implementation of economic behaviors of appraisal purposes.

3. Assuming macro-environment including national industry policies, financial policies and taxation policies is relatively stable.

4. Assuming the enterprises involved in the appraisal target will maintain their total investment as at the valuation date.

5. Assuming the enterprises involved in the appraisal target will continue to operate at the existing standard of management as at the valuation date and not taking into account of the impact of the standard of management in the future on their future earnings.

(IV) Limiting Conditions of Appraisal

1. The entrusting party shall take responsibility for the truthfulness of relevant appraisal information including legal documents, technical information and operation information provided by the entrusting party and relied upon herein. We shall not assume any legal matters in relation to property rights of assets involved in the appraisal target.

2. We have not measured the boundary of the properties involved in the appraisal target, and all information of such property including area and shape shall be provided by the entrusting party which shall take responsibility for its truthfulness.

3. We only inspect the visible substance appearance of tangible assets involved in the appraisal target, without making special technical inspection to technical data, technical status, structure and affixtures of such assets.

4. The effect on asset value due to the government's macroeconomic regulations and such unpredictable factors as force majeure is not under consideration of this appraisal report.

X. CONCLUSIONS OF APPRAISAL

(I) Conclusions of Appraisal

Upon implementation of necessary appraisal procedures, and taking appraisal purpose, assumptions as well as restriction conditions of the appraisal into consideration, the market value of the assets involved in the proposed private placement of additional shares of GPC to acquire assets including 21 properties of GPHL and contributions to 388 patent rights of trademarks from GPHL as at the valuation date, 31 December 2011, totalled RMB281.8812 million, and the detailed appraisal conclusions are as follows:

1. The market value of 21 properties held by GPHL amounted to RMB230.7396 million.

2. The market value of contributions to 388 patent rights of trademarks from GPHL amounted to RMB51.1416 million.

(II) Relevant Explanations for Appraisal Conclusions

1. The appraisal conclusions have not taken into account expenses of all transaction taxes and handling fees which may be needed for payment in the transaction of the appraisal target.

2. In using the appraisal conclusions, it is necessary to pay special attention to "Assumptions of Appraisal", "Explanatory Notes on Special Matters" and "Restriction on the Use of The Valuation Report".

XI. EXPLANATORY NOTES ON SPECIAL MATTERS

The following matters may affect the use of the appraisal conclusions and users of the appraisal report should pay special attention to the impact from the following matters on appraisal conclusions and the subject economic behaviour:

1. Among 21 properties of fixed assets included in the scope of appraisal, the nature of the acquisition of land use rights occupied by 16 properties is allocation, the title holders of three of which were still enterprises under GPHL as at the valuation date. According to the published assets proposal on GPHL to be acquired by GPC, the subject for this valuation is such 21 properties after the procedures of land transferring and changing ownership and property rights, this valuation report is concluded in accordance with the pre-conditions assuming that the procedures of land transferring and changing ownership and property rights have been made in a timely manner and all the fees and expenses have been paid by GPHL, the conclusion of this valuation report has not deducted the premium of granted State-owned Land Use Rights and relevant taxes which have to be paid by GPHL when carrying out the procedures of land transferring and changing ownership and property rights;

2. Among the 21 properties included in the scope of valuation, there are unauthorized and untreated construction of total gross floor area of 951,618 sq.m. existed in 5 properties. Such unauthorized and untreated construction of the properties are not included in the scope of valuation and their values are not included in the appraised value in this valuation report;

3. Among the 21 properties included in the scope of valuation, 2-3/F., Office Building, 45-1 Sha Mian North Street, Liwan District is leased by GPC by prepaying rental from GPHL. As at the valuation date, the balance of prepaid rental is RMB1.032 million and has not been deducted from the appraised value of such properties;

4. The percentage of contributions to 388 patent rights of trademarks from GPHL involved in the subject of this valuation is 53% which was determined by "Confirmation of Trademarks Contributions Percentages" (關於商標價值貢獻份額確認書);

5. The scope of valuation of trademarks in this task did not include the trademarks of Wanglaoji series (including the other trademarks which used with the trademarks of Wanglaoji series and the trademark used by Guangzhou Wanglaoji Pharmaceutical Company Limited as authorized by GPHL).

XII. RESTRICTION ON THE USE OF THE VALUATION REPORT

(I) This report shall only be used for the purposes and uses as specified herein.

(II) This report shall only be used by the users as specified herein.

(III) Unless otherwise specified by laws, regulations and relevant parties, all or part of the content of the appraisal report shall not be extracted, quoted or disclosed in public media without review and written consent by us.

(IV) As an important part of this report, all appendices to this report shall be read together with it to understand the details and have a reasonable understanding of the conclusions.

(V) Term of Validity of the Appraisal Report

The conclusions of this report have strong time factor and conclusions drawn in certain conditions shall be only applied to a specific period. The value of the appraisal target may vary with changes in situations including politics, economy and society. The user of this report shall reasonably determine the term of validity hereof in accordance with changes in situations including politics, economy and society after the valuation date.

In accordance with article 11 of Asset Valuation Standards – Valuation Report and article 21 of Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council), this report shall be valid for one year from the valuation date.

(VI) This assets appraisal project is state-owned assets appraisal project which needs to be approved or filed. Pursuant to the relevant requirements of the administration of state-owned assets, the appraisal report of state-owned assets which needs to be approved or filed can only be used as the reference for the consideration of the corresponding economic behaviour after having been approved or filed with the competent state-owned assets supervision and administration organization or its authorised unit.

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Appraisal Institution: China Valuer International Co., Ltd.

Legal Representative: ___________________________
Xiao Huanqi

Chinese Certified Public Valuer: ___________________________
Zeng Cuixia

Chinese Certified Public Valuer: ___________________________
Chen Yang

9 June 2012

(B) EXPLANATION ON VALUATION TECHNIQUE OF 21 PROPERTIES

1. Methods and outcome of verification of property assets

(1) Methods of verification of property assets

(i) Based on the list of properties provided by the entrusting party, the valuer communicated with the staff of the financial department responsible for managing fixed assets. The valuer then carried out verification of the ledger, sub-ledger, financial statements and property list and make adjustment to any mistakes in those statements.

(ii) The valuer collected all property ownership certificates or alternative ownership certificates and verified the contents of the documents including ownership certificates and the lists. Any inconsistency found therein is marked to find out the reasons.

(iii) The valuer verified the corresponding relationship between the properties and lands.

(iv) The valuer found out whether the composition of the carrying value of the assets categorized into real estate is audited or valued or reconciliated. For the assets the unit carrying value of which is obviously too high or too low, the valuer found out the reasons for the formation of the carrying value and whether it contains value of other assets or whether it is caused by the reasons such as reconstruction or expansion.

(v) The valuer conducted spot inspection for the properties and recorded the inspection to find out whether the properties are the reported assets of the company and whether the properties are in compliance with the planning of the region they are located.

(vi) The valuer verified whether the actual status of the properties (location, structure and area) is in line with the ownership certificates and whether the properties are reconstructed, expanded or decorated for specific purposes. The valuer also recorded the specific content and found out how the cost and expenditures are presented in financial records.

(vii) The valuer summed up and analyzed the conclusion of the investigation. If there is any incorrect consolidation and division of carrying value, the valuer would communicate with the company and informed it to make adjustments.

(2) Result of the verification of the assets categorized into buildings

Verified through spot inspection, excluding the following problems existing among the 21 properties within the scope of valuation, we are of the view that the ownership of the properties within the scope of valuation is clearly-defined and the properties are basically functional:

(i) There are illegal and unresolved issues within the Warehouse, No.1, Ha Na Dang, Pingsha, Jiangcun Road, Baiyun District (i.e. Property No. 4), 2nd & 3rd buildings at No.30 of Zengcha Road, Bai Yun District (i.e. Properties Nos. 8 & 9), Rear portion of No.282 of Beijing Road, Yuexiu District (i.e. Property No.18), Ref. No.2 at No.12 of Sai Ba Road, Liwan District (i.e. Property No. 21). The gross floor areas falling within the scope of valuation do not include the gross floor areas of the illegal and unresolved;

(ii) As of 31 December 2011, being the valuation date, the registered owners of the following 3 properties listed in the certificates, namely, 1-2/F, No.118 of He Ping Xi Road, Li Wan District (i.e. Property No.17), Flat No.5, 1/F, No.246 of Bao Gang Da Dao Road, Hai Zhu District (i.e. Property No. 19), Shop No.2, 1/F, Dai Hui Building, Hong Mian Garden, Hua De Avenue, Li Wan District (i.e. Property No.20) are still recorded as affiliates of Guangzhou Pharmaceutical Company Limited. However, pursuant to the sources of those 3 properties, those properties were acquired by the companies registered on the certificates prior to the establishment of Guangzhou Pharmaceutical Company Limited in 1997. At the time when Guangzhou Pharmaceutical Company Limited was set up by GPHL and its wholly-owned subsidiaries by injection of operating assets and liabilities, those properties were not included within the scope of modified assets and liabilities and therefore remained to be the assets of GPHL. As of 31 December 2011, being the valuation date, the procedure of changing the name of ownership has not yet completed.

2. Major basis of valuation

(1) Principle laws and regulations and industrial practices

(i) "The Property Law of the People's Republic of China";

(ii) "Law of the People's Republic of China on the Administration of Urban Property";

(iii) "Law of the People's Republic of China on Land Administration" and "Implementation Rules of the Law of the People's Republic of China on Land Administration";

(iv) "Assets Valuation Standards – Fixed Assets" (Zhong Ping Xie [2007]189) issued by the China Appraisal Society;

(v) "Valuation Standards for Real Estates" (National Standards of the PRC GB/T50291-1999);

(vi) "Regulations for the Valuation of Urban Land" (National Standards of the PRC GB/T18508-2001);

(vii) Requirements of management of estimated investment, requirements of estimated budget system and prevailing prices within the industry.

(2) Other major basis of valuation

(i) The information on transaction prices in the real estate market of the region in which the properties are located and the standard of benchmark prices of land;

(ii) The information on the construction cost including the budget for the construction and installation works and the relevant expenditures in the region in which the properties are located;

(iii) The relevant information collected by the valuer from spot inspection and market research.

3. Methods of valuation

(1) Introduction of the methods of valuation

The 21 properties falling within the scope of valuation are partially occupied by the property owner for its own-use (or occupied by the affiliates of Guangzhou Pharmaceutical Company Limited without consideration) and partially leased by the property owner to Guangzhou Pharmaceutical Company Limited or the affiliates of Guangzhou Pharmaceutical Company Limited as at the valuation date. The properties are valued by adopting the following methods based on whether the properties are used for leasing as at the valuation date:

(i) Properties for own use (or occupied by the affiliates of Guangzhou Pharmaceutical Company Limited without consideration)

Among the 21 properties falling within the scope of valuation, the first floor and the third to fifth floors of Property No.1, the first floor of Property No. 2 and Property No.3 are occupied by Guangzhou Pharmaceutical Company Limited as office buildings while Property No.19 is occupied by the affiliates of Guangzhou Pharmaceutical Company Limited without consideration.

For the properties occupied for own use (or occupied by the affiliates of Guangzhou Pharmaceutical Company Limited without compensation) as at the valuation date, the valuation of the properties is carried out based on the market approach, the income approach or the cost approach directly to appraise their market value as at the valuation date.

For details of the valuation methods adopted for the valuation of the market value as at the valuation date, please refer to the section below "(2) Selection of valuation methods for the valuation of the market value of the properties".

(ii) Leased properties

Among the 21 properties falling within the scope of valuation, the second floor of Property No.1, the second and third floor of Property No.2, Properties No. 4 to No.18 and Properties Nos. 20-21 are leased by the property owner to Guangzhou Pharmaceutical Company Limited or the affiliates of Guangzhou Pharmaceutical Company Limited.

As for the properties leased by the property owner to the affiliates of Guangzhou Pharmaceutical Company Limited as at the valuation date, the valuation of the leased properties is carried out based on the following formula, taking into consideration the impact of the rent stated in the leasing contract and the length of the remaining leasing term on the value of the property:

Valuation of leased property = discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$

The calculation of the discounted value of the rent within the leasing term refers to the estimation of the net income of the property within the leasing term after taking into account the parameters including rent level stipulated in the contract, approach of rent increment and the remaining leasing term from the valuation date, on the basis of the signed leasing contract of the valuation subject provided by the entrusting party, where the net income will then be discounted into the discounted value of the rent within the leasing term as at the valuation date by using a reasonable discount rate.

Since the remaining leasing terms from the valuation date of the 17 properties are relatively short (The remaining leasing terms of the leased properties do not exceed 2.0 years except for Property No.18 (Rear portion of No.282 of Beijing Road, Yuexiu District), the remaining leasing terms of which are 2.33 years), together with the current steady development of the property market in Guangzhou City, it is estimated that there will only be slight changes in property prices in the coming few years. The market value as at the valuation date (without taking the market value under the limitation of leasing contracts into account) is therefore used as the market value of the leased properties at the end of the leasing contracts.

For details of the valuation methods adopted for the valuation of the market value as at the valuation date, please refer to the section below "(2) Selection of valuation methods for the valuation of the market value of the properties".

(2) Selection of valuation methods for the valuation of the market value of the properties

The valuation methods used for the valuation of the market value of properties comprise the three basic approaches, namely the market approach, the income approach and the cost approach. In addition, there are other valuation methods derived from the basic approaches. For instance, the hypothetical development method (the residual method), the secular trend method, the valuation method regarding the value of route of land use rights and the valuation method regarding adjusted land value quotient of land use rights. Valuation requires the analysis of the suitability of different methods based on the relevant conditions (e.g. valuation subject, type of value, and information collection) and the appropriate property valuation method or methods.

Since there are relatively more examples of property leasing in the locations of the 21 properties falling within the scope of valuation and the second floor of Property No.1, the second and third floors of Property No. 2, Property No. 3, Nos. 4-18 and Nos. 20-21 are subject to tenancies, the 21 properties may generate income by leasing to external parties and the operating income and operating cost can be reasonably estimated. Therefore, the valuation of the market value of the 21 properties as at the valuation date is carried out based on the income approach.

Among 21 properties included in the scope of appraisal, of which:

(1) there is an active real estate market and there are many transaction examples of similar properties in the locations of Properties Nos. 1-3, Properties Nos. 14-16, Properties Nos. 18-21 and the second floor of Property No. 10, the market value of these properties as at the valuation date is appraised using both the market approach and the income approach, then using the arithmetic mean of the two valuation methods as the final appraised value;

(2) Properties Nos. 4-13, Property No. 17 and the first floor of Property No. 10 are properties located in the city center and set out as "warehouse" or "industrial" use in the certificate, similar properties in the locations of these properties are generally acquired through self-development, which satisfies the condition of using cost method for appraisal, the market value of these properties as at the valuation date is appraised using both the cost method and the income approach while the benchmark land price coefficient correction method is adopted to appraise the land use rights there of, however the benchmark land price of warehouse/industrial properties are relatively lagging behind, and is difficult to reflect the value of land market objectively, as a result, the appraised value arising from the income approach was determined as the final appraised value.

(3) Result of the selection of valuation methods for different properties

Result of the selection of valuation methods for different properties is as follows:

Serial Number	Reference Number of Ownership Certificate	Property	Whether leased or not	Calculation Method of Valuation	Calculation Method of Market Value as at Valuation Date (or End of Leasing term)	
					Method 1	Method 2
1	Yue Fang Di Zheng Zi Di No.C1491223	45 Sha Mian North Street, Liwan District	Partially leased	Portion with tenancy: discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$ Portion without tenancy: market value as at valuation date	Income Approach	Market Approach
2	Yue Fang Di Zheng Zi Di No.C1491222	45-1 of Sha Mian North Street, Liwan District	Partially leased	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$ Portion without tenancy: market value as at valuation date	Income Approach	Market Approach
3	Yue Fang Di Zheng Zi Di No.C1491224	45-2 of Sha Mian North Street, Liwan District	No	Market value as at valuation date	Income Approach	Market Approach
4	Yue Fang Di Zheng Zi Di No.C5932126	Warehouse, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
5	Yue Fang Di Zheng Zi Di No.C6143847	1/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
6	Yue Fang Di Zheng Zi Di No.C6143846	2/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
7	Yue Fang Di Zheng Zi Di No.C6143845	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
8	Yue Fang Di Zheng Zi Di No.C6143849	2nd Block, 30 Zengcha Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
9	Yue Fang Di Zheng Zi Di No.C6143848	3rd Block, 30 Zengcha Road, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach

Serial Number	Reference Number of Ownership Certificate	Property	Whether leased or not	Calculation Method of Valuation	Calculation Method of Market Value as at Valuation Date (or End of Leasing term)	
					Method 1	Method 2
10	Yue Fang Di Quan Zheng Sui Zi Di No. 1050036348	1-2/F, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach (The warehouse on 1/F is based on income approach and the flat on the 2/F is based on market approach.)	Cost Approach (The warehouse on 1/F is based on cost approach and the flat on the 2/F is based on income approach.)
11	Yue Fang Di Quan Zheng Sui Zi Di No 1050036340	1-3/F, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
12	Yue Fang Di Zheng Zi Di C5932124	1/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
13	Yue Fang Di Zheng Zi Di C5932125	2/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
14	Yue Fang Di Zheng Zi Di C5942848	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Market Approach
15	Yue Fang Di Zheng Zi Di C5932123	2/F of East Tower, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Market Approach
16	Yue Fang Di Zheng Zi Di C5942849	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Market Approach
17	Sui Fang Zheng Zi Di No.0059002/Sui Di Zheng Zi Di No.0093202	1-2/F, No. 118 West Heping Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Cost Approach
18	Yue Fang Di Zheng Zi Di C6190029	Rear Block, 282 Beijing Road, Yuexiu District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate) $^{\text{remaining leasing term}}$	Income Approach	Market Approach
19	Yue Fang Di Quan Zheng Sui Zi Di No 0150088038	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	No	Market value as at valuation date	Income Approach	Market Approach

Serial Number	Reference Number of Ownership Certificate	Property	Whether leased or not	Calculation Method of Valuation	Calculation Method of Market Value as at Valuation Date (or End of Leasing term)	
					Method 1	Method 2
20	Yue Fang Di Zheng Zi Di C6465931	Shop No. 2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Li Wan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate)$^{\text{remaining leasing term}}$	Income Approach	Market Approach
21	Yue Fang Di Quan Zheng Sui Zi Di No 0140082868	Unit 2, 12 Saiba Road, Liwan District	Yes	Discounted value of rent within leasing term + market value at end of term ÷ (1 + discount rate)$^{\text{remaining leasing term}}$	Income Approach	Market Approach

4. Summary of valuation result

With the above valuation processes, the 21 properties falling into the scope of valuation are valued at RMB230.7396 million in aggregate, the details of which are set out as follows:

Serial Number	Reference Number of Ownership Certificate	Property	Gross Floor Area	Original Carrying Value	Net Carrying Value	Market Comparison Approach			Cost Approach			Income Approach			Final Valuation Result		Appreciation	Note
						Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value		
			(m^2)	*(RMB)*	*(RMB)*	*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		
1	Yue Fang Di Zheng Zi Di No. C1491223	45 Sha Mian North Street, Liwan District	2,775.59	8,698,303.50	5,885,587.49	13,391	37,167,000	50%			0%	13,655	37,900,000	50%	13,523	37,534,000	537.7%	Allocated land use right
2	Yue Fang Di Zheng Zi Di No. C1491222	45-1 Sha Mian North Street, Liwan District	1,022.97	7,516,011.15	5,263,896.05	11,293	11,552,000	50%			0%	10,460	10,700,000	50%	10,877	11,126,800	111.4%	Granted land use right
3	Yue Fang Di Zheng Zi Di No. C1491224	45-2 Sha Mian North Street, Liwan District	1,874.08	406,466.14	154,453.80	11,910	22,300,000	50%			0%	10,832	20,300,000	50%	11,371	21,310,200	13697.1%	Allocated land use right
4	Yue Fang Di Zheng Zi Di No. C5932126	Warehouse, 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District	3,429.77	1,400,065.73	932,372.04			0%	2,148	7,368,700	0%	2,435	8,350,000	100%	2,435	8,350,000	822.4%	Allocated land use right (excluding building area of the portion in violation of regulations)
5	Yue Fang Di Zheng Zi Di No. C6143847	1/F, 4th Block, 28 Zengcha Road, Baiyun District	694.29	1,138,901.50	224,427.54			0%	2,178	1,512,300	0%	5,185	3,600,000	100%	5,185	3,599,900	2783.2%	Allocated land use right
6	Yue Fang Di Zheng Zi Di No. C6143846	2/F, 4th Block, 28 Zengcha Road, Baiyun District	272.89					0%	2,181	595,300	0%	3,118	851,000	100%	3,118	850,900		Allocated land use right
7	Yue Fang Di Zheng Zi Di No. C6143845	Warehouse, 3-5/F, 4th Block, 28 Zengcha Road, Baiyun District	648.28					0%	2,176	1,410,900	0%	3,116	2,020,000	100%	3,116	2,020,000		Allocated land use rights
8	Yue Fang Di Zheng Zi Di No. C6143849	2nd Block, 30 Zengcha Road, Baiyun District	4,044.32	5,781,200.81	826,057.75			0%	2,201	8,899,900	0%	3,734	15,100,000	100%	3,734	15,100,000	1728.1%	Allocated land use right (excluding building area of the portion in violation of regulations)
9	Yue Fang Di Zheng Zi Di No. C6143848	3rd Block, 30 Zengcha Road, Baiyun District	5,041.21		1,589,201.94			0%	2,158	10,880,100	0%	3,928	19,800,000	100%	3,928	19,801,900	1146.0%	Allocated land use right (excluding building area of the portion in violation of regulations)

Serial Number	Reference Number of Ownership Certificate	Property	Gross Floor Area	Original Carrying Value	Net Carrying Value	Market Comparison Approach			Cost Approach			Income Approach			Final Valuation Result		Appreciation	Note
						Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value	Proportion of interest	Unit Value	Appraised Value		
			(m^2)	*(RMB)*	*(RMB)*	*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		*(RMB/m^2)*	*(RMB)*		
10	Yue Fang Di Quan Zheng Sui Zi Di No. 1050036348	1-2/F, 88 Paifang Road, Tancun Baiyue, Shijing Street, Baiyun District	2,778.24	17,457,021.29	13,102,745.92			0%	4,307	11,965,400	0%	4,854	13,485,170	100%	4,854	13,485,600	75.9%	Granted land use right
11	Yue Fang Di Quan Zheng Sui Zi Di No. 1050036340	1-3/F, 86 Paifang Road, Tancun Baiyue, Shijing Street, Baiyun District	3,432.18					0%	1,833	6,291,600	0%	2,785	9,560,000	100%	2,785	9,558,600		Granted land use right
12	Yue Fang Di Zheng Zi Di No. C5932124	1/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District	82.3669	26,425.15	792.75			0%	2,372	195,400	0%	5,232	431,000	100%	5,232	430,900	54255.1%	Allocated land use right
13	Yue Fang Di Zheng Zi Di No. C5932125	2/F, 19 Shier Fu Xin Street, Da Tong Road, Liwan District	104.0703					0%	2,299	239,300	0%	4,151	432,000	100%	4,151	430,000		Allocated land use right
14	Yue Fang Di Zheng Zi Di No. C5942848	8-9/F, 4 Shier Fu Xin Street, Da Tong Road, Liwan District	684.4436	754,747.11	233,559.20	11,352	7,769,600	50%			0%	10,052	6,880,000	50%	10,702	7,324,900	3036.2%	Allocated land use right
15	Yue Fang Di Zheng Zi Di No. C5932123	2/F of East Tower, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	310.3719	214,637.60	43,121.67	11,352	3,523,300	50%				15,530	4,820,000	50%	13,441	4,171,700	9574.3%	Allocated land use right
16	Yue Fang Di Zheng Zi Di No. C5942849	Rear Block, 3/F, 6 Shier Fu Xin Street, Da Tong Road, Liwan District	414.9626	185,468.67	37,261.22	11,354	4,711,600	50%				15,520	6,440,000	50%	13,437	5,575,900	14864.4%	Allocated land use right
17	Sui Fang Zheng Zi Di No. 0059002/Sui Di Zheng Zi Di No.0093202	1-2/F, 118 West Heping Road, Liwan District	4,224.48	2,171,979.46	380,521.54				2,375	10,034,100	0%	6,235	26,339,000	100%	6,235	26,339,600	6758.7%	Allocated land use right
18	Yue Fang Di Zheng Zi Di No. C6190029	Rear Block, 282 Beijing Road, Yuexiu District	215.51	381,776.57	381,776.57	64,229	13,842,000	50%			0%	77,491	16,700,000	50%	70,860	15,271,000	3900.0%	Allocated land use right (excluding building area of the portion in violation of regulations)
19	Yue Fang Di Quan Zheng Sui Zi Di No. 0150088038	Unit 5, 1/F, 246 Baogang Avenue, Haizhu District	99.34			27,600	2,740,000	50%			0%	28,589	2,840,000	50%	28,095	2,791,000		Granted land use rights
20	Yue Fang Di Zheng Zi Di No. C6465931	Shop No.2, 1/F, Danhuige, Hongmianyuan, Huadi Avenue, Liwan District	293.2134	3,705,934.00	1,818,687.03	32,389	9,497,000	50%			0%	22,680	6,650,000	50%	27,535	8,073,600	343.2%	Granted land use right

Serial Number	Reference Number of Ownership Certificate	Property	Gross Floor Area (m^2)	Original Carrying Value (RMB)	Net Carrying Value (RMB)	Market Comparison Approach Unit Value (RMB/m^2)	Market Comparison Approach Appraised Value (RMB)	Market Comparison Approach Proportion of interest	Cost Approach Unit Value (RMB/m^2)	Cost Approach Appraised Value (RMB)	Cost Approach Proportion of interest	Income Approach Unit Value (RMB/m^2)	Income Approach Appraised Value (RMB)	Income Approach Proportion of interest	Final Valuation Result Unit Value (RMB/m^2)	Final Valuation Result Appraised Value (RMB)	Appreciation	Note
21	Yue Fang Di Quan Zheng Sui Zi Di No. 0140082868	Unit 2, 12 Saiba Road, Liwan District	2,464.36	4,867,794.20	1,975,470.95	7,500	18,500,000	50%			0%	6,777	16,700,000	50%	7,139	17,593,100	790.6%	Allocated land use right (excluding building area of the portion in violation of regulations)
Fixed Assets – Properties Total			**34,906.94**	**54,706,732.88**	**32,849,933.46**											**230,739,600**	**602.4%**	

5. Analysis of increase/decrease in value

From the foregoing, the carrying value of the 21 properties falling into the scope of valuation is RMB32.8499 million and the appraised value is RMB230.7396 million, representing an increase in value of 602.4%.

Upon analysis, the 21 properties falling into the scope of valuation are mainly the properties used by the property owner, GPHL in the past and were purchased at earlier times. Compared with the property market level as at the valuation date, the carrying cost of those properties are relatively low. As the calculation of the appraised value is based on the property market conditions as at the valuation date, the value of these properties has appreciated considerably.

6. The net income of 21 properties in 5 years after the valuation date

Income approach is adopted for the valuation of the 21 properties falling into the scope of valuation. In the valuation of the market value of the housing structure based on the income approach, the net income in the calculation model is the same as the net income before interest, taxes and depreciation (i.e. the balance of valid gross income deduced by the operation fee, which is excluding the depreciation and amortization, financial expenses and corporate income tax).

The forecasted net income of the 21 properties assessed based on the income approach in 2012-2016 is as follows:

In the valuation of the forecasted net income based on the income approach	**2012**	**2013**	**2014**	**2015**	**2016**
	(RMB'0,000)	*(RMB'0,000)*	*(RMB'0,000)*	*(RMB'0,000)*	*(RMB'0,000)*
21 properties	689.38	681.42	1,008.18	1,098.24	1,164.84

(C) EXPLANATION ON VALUATION TECHNIQUE OF TRADEMARKS

(I) Details of Enterprises Licensed to Use the Trademarks

GPC and its subsidiaries are mainly engaged in manufacture and sales of Chinese Patent Medicine, western and Chinese pharmaceutical products. GPC integrates Southern school Chinese Medicine, it includes a number of century-old famous pharmaceutical companies including Zhong Yi（中一）, Chen Li Ji（陳李濟）, Qi Xing（奇星）, Jing Xiu Tang（敬修堂）and Pan Gao Shou（潘高壽）, as well as Chinese Patent Medicines and related brands such as Hua Tuo Zai Zao Wan（華佗再造丸）, Zhong Yi Xiao Ke Wan（中一消渴丸）, Xia Sang Ju（夏桑菊）, Yi Dan Chuan Bei Ye（蛇膽川貝液）, Wu Chi Pai Feng Wan（烏雞白鳳丸）and Zhui Feng Tou Gu Wan（追風透骨丸）etc, it has very obvious Chinese Patent Medicine resource advantage in Southern China as well as in the whole country.

Starting from 2008, GPC implemented sales reform through the control of distribution, channels and improved the distribution system, its operating results were therefore improved year by year. From 2008 to 2011, the revenue of the Company were RMB3,527.4239 million, RMB3,881.9385 million, RMB4,486.0673 million and RMB5,439.6116 million respectively, compound annual growth rate was 15.53%.

From 2006 to 2011, revenues from principal operations of enterprises using the appraised trademarks are shown below:

Unit: RMB'000

	2006	2007	2008	2009	2010	2011
Xing Qun	32,825.70	34,747.95	18,903.70	14,940.33	22,005.37	25,939.91
Zhong Yi	65,187.55	75,001.08	56,242.63	62,022.78	68,377.22	74,843.90
Chen Li Ji	17,660.32	23,069.29	19,658.39	22,606.61	22,903.47	27,467.25
Qi Xing	35,653.01	37,317.33	22,772.54	27,011.52	32,422.24	40,006.40
Jing Xiu Tang	20,729.50	22,824.19	18,811.51	19,245.53	20,813.02	25,040.31
Pan Gao Shou	27,161.97	30,946.29	24,852.71	23,710.09	27,352.93	33,292.59
Total	199,218.05	223,906.12	161,241.49	169,536.87	193,874.25	226,590.36

(II) Details of ownership of trademarks and related matters on pledge, infringement of rights and litigation

The registrant of all the trademarks to be appraised is Guangzhou Pharmaceutical Holdings Limited, while the ownership of all the trademark licenses also belongs to Guangzhou Pharmaceutical Holdings Limited.

There is no restriction on right of pledge on licenses of trademarks to be appraised, there is no trademark infringement or other matters relating to litigation.

(III) Contributions to trademark value

According to contribution percentage of 388 trademark value included in the scope of valuation which is confirmed by "Confirmation of Trademarks Contributions Percentages" (關於商標價值貢獻份額確認書), the contribution percentage of 388 trademark value from GPHL is 53%.

II. Selection of appraisal method

For category (1) trademarks: the 54 trademarks licenses to be appraised which are granted from GPHL to GPC with compensated use, income approach is adopted for appraisal;

For category (2) trademarks: the remaining 334 trademark licenses to be appraised, cost approach is adopted for the appraisal.

(I) Selection of appraisal method for category (1) trademarks (ie. 54 trademarks which are granted by GPHL to GPC for use at a consideration)

1. Applicability analysis of the market approach

Market approach represents estimating the value through the transactions of other assets similar to the appraised subjects. When using the market approach, the value of the intangible assets has been obtained with reference to the price in the recent acquisition or transaction activity of comparable intangible assets. Due to the uniqueness of the intangible assets, it is not easy to find comparable cases. In addition, the specific conditions for the relevant transactions are generally not available publicly. Generally speaking, if an enterprise creates a renowned/famous trademark through efforts, it will not easily transfer its ownership interest to the outside parties. Therefore, the market of the transfer of the ownership of the trademarks is generally very inactive.

In addition, from the comparability of the transactions, we generally require the trademarks that can be used as reference should be:

(1) trademarks in the same industry;

(2) the scope of the products and services using the trademarks is basically the same;

(3) in case there is trademark license, the limiting conditions of license are clear and they have no essential differences and can be compared with each other, for example, the form of license, license fee and license period are consistent, either solely granted, exclusive or ordinarily licensed for use;

(4) there are similarities in the development potential of the trademarks.

As described above, all the trademarks in this appraisal are either renowned trademarks in China or famous trademarks in Guangdong Province, and have a long history of use. Chen Li Ji has the longest history of several hundred years, and history of the use or registration of other trademarks is also over several decades or even a hundred years. In addition, these trademarks are subject to license agreements (licensed to GPC for use until 2017), and have strong uniqueness.

Considering the specific circumstances of relevant trademarks and the limitations of market environment and information conditions, it is very difficult for us to find references and transactions similar to the trademarks that we analyze on the market. Therefore, we are unable to conduct this appraisal using market approach.

2. Applicability Analysis of the Income Approach

Income approach is the most popular international appraisal method for the appraisal of sophisticated trademarks.

Certain rights to exclusive use of trademarks involved in this appraisal are held by Guangzhou Pharmaceutical Holdings Limited, which have been licensed to the enterprises under Guangzhou Pharmaceutical Holdings Limited for use. Because future expected earnings of the trademarks can be forecasted and can be measured in monetary terms; risks assumed by the asset owner to obtain expected earnings can be forecasted and can be measured in monetary terms; years of expected earnings of the asset can be forecasted, which satisfy the appraisal conditions for the income approach, these trademarks are appraised using income approach.

3. Applicability Analysis of the Cost Method

Because the acquisition cost of intangible assets, including trademarks is loosely correlated to their intrinsic value, therefore, on the condition that other appraisal methods are applicable, cost method is not generally used to appraise the assets of trademarks. The right to exclusive use of trademarks in category (1) to be appraised in this appraisal satisfy the appraisal conditions of income approach, and income approach can be used for appraisal, therefore, the cost method is not adopted.

(2) Selection of Appraisal Methods for Trademarks in Category (2)

1. Applicability Analysis of Market Approach

For details, please see the availability analysis of the market approach regarding the selection of appraisal method for 54 trademarks which GPHL has licensed GPC to use.

2. Applicability Analysis of Income Approach

Mainly out of defensive consideration, GPHL registered 277 trademarks domestically and 57 trademarks overseas. These trademarks represent the Group's image, mainly played a defensive role, or came into being as a result of derivative registration in the historical development. They have no direct impact on revenue of products nor generate direct revenue from use of trademarks, or have little revenue which enables the reasonable division impossible. Prerequisites for the appraisal of income approach cannot be met, therefore these trademarks are not applicable to the income approach for appraisal.

3. Availability Analysis of the Cost Method

Cost method is a valuation technique that firstly use the existing reacquisition cost (replacement cost) of the assets being valued, and then estimates various depreciation factors prevailing in those assets and deduct them from the replacement cost to derive the value of such assets.

Category (2) trademarks involved in this appraisal include the 57 overseas trademarks and 277 domestic associated or defensive trademarks registered by GPHL. These rights to exclusive use of trademarks are within the validity period and we can access by way of investigation to the existing source to replace such trademarks and the information on corresponding average social cost. Costs of replacing such trademarks using the existing source can be reliably measured, so prerequisites of appraisal of cost method are met. Under the condition that income approach and market approach are unable to be adopted, the cost method is adopted in this appraisal to appraise the value of the right to exclusive use of the trademarks.

III. Major appraisal assumptions and basis of appraisal

(I) Major appraisal assumptions

1. Assume trademarks can continue to apply for renewal after current trademark registration expires, and that the renewal is approved;

2. Assume there are no material changes as to relevant existing laws, regulations and policies of the country and macroeconomic conditions of the country. And also the politics, economics and social environment of the location where the parties of this transaction are situated do not have material changes. There is also no material adverse effect caused by other non-predictable and force majeure factors;

3. Unless otherwise stated, assume operation of assets fully comply with all relevant laws and regulations;

4. Assume on the basis that the assets under current management approach and management level, also the business scope and approach is consistent with current direction;

5. There are no material changes as to the interest rate, currency, and tax benchmark and tax rate and policy charges.

(II) Major laws and regulations, and standard documents relating to industry

1. Trademark Law of the People's Republic of China;

2. Criteria for Assets Appraisal – Basic Criteria (Cai Qi [2004] No. 20) issued by the Ministry of Finance;

3. Criteria for Assets Appraisal – Intangible Assets (Zhong Ping Xie[2008]No.217) issued by China Appraisal Society;

4. Comments on Trademark Assets Appraisal Guidance (Zhong Ping Xie[2011]No.228) issued by China Appraisal Society.

(III) Major source of information and data

1. Past audit reports of the enterprise in which the appraised object is involved;

2. Appraisal benchmark financial information and other enterprise operation information of the enterprise in which the appraised object is involved;

3. "Confirmation of Trademarks Contributions Percentages"（關於商標價值貢獻份額確認書）by GPHL;

4. Standard Value for Enterprise Results Evaluation issued by SCSAC, Economic Science Press;

5. Statistical data released by National Bureau of Statistics of China;

6. Public information of relevant listed companies;

7. Wind Information database;

8. China Centre for Economic Research (CCER);

9. Research findings of Aswath Damodaran in relation to average market risk premium;

10. Deposit rates and lending rates of financial institutions released by People's Bank of China;

11. Bonds transactions information released by China bond (www.chinabond.com.cn).

IV. Analysis of factors affecting the trademark value of appraised object

(I) Macroeconomic factors

According to the main macroeconomic figures of 2011 released by National Bureau of Statistics of China, the GDP for the year is RMB47,156.4 billion, calculated at comparable prices, and represented an increase of 9.2% over last year. Industrial added value of RMB22,059.2 billion, an increase of 10.6%. Annual consumer price increased 5.4% as compared to last year, from which urban area increased 5.3% while rural area increased 5.8%. Healthcare and personal items increased 3.4%.

Due to the slow recovery of international economy, it is expected that in 2012, after China's macro control policy returns to normal, GDP growth will slow down to a more moderate level and consumer price will decrease steadily.

(II) Industrial factors

The industry for which intangible assets of appraised object applies belongs to pharmaceutical manufacturing industry, which integrates traditional civilization and modern technology. It is an industry which combines the old tradition with modern production, thus the development of the industry is closely related to the level of medical service enjoyed by the people. It is a key industry which relates to people's livelihood.

In the past 5 years, gross output value of pharmaceutical manufacturing industry occupied a relatively stable proportion of the GDP, and also showing a steady growth. The data from Ministry of Industry and Information Technology showed that there were in total 6154 pharmaceutical enterprises in China in 2011. National pharmaceutical industry sales value increased 29.33% compared to the same period of last year. Income from principal operations increased 28.75%. As various costs along the eastern coastal area continued to rise and other factors such as stricter environment protection policy, thus high growth area of pharmaceutical manufacturing industry has shifted to central and western China.

Along with the implementation of pharmaceutical industry support policy by government in 2010, the new medical reform involving investment of RMB850 billion was basically completed in 2011. In 2012, medical reform of our nation enters into a stage of deepened adjustment. Increase in input from nation for the pharmaceutical industry could be lowered. At the same time, other factors including control of public hospital drug fees, change in mode of medical insurance payment may lead to a slower growth of the industry.

However, along with aging population increasing year-by-year as well as furtherance of economic development and medical reform, pharmaceutical market in our nation can still remain a growing trend for quite a long time. According to demographic data, the elderly population in China would reach 17.17% by 2020 to 248 million, the size of elderly population relying on high-dose medication is extending quickly. Along with the moving forward of economic development and medical reform and increased personal income, increase in quality of medication and penetration of medical insurance contributes to the growth trend of the overall medical level per person. Therefore, based on the above factors, it is expected that medical market in our nation can still remain a growing trend for quite a long time.

(III) Individual factors

The industry for which intangible assets of appraised trademark objects apply involves China Patent Medicine and Chinese Medicine health products. Chinese Medicine is a valuable asset among the pharmaceutical industry, it has specific advantages in prevention and treatment of illness and health care. It has a long history and also it has been confirmed that it is more effective in curing many diseases compared with chemical pharmaceutical. The trademarks of appraised object have very long history of usage, the earliest trademark, Chen Li Ji has several hundreds of years of history, for other trademarks used or registered, also has more than few decades of years and even few hundreds of years of history. They have certain reputation in Guangdong, China South and even the whole country.

Chen Li Ji was established in AD1600 (during the reign of Emperor Wanli of the Ming Dynasty), having a history of over 400 years from now, it is one of the existing oldest brands in Chinese Medicine industry in China. It is also an enterprise recognized by the nation as "Traditional Pharmaceutical Brands in China", and one of the "Traditional Pharmaceutical Brands in Guangzhou City" recognized by Guangzhou Municipal Government. Traditional Chinese Medicine culture of Chen Li Ji is also included in "National list of intangible cultural heritage". In September 2010, Chen Li Ji was recorded as "The world's oldest pharmaceutical plant" by Guinness world's record.

Jing Xiu Tang was established in 1790 (the 54th year of Qing Emperor Qianlong), and recognized by Ministry of Commerce as "Traditional Pharmaceutical Brands in China". It was restructured into a joint stock limited company in December 1992, being the first lot of state-owned industrial enterprises to be restructured in Guangzhou city.

Pan Gao Shou was first established in the 16th year of Emperor Guangxu (1890), having a history of 121 years from now. "Pan Gao Shou" is the first lots of enterprise recognized by State Council as Traditional Pharmaceutical Brands in China". "Pan Gao Shou Chinese Medicine Culture", herbal tea confidential prescription by Pan Gao Shou and jargons were awarded as national intangible cultural heritage respectively.

V. Determination at the market value for category (1) trademarks: Valuation model, expected time period for generating income and expected level of income generated under income approach

(I) Model of trademark assets to be appraised by income approach

Appraising the value of the intangible assets using income approach represents estimating the future expected earnings of the intangible assets, discounting them using the appropriate discount rate to the present value and aggregating to determine the market value of the subject intangible assets.

Calculation formula adopted in the income approach is:

$$PV = \sum_{i=t_0}^{t_n} \frac{R_i}{(1+r)^i}$$

Where:

PV Appraised value of the subject equity using income approach

i Time interval from the valuation date, unit: year

t_0 Time interval between the starting point of the existence of expected earnings for the subject equity and the valuation date

t_n Time interval between the ending point of the existence of expected earnings for the subject equity and the valuation date

R_i Estimated value of expected earnings at the point of i years from the valuation date

r Discount rate matching with the expected earnings

(II) Confirmation of income amount

According to the specific conditions of appraised objects under this appraisal, appraisal staff estimated the expected income from appraised trademark R_i according to the following:

Expected Income R_i	=	Income from trademark license – Business tax and surcharges – Enterprise income tax
	=	(Charging base for trademark usage fees × Trademark usage fees) – Business tax and surcharges – Enterprise income tax

a. Charging base

Pursuant to "Trademark License Agreement", "licensee should pay to licensor a usage fee which is calculated as at one thousandth (1‰) of net sales as shown in the financial statements which are prepared in compliance with the requirement of the PRC Accounting Standards ....", therefore, charging base take main operating income of enterprise which are granted to use each series of trademark.

b. Trademark usage fees

Pursuant to "Trademark License Agreement", "licensee should pay to licensor a usage fee which is calculated as at one thousandth (1‰) of net sales as shown in the financial statement which is prepared in compliance with the requirement of the PRC Accounting Standards ....", under the authorized period of existing trademark license which will expire in September 2017, one thousandth (1‰) is taken as trademark usage fee. Upon the expiry of the trademark license, analytic hierarchy process is adopted to analyze each factor which would affect the income from trademark products, after that, contribution rate from trademark to product income is determined, and can be used for the appropriate trademark usage fees.

(III) Expected duration for income

The expiry of expected income from trademark usage is confirmed according to factors including statutory life of the trademark and trademark product lifetime. Appraisal staff consider that under normal conditions, trademark will continue to be used, therefore, appraisal staff set the ending time point $t_n = \infty$ for expected income from trademark asset.

VI. Determination of the market value for category (1) trademarks: Estimation of trademark income

(I) Estimation of trademark product income (Trademark usage fees charging base)

According to corporate management analysis, they analyzed the major indicators including sales volume and average selling prices which would affect the operating income from principal operating business of the enterprises which currently use the 6 to series of trademarks, including: Xin Qun, Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou. They also analyzed the trend for historical change of these indicators. By considering the effect of each factor to the change of those indicators after appraisal benchmark day, and estimating indicators such as sales volume and average selling prices of major products in 2012 to 2018, thereby estimate income from principal operations of each enterprise using such trademarks in 2012 to 2018.

1. Xin Qun product series corresponding to Xin Qun trademark series

The major products of Guangzhou Xing Qun Pharmaceutical Co., Ltd. include "Xin Qun" Xia Sang Ju Ke Li (「星群」夏桑菊顆粒), An Shen Bu Nao Ye (安神補腦液), Fu Fang Gan Cao Kou Fu Rong Ye (複方甘草口服液) etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

No.	Product name	Unit	2012 Quantity *(10,000)*	2012 Price *(RMB)*	2012 Sales income *(RMB10,000)*	2013 Quantity *(10,000)*	2013 Price *(Yuan)*	2013 Sales income *(RMB10,000)*
1	Xia Sang Ju Ke Li (夏桑菊顆粒)	Pack	38,650.00	0.53	20,361.00	41,500.00	0.56	23,400.00
2	An Shen Bu Nao Ye (安神補腦液)	Bottle	2,940.00	0.94	2,764.20	3,600.00	0.79	2,844.00
3	Fu Fang Gan Cao Kou Fu Rong Ye (複方甘草口服溶液)	Bottle	440.00	2.56	1,126.40	600.00	2.93	1,758.00
4	Er Tian You (二天油)	Bottle	236.00	3.76	887.36	320.00	4.02	1,286.40
5	Xiao Er An Fen Huang Na Min Ke Li (小兒氨酚黃那敏顆粒)	Pack	2,350.00	0.37	869.50	2,800.00	0.37	1,036.00
6	A Fa Gu Hua Chun Jiao Wan (阿法骨化醇膠丸)	Box	104.00	7.38	767.52	200.00	6.41	1,282.00
7	Vitamin E capsule (維生素E膠丸)	Bottle	240.00	2.74	657.60	320.00	3.09	989.00
8	Fu Fang Yu Chuang Mu Fen Huang Suan Kou Fu Rong Ye (複方愈創木酚磺酸鉀口服溶液)	Bottle	210.00	2.00	420.00	200.00	1.79	358.00
9	Other products				2,709.42			3,065.60
	Total				30,563.00			36,019.00

Forecast of income from product sales in 2014-2018 is listed in the following table:

			2014			2015			2016			2017			2018		
No.	Product name	Unit	Quantity	Price	Sales income	Quantity	Price	Sales income	Quantity	Price	Sales income	Quantity	Price	Sales income	Quantity	Price	
				(RMB)	*(RMB10,000)*		*(RMB)*	*(RMB10,000)*		*(RMB)*	*(RMB10,000)*		*(RMB)*	*(RMB10,000)*		*(RMB)*	*(RMB10,000)*
1	Xia Sang Ju Ke Li (夏桑菊顆粒)	Pack	44,405.00	0.56	25,038.00	46,181.20	0.56	26,039.52	47,566.64	0.56	26,820.71	48,993.64	0.56	27,625.33	49,973.51	0.56	28,177.83
2	An Shen Bu Nao Ye (安神補腦液)	Bottle	3,852.00	0.79	3,043.08	4,006.08	0.79	3,164.80	4,126.26	0.79	3,259.75	4,250.05	0.79	3,357.54	4,335.05	0.79	3,424.69
3	Fu Fang Gan Cao Kou Fu Rong Ye (複方甘草口服溶液)	Bottle	642.00	2.93	1,881.06	667.68	2.93	1,956.30	687.71	2.93	2,014.99	708.34	2.93	2,075.44	722.51	2.93	2,116.95
4	Er Tian You (二天油)	Bottle	342.40	4.02	1,376.45	356.10	4.02	1,431.51	366.78	4.02	1,474.45	377.78	4.02	1,518.68	385.34	4.02	1,549.06
5	Xiao Er An Fen Huang Na Min Ke Li (小兒氨酚黃那敏顆粒)	Pack	2,996.00	0.37	1,108.52	3,115.84	0.37	1,152.86	3,209.32	0.37	1,187.45	3,305.59	0.37	1,223.07	3,371.71	0.37	1,247.53
6	A Fa Gu Hua Chun Jiao Wan (阿法骨化醇膠丸)	Box	214.00	6.41	1,371.74	222.56	6.41	1,426.61	229.24	6.41	1,469.41	236.11	6.41	1,513.49	240.84	6.41	1,543.76
7	Vitamin E capsule (維生素E膠丸)	Bottle	342.40	3.09	1,058.23	356.10	3.09	1,100.56	366.78	3.09	1,133.58	377.78	3.09	1,167.58	385.34	3.09	1,190.93
8	Fu Fang Yu Chuang Mu Fen Huang Suan Kou Fu Rong Ye (複方愈創木酚磺酸鉀口服溶液)	Bottle	214.00	1.79	383.06	222.56	1.79	398.38	229.24	1.79	410.33	236.11	1.79	422.64	240.84	1.79	431.10
9	Other products				3,280.19			3,411.40			3,513.74			3,619.15			3,691.54
	Total				38,540.33			40,081.94			41,284.40			42,522.93			43,373.39
	Growth rate				7.0%			4.0%			3.0%			3.0%			2.0%

2. Zhong Yi product series corresponding to Zhong Yi trademark series

Major product series manufactured by Guangzhou Zhong Yi Pharmaceutical Co., Ltd include Xiao Ke Wan, Wei Nai An Jiao Nang, Zi Shen Yu Tai Wan, Zhang Yan Min Pian, Ru He San Jie Pian, Jia Wei Huo Xiang Zheng Qi Wan etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

			2012			2013		
No.	**Product name**	**Unit**	**Quantity** *(10,000)*	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity** *(10,000)*	**Price** *(Yuan)*	**Sales income** *(RMB10,000)*
1	Xiao Ke Wan 消渴丸 (30g/bottle)	Bottle	3,209.00	12.30	39,480.12	3,695.71	12.40	45,821.54
2	Xiao Ke Wan 消渴丸 (52.5g/bottle)	Bottle	620.00	19.02	11,794.87	690.02	18.84	13,002.56
3	Xiao Ke Wan 消渴丸 (75g/bottle)	Bottle	87.00	30.45	2,649.57	41.82	31.10	1,300.44
4	Wei Nai An Jiao Nang 胃乃安膠囊	Bottle	450.00	11.40	5,128.21	503.39	13.25	6,669.85
5	Zi Shen Yu Tai Wan 滋腎育胎丸	Bottle	180.00	25.64	4,615.38	253.37	26.99	6,838.54
6	Ru He San Jie Pian 乳核散結片	Bottle	350.00	10.26	3,589.74	343.33	10.88	3,735.04
7	Qian Lie Tong Pian 前列通丸	Bottle	300.00	9.12	2,735.04	312.23	9.44	2,948.72
8	San Qi Hua Zhi Wan 三七化痔丸	Bottle	330.00	6.99	2,307.69	296.04	8.24	2,439.57
9	Xin Yi Bi Yan Wan 辛夷鼻炎丸	Bottle	240.00	5.34	1,282.05	205.82	5.73	1,179.49
10	Other products				10,990.94			17,165.96
	Total				84,573.61			101,101.71

Forecast of income from product sales in 2014 to 2018 is listed in the following table:

			2014			2015			2016			2017			2018		
No.	**Product name**	**Unit**	**Quantity**	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity**	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity**	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity**	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity**	**Price** *(RMB)*	**Sales income** *(RMB10,000)*
1	Xiao Ke Wan 消渴丸 (30g/bottle)	Bottle	3,991.37	12.40	49,487.26	4,190.94	12.40	51,961.63	4,358.57	12.40	54,040.09	4,489.33	12.40	55,661.29	4,579.12	12.40	56,774.522
2	Xiao Ke Wan 消渴丸 (52.5g/bottle)	Bottle	745.22	18.84	14,042.76	782.48	18.84	14,744.90	813.78	18.84	15,334.70	838.20	18.84	15,794.74	854.96	18.84	16,110.63
3	Xiao Ke Wan 消渴丸 (75g/bottle)	Bottle	45.17	31.10	1,404.48	47.42	31.10	1,474.70	49.32	31.10	1,533.69	50.80	31.10	1,579.70	51.82	31.10	1,611.29
4	Wei Nai An Jiao Nang 胃乃安膠囊	Bottle	543.66	13.25	7,203.44	570.84	13.25	7,563.61	593.68	13.25	7,866.15	611.49	13.25	8,102.14	623.72	13.25	8,264.18
5	Zi Shen Yu Tai Wan 滋腎育胎丸	Bottle	273.64	26.99	7,385.62	287.32	26.99	7,754.90	298.81	26.99	8,065.10	307.78	26.99	8,307.05	313.93	26.99	8,473.19
6	Ru He San Jie Pian 乳核散結片	Bottle	370.80	10.88	4,033.84	389.34	10.88	4,235.54	404.91	10.88	4,404.96	417.06	10.88	4,537.11	425.40	10.88	4,627.85
7	Qian Lie Tong Pian 前列通丸	Bottle	337.21	9.44	3,184.62	354.07	9.44	3,343.85	368.23	9.44	3,477.60	379.28	9.44	3,581.93	386.86	9.44	3,653.57
8	San Qi Hua Zhi Wan 三七化痔丸	Bottle	319.72	8.24	2,634.74	335.71	8.24	2,766.47	349.14	8.24	2,877.13	359.61	8.24	2,963.45	366.80	8.24	3,022.71
9	Xin Yi Bi Yan Wan 辛夷鼻炎丸	Bottle	222.29	5.73	1,273.85	233.40	5.73	1,337.54	242.74	5.73	1,391.04	250.02	5.73	1,432.77	255.02	5.73	1,461.43
10	Other products				18,539.24			19,466.20			20,244.85			20,852.19			21,269.24
	Total				109,189.85			114,649.34			119,235.31			122,812.37			125,268.62
	Growth rate				8.0%			5.0%			4.0%			3.0%			2.0%

3. Chen Li Ji product series corresponding to Chen Li Ji trademark series

Chen Li Ji product series manufactured by Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. include Zhuang Yao Jian Shen Wan, Bu Pi Yi Chang Wan, Hou Ji Ling Jiao Nang, Shu Jin Jian Yao Wan, Wu Qi Bai Feng Wan etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

			2012			2013		
No.	**Product name**	**Unit**	**Quantity**	**Price**	**Sales income**	**Quantity**	**Price**	**Sales income**
			(10,000)	*(RMB)*	*(RMB10,000)*	*(10,000)*	*(Yuan)*	*(RMB10,000)*
1	Zhuang Yao Jian Shen Wan（肚腰健腎丸）	Bottle	2,172.76	4.68	10,173.42	2,680.00	4.82	12,913.06
2	Bu Pi Yi Chang Wan（補脾益腸丸）	Bottle	907.60	8.11	7,356.59	930.00	9.19	8,550.20
3	Hai Chuan Shun Wan（咳喘順丸）	Bottle	230.00	3.56	819.74	200.00	4.20	840.00
4	Wu Qi Bai Feng Wan（烏雞白鳳丸）	Bottle	116.00	15.78	1,830.34	60.00	16.23	973.80
5	Shu Jin Jian Yao Wan（舒筋健腰丸）	Bottle	972.00	3.68	3,572.31	1,100.00	3.90	4,290.00
6	Shang Qing Wan（上清丸）	Bottle	222.82	3.14	699.03	170.00	3.50	595.00
7	Hou Ji Ning Jiao Nang（喉疾靈膠囊）	Bottle	401.00	6.19	2,481.46	450.00	6.23	2,803.50
8	Kun Xian Jiao Nang（昆他膠囊）	Box				65.00	11.30	734.50
9	Other products				5,005.98			4,540.00
	Total				31,938.87			36,240.06

Forecast of income from product sales in 2014 to 2018 is listed in the following table:

No.	Product name	Unit	2014			2015			2016			2017			2018		
			Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*
1	Zhuang Yao Jian Shen Wan（壯腰健腎丸）	Bottle	2,840.80	4.82	13,687.84	2,954.43	4.82	14,235.36	3,043.06	4.82	14,662.42	3,134.36	4.82	15,102.29	3,197.04	4.82	15,404.34
2	Bu Pi Yi Chang Wan（補脾益腸丸）	Bottle	985.80	9.19	9,063.21	1,025.23	9.19	9,425.74	1,055.99	9.19	9,708.51	1,087.67	9.19	9,999.77	1,109.42	9.19	10,199.76
3	Hai Chuan Shun Wan（咳喘順丸）	Bottle	212.00	4.20	890.40	220.48	4.20	926.02	227.09	4.20	953.80	233.91	4.20	982.41	238.59	4.20	1,002.06
4	Wu Qi Bai Feng Wan（烏雞白鳳丸）	Bottle	63.60	16.23	1,032.23	66.14	16.23	1,073.52	68.13	16.23	1,105.72	70.17	16.23	1,138.89	71.58	16.23	1,161.67
5	Shu Jin Jian Yao Wan（舒筋健腰丸）	Bottle	1,166.00	3.90	4,547.40	1,212.64	3.90	4,729.30	1,249.02	3.90	4,871.17	1,286.49	3.90	5,017.31	1,312.22	3.90	5,117.66
6	Shang Qing Wan（上清丸）	Bottle	180.20	3.50	630.70	187.41	3.50	655.93	193.03	3.50	675.61	198.82	3.50	695.87	202.80	3.50	709.79
7	Hou Ji Ning Jiao Nang（喉疾靈膠囊）	Bottle	477.00	6.23	2,971.71	496.08	6.23	3,090.58	510.96	6.23	3,183.30	526.29	6.23	3,278.79	536.82	6.23	3,344.37
8	Kun Xian Jiao Nang（昆仙膠囊）	Box	68.90	11.30	778.57	71.66	11.30	809.71	73.81	11.30	834.00	76.02	11.30	859.02	77.54	11.30	876.20
9	Other products				4,812.40			5,004.90			5,155.04			5,309.69			5,415.89
	Total				38,414.46			39,951.04			41,149.57			42,384.06			43,231.74
	Growth rate				6.0%			4.0%			3.0%			3.0%			2.0%

4. Qi Xing product series corresponding to Qi Xing trademark series

Major products of Guangzhou Qi Xing Pharmaceutical Co., Ltd. include Hua Tuo Zai Zao Wan（華佗再造丸）, Xu Han Ting Ke Li（虛漢停顆粒）, Hou Zao Niu Huang San（猴棗牛黃散）, She Dan Chuan Bei San（蛇膽川貝散）, Qian Bai Bi Yan Pian（千柏鼻炎片）(Qi Xing Trademark)（奇星商標）, Qing Re San Jie Pian（清熱散結片）, Xin Xue Pian（新雪片）etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

			2012			2013		
No.	**Product name**	**Unit**	**Quantity** *(10,000)*	**Price** *(RMB)*	**Sales income** *(RMB10,000)*	**Quantity** *(10,000)*	**Price** *(Yuan)*	**Sales income** *(RMB10,000)*
1	Hua Tuo Zai Zao Wan (華佗再造丸)	Box	1,054.40	23.46	24,740.21	1,373.44	22.57	31,001.05
2	Xu Han Ting Ke Li (虛汗停顆粒)	Box	412.82	14.63	6,038.43	497.00	15.06	7,487.23
3	Hou Zao Niu Huang San (猴棗牛黃散)	Box	87.31	33.62	2,935.25	121.62	31.19	3,793.36
4	She Dan Chuan Bei San (蛇膽川貝散)	Pack	225.68	9.29	2,096.63	279.17	8.94	2,495.73
5	Qian Bai Bi Yan Pian (千柏鼻炎片)	Bottle	245.31	5.91	1,450.87	208.71	6.22	1,297.78
6	Qing Re San Jie Pian (清熱散結片)	Bottle	338.52	3.39	1,148.95	215.03	3.62	777.49
7	Pearl powder (珍珠末)	Box	98.12	7.27	712.85	180.52	4.70	848.55
8	Bi Yan Qing Du Ke Li (鼻咽清毒顆粒)	Box	68.69	9.77	670.92	83.14	9.61	798.63
9	Xin Xue Ke Li (新雪顆粒)	Box	68.69	7.94	545.12	91.57	5.91	541.46
10	Xin Xue Pian (新雪片)	Box	29.44	9.97	293.53	15.25	10.18	155.17
11	Fu Fang Nan Ban Lan Gen Chong Ji (複方南板藍根衝劑)	Pack	90.13	5.13	462.20	159.15	5.02	798.64
12	Other products		0.00		3,065.00			4,722.77
	Total				44,159.96			54,717.86

Forecast of income from product sales in 2014 to 2018 is listed in the following table:

			2014			2015			2016			2017			2018		
No.	Product name	Unit	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*	Quantity	Price *(RMB)*	Sales income *(RMB10,000)*
1	Hua Tuo Zai Zao Wan (華佗再造丸)	Box	1,497.05	22.57	33,791.14	1,571.90	22.57	35,480.70	1,634.78	22.57	36,899.93	1,683.82	22.57	38,006.93	1,717.50	22.57	38,767.07
2	Xu Han Ting Ke Li (虛汗停顆粒)	Box	541.73	15.06	8,161.08	568.82	15.06	8,569.13	591.57	15.06	8,911.90	609.32	15.06	9,179.26	621.50	15.06	9,362.84
3	Hou Zao Niu Huang San (猴棗牛黃散)	Box	132.57	31.19	4,134.76	139.19	31.19	4,341.50	144.76	31.19	4,515.16	149.10	31.19	4,650.62	152.09	31.19	4,743.63
4	She Dan Chuan Bei San (蛇膽川貝散)	Pack	304.30	8.94	2,720.35	319.51	8.94	2,856.36	332.29	8.94	2,970.62	342.26	8.94	3,059.74	349.10	8.94	3,120.93
5	Qian Bai Bi Yan Pian (千柏鼻炎片)	Bottle	227.49	6.22	1,414.58	238.87	6.22	1,485.31	248.42	6.22	1,544.72	255.88	6.22	1,591.06	260.99	6.22	1,622.88
6	Qing Re San Jie Pian (清熱散結片)	Bottle	234.38	3.62	847.46	246.10	3.62	889.84	255.95	3.62	925.43	263.62	3.62	953.19	268.90	3.62	972.26
7	Pearl powder (珍珠末)	Box	196.77	4.70	924.92	206.61	4.70	971.17	214.87	4.70	1,010.01	221.32	4.70	1,040.31	225.74	4.70	1,061.12
8	Bi Yan Qing Du Ke Li (鼻咽清毒顆粒)	Box	90.62	9.61	870.51	95.15	9.61	914.03	98.96	9.61	950.59	101.93	9.61	979.11	103.97	9.61	998.69
9	Xin Xue Ke Li (新雪顆粒)	Box	99.81	5.91	590.19	104.80	5.91	619.70	108.99	5.91	644.49	112.26	5.91	663.82	114.51	5.91	677.10
10	Xin Xue Pian (新雪片)	Box	16.62	10.18	169.14	17.45	10.18	177.59	18.15	10.18	184.70	18.70	10.18	190.24	19.07	10.18	194.04
11	Fu Fang Nan Ban Lan Gen (複方南板藍根衝劑) Chong Ji	Pack	173.47	5.02	870.52	182.15	5.02	914.04	189.43	5.02	950.61	195.12	5.02	979.12	199.02	5.02	998.71
12	Other products				5,147.82			5,405.21			5,621.42			5,790.06			5,905.86
	Total				59,642.47			62,624.59			65,129.57			67,083.46			68,425.13
	Growth rate				9.0%			5.0%			4.0%			3.0%			2.0%

5. Jing Xiu Tang product series corresponding to Jing Xiu Tang trademark series

Major products of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. are Zhui Feng Tou Gu Wan（追風透骨丸）, Zhong Feng Hui Chun Wan（中風回春丸）, Qing Re Xiao Yan Ning Jiao Nang（清熱消炎寧膠囊）, Hua Zhi Shuan（化痔栓）, Die Da Wan Hua You（跌打萬花油）, Yang Xie Sheng Fa Jiao Nang（養血生髮膠囊）etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

No.	Product name	Unit	2012 Quantity (10,000)	2012 Price (RMB)	2012 Sales income (RMB10,000)	2013 Quantity (10,000)	2013 Price (Yuan)	2013 Sales income (RMB10,000)
1	Hua Zhi Shuan (化痔栓)	Box	488.12	9.98	4,871.79	580.76	9.96	5,786.32
2	Qing Re Xiao Yan Ning Jiao Nang (清熱消炎寧膠囊)	Box	321.87	10.62	3,418.80	247.08	12.29	3,036.76
3	Die Da Wan Hua You (跌打萬花油)	Bottle	687.57	3.48	2,393.16	756.32	3.58	2,707.64
4	Yang Xie Sheng Fa Jiao Nang (養血生髮膠囊)	Bottle	570.21	3.75	2,136.75	627.23	3.75	2,350.43
5	She Xiang Die Da Feng Shi Gao (麝香跌打風濕膏)	Bottle	513.99	3.13	1,606.84	565.39	3.13	1,767.52
6	Tian Huang Hou Zao San (天黃猴棗散)	Box	2,611.54	1.52	3,974.36	3,133.85	1.70	5,327.54
7	Zhong Feng Hui Chun Wan (中風回春丸)	Box	79.28	14.77	1,170.94	87.21	9.08	791.77
8	Zhui Feng Tou Gu Wan (追風透骨丸)	Box	564.67	6.81	3,846.15	621.14	6.74	4,189.44
9	Hou Zheng Wan (喉正丸)	Box	259.41	1.65	427.35	271.08	1.75	474.39
10	Fu Fang Tu Jin Pi Ding (複方土槿皮酊)	Bottle	445.91	1.53	683.76	490.50	1.53	752.14
11	Other products				4,577.01			5,776.05
	Total				29,106.91			32,960.00

Forecast of income from product sales in 2014 to 2018 is listed in the following table:

No.	Product name	Unit	2014 Quantity	2014 Price (RMB)	2014 Sales income (RMB10,000)	2015 Quantity	2015 Price (RMB)	2015 Sales income (RMB10,000)	2016 Quantity	2016 Price (RMB)	2016 Sales income (RMB10,000)	2017 Quantity	2017 Price (RMB)	2017 Sales income (RMB10,000)	2018 Quantity	2018 Price (RMB)	2018 Sales income (RMB10,000)
1	Hua Zhi Shuan (化痔栓)	Box	615.61	9.96	6,133.50	640.23	9.96	6,378.84	659.44	9.96	6,570.20	679.22	9.96	6,767.31	692.80	9.96	6,902.66
2	Qing Re Xiao Yan Ning Jiao Nang (清熱消炎寧膠囊)	Box	261.90	12.29	3,218.97	272.38	12.29	3,347.72	280.55	12.29	3,448.16	288.97	12.29	3,551.60	294.75	12.29	3,622.63
3	Die Da Wan Hua You (跌打萬花油)	Bottle	801.70	3.58	2,870.10	833.77	3.58	2,984.90	858.78	3.58	3,074.45	884.54	3.58	3,166.68	902.23	3.58	3,230.02
4	Yang Xie Sheng Fa Jiao Nang (養血生髮膠囊)	Bottle	664.86	3.75	2,491.46	691.46	3.75	2,591.11	712.20	3.75	2,668.85	733.57	3.75	2,748.91	748.24	3.75	2,803.89
5	She Xiang Die Da Feng Shi Gao (麝香跌打風濕膏)	Bottle	599.31	3.13	1,873.57	623.29	3.13	1,948.51	641.98	3.13	2,006.97	661.24	3.13	2,067.18	674.47	3.13	2,108.52
6	Tian Huang Hou Zao San (天黃猴棗散)	Box	3,321.88	1.70	5,647.19	3,454.76	1.70	5,873.08	3,558.40	1.70	6,049.27	3,665.15	1.70	6,230.75	3,738.45	1.70	6,355.37
7	Zhong Feng Hui Chun Wan (中風回春丸)	Box	92.44	9.08	839.28	96.14	9.08	872.85	99.02	9.08	899.03	102.00	9.08	926.00	104.04	9.08	944.52
8	Zhui Feng Tou Gu Wan (追風透骨丸)	Box	658.41	6.74	4,440.81	684.74	6.74	4,618.44	705.29	6.74	4,756.99	726.45	6.74	4,899.70	740.97	6.74	4,997.70
9	Hou Zheng Wan (喉正丸)	Box	287.34	1.75	502.85	298.84	1.75	522.97	307.80	1.75	538.66	317.04	1.75	554.82	323.38	1.75	565.91
10	Fu Fang Tu Jin Pi Ding (複方土槿皮酊)	Bottle	519.93	1.53	797.27	540.73	1.53	829.16	556.95	1.53	854.03	573.66	1.53	879.65	585.13	1.53	897.25
11	Other products				6,122.61			6,367.52			6,558.54			6,755.30			6,890.41
	Total				34,937.60			36,335.10			37,425.16			38,547.91			39,318.87
	Growth rate				6.0%			4.0%			3.0%			3.0%			2.0%

6. Pan Gao Shou product series corresponding to Pan Gao Shou trademark series

Major products of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. are Zhi Ke Chuan Bei Pi Pa Lou (治咳川貝枇杷露), She Dan Chuan Bei Ye (蛇膽川貝液), She Dan Chuan Bei Pi Pa Gao (蛇膽川貝枇杷膏), Mi Lian Chuan Bei Pi Pa Gao (蜜煉川貝枇杷膏), Dan Bie Jiao Nang (丹鱉膠囊) etc.

Sales forecast of each major product in 2012 to 2013 is listed in the following table:

No.	Product name	Unit	2012 Quantity (10,000)	2012 Price (RMB)	2012 Sales income (RMB10,000)	2013 Quantity (10,000)	2013 Price (Yuan)	2013 Sales income (RMB10,000)
1	Mi Lian Chuan Bei Pi Pa Gao（蜜煉川貝枇杷膏）	Bottle	1,291.96	7.76	10,031.01	1,021.20	8.32	8,494.88
2	She Dan Chuan Bei Pi Pa Gao（蛇膽川貝枇杷膏）	Bottle	1,070.48	8.32	8,902.91	1,482.12	8.78	13,011.66
3	She Dan Chuan Bei Ye（蛇膽川貝液）	Bottle	6,530.58	1.07	6,965.82	5,635.67	0.98	5,501.60
4	Dan Bie Jiao Nang（丹鱉膠囊）	Bottle	66.98	7.50	502.35	153.60	13.79	2,118.12
5	Zhi Ke Chuan Bei Pi Pa Lou（治咳川貝枇杷露）	Bottle	1,295.00	6.60	8,547.00	1,649.51	6.66	10,985.72
6	Other products				4,050.91			6,070.02
	Total				39,000.00			46,182.00

Forecast of income from product sales in 2014 to 2018 is listed in the following table:

No.	Product name	Unit	2014 Quantity	2014 Price (RMB)	2014 Sales income (RMB10,000)	2015 Quantity	2015 Price (RMB)	2015 Sales income (RMB10,000)	2016 Quantity	2016 Price (RMB)	2016 Sales income (RMB10,000)	2017 Quantity	2017 Price (RMB)	2017 Sales income (RMB10,000)	2018 Quantity	2018 Price (RMB)	2018 Sales income (RMB10,000)
1	Mi Lian Chuan Bei Pi Pa Gao（蜜煉川貝枇杷膏）	Bottle	1,092.68	8.32	9,089.52	1,136.39	8.32	9,453.10	1,170.48	8.32	9,736.69	1,205.60	8.32	10,028.79	1,229.71	8.32	10,229.37
2	She Dan Chuan Bei Pi Pa Gao（蛇膽川貝枇杷膏）	Bottle	1,585.87	8.78	13,922.48	1,649.30	8.78	14,479.38	1,698.78	8.78	14,913.76	1,749.75	8.78	15,361.17	1,784.74	8.78	15,668.39
3	She Dan Chuan Bei Ye（蛇膽川貝液）	Bottle	6,030.17	0.98	5,886.71	6,271.37	0.98	6,122.18	6,459.51	0.98	6,305.85	6,653.30	0.98	6,495.02	6,786.37	0.98	6,624.92
4	Dan Bie Jiao Nang（丹鱉膠囊）	Bottle	164.35	13.79	2,266.39	170.93	13.79	2,357.04	176.05	13.79	2,427.76	181.34	13.79	2,500.59	184.96	13.79	2,550.60
5	Zhi Ke Chuan Bei Pi Pa Lou（治咳川貝枇杷露）	Bottle	1,764.98	6.66	11,754.72	1,835.57	6.66	12,224.91	1,890.64	6.66	12,591.66	1,947.36	6.66	12,969.41	1,986.31	6.66	13,228.79
6	Other products				6,494.92			6,754.72			6,957.36			7,166.08			7,309.40
	Total				49,414.74			51,391.33			52,933.07			54,521.06			55,611.48
	Growth rate				7.0%			4.0%			3.0%			3.0%			3.0%

7. Sales income forecast each year of the companies with licenses authorized to use

Overall forecasts are as follows:

Units: RMB10,000

Trademarks using enterprises	Forecast year 2012	2013	2014	2015	2016	2017	2018
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	30,563.00	36,019.00	38,540.33	40,081.94	41,284.40	42,522.93	43,373.39
Growth Rate	17.8%	17.9%	7.00%	4.00%	3.00%	3.00%	2.00%
Guangzhou Zhong Yi Pharmaceutical Co., Ltd	84,573.61	101,101.71	109,189.85	114,649.34	119,235.31	122,812.37	125,268.62
Growth Rate	13.0%	19.5%	8.00%	5.00%	4.00%	3.00%	2.00%
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	31,938.87	36,240.06	38,414.46	39,951.04	41,149.57	42,384.06	43,231.74
Growth Rate	16.3%	13.5%	6.00%	4.00%	3.00%	3.00%	2.00%
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	44,159.96	54,717.86	59,642.47	62,624.59	65,129.57	67,083.46	68,425.13
Growth Rate	10.4%	23.9%	9.00%	5.00%	4.00%	3.00%	2.00%
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	29,106.91	32,960.00	34,937.60	36,335.10	37,425.16	38,547.91	39,318.87
Growth Rate	16.2%	13.2%	6.00%	4.00%	3.00%	3.00%	2.00%
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	39,000.00	46,182.00	49,414.74	51,391.33	52,933.07	54,521.06	55,611.48
Growth Rate	17.1%	18.4%	7.00%	4.00%	3.00%	3.00%	2.00%
Total	259,342.35	307,220.63	330,139.45	345,033.35	357,157.09	367,871.80	375,229.24

(II) Determination of trademark license fees

1. Before the authorization period of the Trademark License Agreement expires (September 2017)

As the agreed trademark authorization period is until September 2017, therefore, trademark usage fees during the period is calculated at the agreed 1% pursuant to the Trademark License Agreement.

2. *After the authorization period of the Trademark License Agreement expires (September 2017)*

Upon the expiry of trademark license, Analytic Hierarchy Process is adopted to estimate the reasonable market license usage fee of each trademark. The method of estimation is as follows:

(1) Determination of excess profit margin of each authorized enterprise

Using principal operating profit margin (sales profit margin) as reflected in historic financial statements of each enterprise and the difference between statistical data of average principal operating profit margin from Chinese Patent Medicine industry, and determines the excess profit margin for each enterprise.

(2) Analytic Hierarchy Process is adopted to determine the contribution rate by trademark to excess profit margin

Analytic Hierarchy Process (AHP in short) is a systematic process in which a complicated, multi-goal decision-making problem is treated as a system, the goal is decomposed into a number of goals or criteria, and then further decomposed into a number of hierarchies with multi-goals (or criteria, constraints). Single sequence (weighted) and total sequence are calculated by fuzzy quantification of qualitative indicators, which serves as a systematic method for optimizing the judgement of multi-goals and multi-alternatives.

(3) Multiply excess profit margin by trademark contribution rate, the product is the reasonable license usage fee rate for each trademark:

Xing Qun series trademark license usage fee is 1%

Zhong Yi series trademark license usage fee rate is 0.9%

Chen Li Ji series trademark license usage fee rate is 1.2%

Qi Xing series trademark license usage fee rate is 1.1%

Jing Xiu Tang series trademark license usage fee rate is 1%

Pan Gao Shou series trademark license usage fee rate is 1.2%

(III) Estimation of enterprise income tax, business tax and surcharge

Business tax and surcharge applicable to income from appraised object's trademark usage fee is estimated at 5.7%, and enterprise income tax is estimated using current tax rate of 25%.

(IV) Estimation of trademark income after 2018

As operation of each company with licenses authorized will become stable subsequent to 2018, the estimation assumed that sales income for such companies subsequent to 2018 will remain at the level of 2018, and that income from the trademarks will remain at the level of 2008.

VII. Determination of the market value for category (1) trademarks: Selection of discount rate applicable to appraised model using income approach

Discounted rate is estimated according to the followings:

Discount rate applied to estimate income from authorized trademark usage r_e = risk free rate of return r_f + rate of return with risk r_r

(I) Determination of risk free rate of return r_f

Appraisal staff select the appraised interest with similar maturity as the risk free rate of return with reference to the "Fixed-rate treasury yield curve" which is released from "Chinabond information Web" (www.chinabond.com.cn) at around the benchmark day.

(II) Determination of rate of return with risk r_r

Capital Asset Pricing Model (CAPM) is adopted for determining the rate of return with risk Estimated model for CAPM to rate of return with risk:

$$r_r = \beta \times (r_m - r_f) + \alpha$$

Each of the parameters is as follows:

r_r rate of return with risk

r_f risk free rate of return

β Beta coefficient

$r_m - r_f$ Average market rate of return with risk

α risk adjustment value for individual interest

(1) Average market rate of return with risk

Average market rate of return with risk (Market risk premium) reflects the risk compensation of investor between investing in capital market with higher risk and of investing in bond market with lower risk (or no risk). The basic mode of calculation is the difference between average income level and rate of return without risk during a period of time. In this appraisal, we adopt the risk premium level of different countries/markets as calculated by American Financial Expert, Aswath Damodaran for reference.

(2) β *Coefficient*

β is the indicator for measuring system risk of the company, it is usually replaced with β value of the company's shares as released from business data service institution. In this appraisal, the data released from Wind consultation. The β value we observed reflect the impact of enterprise capital structure (financial leverage). As to reflect more precisely the risk level of the industry of which the enterprise belongs, we need to adjust the β value of the company's shares that we observed, so that to determine the risk coefficient of the enterprise with no financial leverage condition. Specific method of adjustment as shown in below:

$$\beta_u = \beta_e \times \frac{1}{1+(1-t)\times\frac{D}{E}}\ ,\ \ \beta_e = \beta_u \times \left[1+(1-t)\times\frac{D}{E}\right]$$

Each of the parameters is as follows:

β_u β value with no financial leverage

β_e β value with financial leverage

D market value of the debt

E market value of the share income

t enterprise income tax

(3) α *adjustment value*

α adjustment value is determine after analyzing individual risk factors such as the industry of which the enterprise to be appraised belongs, its position, size of the company, operating risks, financial risks and difference between intangible assets of trademark interest and overall enterprise shareholder interests.

(III) Determination of discount rate r_w

By substituting the selected risk free rate of return and rate of return with risk into discount rate estimation formula, and after calculation, the discount rate is 14.5%.

VIII. Determination of the market value for category (1) trademarks: Appraisal result by income approach

According to the analysis of expected income estimation and discount rate estimation from the above, appraisal staff substitute the estimated data and forecasted data into income approach model used in this appraisal project, and calculate the results as shown below:

Table for calculation by income approach for Xing Qun Series trademarks

Unit: RMB10,000

Xing Qun Series	2012	2013	2014	2015	2016	First to Third Quarters 2017	Fourth Quarter 2017	2018
Estimated sales from trademark products a	30,563.00	36,019.00	38,540.33	40,081.94	41,284.40	31,892.20	10,630.73	43,373.39
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.00%	1.00%
Estimated income from licence fee c (a * b)	30.56	36.02	38.54	40.08	41.28	31.89	106.31	433.73
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(1.74)	(2.05)	(2.20)	(2.28)	(2.35)	(1.82)	(6.06)	(24.72)
Profits before trademark licence tax f (c + e)	28.82	33.97	36.34	37.80	38.93	30.07	100.25	409.01
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * 1 - g))	21.62	25.47	27.26	28.35	29.20	22.56	75.19	306.76
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	18.88	19.43	18.16	16.49	14.84	10.01	33.37	118.89
Discount sum for estimation period k	250.07							
Discount sum for perpetual period l	819.95							
Discount sum of trademark income m (k + l)	1,070.02							

Table for calculation by income approach for Zhong Yi Series trademarks

Unit: RMB10,000

Zhong Yi Series	**2012**	**2013**	**2014**	**2015**	**2016**	**First to Third Quarters 2017**	**Fourth Quarter 2017**	**2018**
Estimated sales from trademark products a	84,573.61	101,101.71	109,189.85	114,649.34	119,235.31	92,109.28	30,703.09	125,268.62
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.90%	0.90%
Estimated income from licence fee c (a * b)	84.57	101.10	109.19	114.65	119.24	92.11	276.33	1,127.42
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(4.82)	(5.76)	(6.22)	(6.54)	(6.80)	(5.25)	(15.75)	(64.26)
Profits before trademark licence tax f (c + e)	79.75	95.34	102.97	108.11	112.44	86.86	260.58	1,063.15
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * (l - g))	59.81	71.50	77.22	81.09	84.33	65.14	195.43	797.37
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	52.24	54.54	51.44	47.18	42.85	28.91	86.73	309.04
Discount sum for estimation period k	672.93							
Discount sum for perpetual period l	2131.33							
Discount sum of trademark income m (k + l)	2,804.27							

Table for calculation by income approach for Chen Li Ji Series trademarks

Unit: RMB10,000

Chen Li Ji Series	2012	2013	2014	2015	2016	First to Third Quarters 2017	Fourth Quarter 2017	2018
Estimated sales from trademark products a	31,938.87	36,240.06	38,414.46	39,951.04	41,149.57	31,788.05	10,596.02	43,231.74
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.20%	1.20%
Estimated income from licence fee c (a * b)	31.94	36.24	38.41	39.95	41.15	31.79	127.15	518.78
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(1.82)	(2.07)	(2.19)	(2.28)	(2.35)	(1.81)	(7.25)	(29.57)
Profits before trademark licence tax f (c + e)	30.12	34.17	36.22	37.67	38.80	29.98	119.90	489.21
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * (l - g))	22.59	25.63	27.17	28.26	29.10	22.48	89.93	366.91
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount period	1	2	3	4	5	6	6	7
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	19.73	19.55	18.10	16.44	14.79	9.98	39.91	142.21
Discount sum for estimation period k	280.70							
Discount sum for perpetual period l	980.73							
Discount sum of trademark income m (k + l)	1,261.43							

Table for calculation by income approach for Qi Xing Series trademarks

Unit: RMB10,000

Qi Xing Series	2012	2013	2014	2015	2016	First to Third Quarters 2017	Fourth Quarter 2017	2018
Estimated sales from trademark products a	44,159.96	54,717.86	59,642.47	62,624.59	65,129.57	50,312.60	16,770.87	68,425.13
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.10%	1.10%
Estimated income from licence fee c (a * b)	44.16	54.72	59.64	62.62	65.13	50.31	184.48	752.68
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(2.52)	(3.12)	(3.40)	(3.57)	(3.71)	(2.87)	(10.52)	(42.90)
Profits before trademark licence tax f (c + e)	41.64	51.60	56.24	59.05	61.42	47.44	173.96	709.77
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * (l - g))	31.23	38.70	42.18	44.29	46.06	35.58	130.47	532.33
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	27.28	29.52	28.10	25.77	23.41	15.79	57.90	206.32
Discount sum for estimation period k	414.08							
Discount sum for perpetual period l	1,422.90							
Discount sum of trademark income m (k + l)	1,836.99							

Table for calculation by income approach for Jing Xiu Tang Series trademarks

Unit: RMB10,000

Jing Xiu Tang Series	2012	2013	2014	2015	2016	First to Third Quarters 2017	Fourth Quarter 2017	2018
Estimated sales from trademark products a	29,106.91	32,960.00	34,937.60	36,335.10	37,425.16	28,910.93	9,636.98	39,318.87
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.00%	1.00%
Estimated income from licence fee c (a * b)	29.11	32.96	34.94	36.34	37.43	28.91	96.37	393.19
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(1.66)	(1.88)	(1.99)	(2.07)	(2.13)	(1.65)	(5.49)	(22.41)
Profits before trademark licence tax f (c + e)	27.45	31.08	32.95	34.26	35.29	27.26	90.88	370.78
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * (l - g))	20.59	23.31	24.71	25.70	26.47	20.45	68.16	278.08
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount period	1	2	3	4	5	6	6	7
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	17.98	17.78	16.46	14.95	13.45	9.07	30.25	107.78
Discount sum for estimation period k	227.72							
Discount sum for perpetual period l	743.31							
Discount sum of trademark income m (k + l)	971.03							

Table for calculation by income approach for Pan Gao Shou Series trademarks

Unit: RMB10,000

Pan Gao Shou Series	2012	2013	2014	2015	2016	First to Third Quarters 2017	Fourth Quarter 2017	2018
Estimated sales from trademark products a	39,000.00	46,182.00	49,414.74	51,391.33	52,933.07	40,890.80	13,630.27	55,611.48
@Estimated licence rate b	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.20%	1.20%
Estimated income from licence fee c (a * b)	39.00	46.18	49.41	51.39	52.93	40.89	163.56	667.34
@Business tax and surcharge rate d	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
(business tax and surcharge) e (-c * d)	(2.22)	(2.63)	(2.82)	(2.93)	(3.02)	(2.33)	(9.32)	(38.04)
Profits before trademark licence tax f (c + e)	36.78	43.55	46.60	48.46	49.92	38.56	154.24	629.30
@enterprise income tax rate g	25%	25%	25%	25%	25%	25%	25%	25%
Net income from trademark licence h (f * (l - g))	27.58	32.66	34.95	36.35	37.44	28.92	115.68	471.97
@Discount rate	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Discount coefficient i	0.8734	0.7628	0.6662	0.5818	0.5081	0.4438	0.4438	0.3876
Discount value j (h * i)	24.09	24.91	23.28	21.15	19.02	12.83	51.34	182.93
Discount sum for estimation period k	359.55							
Discount sum for perpetual period l	1261.57							
Discount sum of trademark income m (k + l)	1,621.13							

IX. Arriving at the market value for category (2) trademarks: Estimation by cost approach

When cost approach is adopted for category (2) trademark appraisal, the measurable cost of each relevant project of which the trademark is to be replaced have to be determined first. After that, add up the costs of the regained trademark, and the sum is the replacement cost. As no depreciation or loss exists in such part of appraised trademark under current condition, therefore, total amount of replacement cost of each single trademark is used as appraisal value of such part of trademark to be appraised.

(I) Calculation formula for cost approach

Trademark replacement cost = (Application for registration fees + Design cost + Registered labour fee) × No. of trademark + Trademark renewal fee × No. of trademark renewal

(II) Determination of major parameters used in cost approach

1. Application for registration fees

According to the requirement of "Trademark Law" in China, application for trademark registration and handle other trademark issues require the payment of a corresponding amount according to the law. According to Ji Jia Ge (1995) No. 2404 "Notice on charging standard of trademark business" as stipulated by State Development Planning Commission and Ministry of Finance, registration fee for each accepted trademark is RMB1,000, and our estimate includes such expense.

2. Design Cost

Consider type of relevant trademark and charging standard for different types of trademark design fee charged at current market level, and determine the design cost of trademark to be appraised. At present, standard charge for design cost of the trademark to be appraised in market is RMB580 for each item.

3. Registration fee for relevant labour

Determine registered labour cost of the trademark to be appraised. At present, standard agency fee charged by agency for trademark registration agency is RMB800 each.

4. Trademark renewal fee

According to Jia Ge (1995) No. 2404 "Notice on charging standard of trademark business" as stipulated by State Development Planning Commission and Ministry of Finance, registration fee for renewal of accepted trademark is RMB2,000.

(III) Appraisal results of cost approach

category (2) 334 Trademarks Licence appraised value
= (1,000 + 580 + 800) × 334 + 25 × 2,000
= RMB844,920 rounded down to RMB844,900

X. Appraisal Result

By using income approach, the appraisal result of the market value of the percentage of contributions to the patent rights in category (1) by GPHL is 50.6938 million with the particular results as follows:

Trademark Series	**Appraisal Value on the market value of the series of trademarks** *(RMB'0000)*	**Percentage of contribution by GPHL**	**The market value of the percentage of contributions to the patent rights by GPHL** *(RMB'0000)*
Trademark of Xing Qun Company Product Series	1,070.02	53%	567.11
Trademark of Zhong Yi Company Product Series	2,804.26	53%	1486.26
Trademark of Chen Li Ji Company Product Series	1,261.43	53%	668.56
Trademark of Qi Xing Company Product Series	1,836.98	53%	973.6
Trademark of Jing Xiu Tang Company Product Series	971.03	53%	514.65
Trademark of Pan Gao Shou Company Product Series	1,621.13	53%	859.2
Total	9,564.85		5,069.38

By using income approach, the appraisal result of the market value of the percentage of contributions to the patent rights in category (2) by GPHL is RMB447,800.

To sum up, the appraisal result of the market value of the percentage of contributions to the 388 patent rights included in the scope of valuation by GPHL is RMB51.1416 million.

XI. The net income of the trademarks in category (1) in the 5 years after the valuation date

This valuation of the 54 trademarks in category (1) falling into the scope of valuation mainly based on the income approach. In the valuation of the market value of those trademarks based on the income approach, the net income in the calculation model is the net income after income tax of trademark license fee received by GPHL (i.e. the balance of trademark license fee income net of business taxes and surcharges and corporate income tax).

The forecasted net income of the 54 trademarks in category (1) assessed based on the income approach in 2012-2016 (without multiplied by the contributions of 53% by GPHL) is as follows:

In the valuation of the forecasted net income based on the income approach	**2012**	**2013**	**2014**	**2015**	**2016**
	(RMB'0,000)	*(RMB'0,000)*	*(RMB'0,000)*	*(RMB'0,000)*	*(RMB'0,000)*
54 trademarks in category (1)	183.42	217.28	233.49	244.02	252.60

The following is the text of a valuation report together with its explanation prepared for the purpose of inclusion in this circular received from China Valuer International Co., Ltd, an independent valuer in the PRC, in connection with its valuation as at 31 December 2011 of Po Lian.

This report together with its explanation is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) VALUATION REPORT OF PO LIAN

**Asset valuation on the equity assets in
Po Lian Development Company Limited held by
Guangzhou Pharmaceutical Holdings Limited
intended to be acquired through private placement of additional shares by
Guangzhou Pharmaceutical Company Limited**

Asset Valuation Report

Zhong Tian Heng Ping Ping Zi [2012] No. 027

China Valuer International Co., Ltd.

CONTENT

DECLARATION OF THE REGISTERED ASSET VALUER

1. When executing the asset valuation, we comply with relevant laws and regulations and asset valuation standards and adhere to the principle of independence, objectivity and fairness. According to the information we collected during the execution process, the content stated in the valuation report is objective, we assume the corresponding liability on the reasonableness of the conclusion of the valuation.

2. The list of objects and scope for valuation involved in this report were declared with the signature confirmation by the entrusting party and the parties under valuation (or the parties holding the proprietary right). The essential information required for the valuation and its truthfulness, legality and completeness were provided and ensured by them.

3. We have no existing or anticipated interest with the valuation objects in the valuation report. We have no existing or anticipated interest with the relevant parties, there is no prejudice on the relevant parties.

4. We have conducted on-site investigation on the valuation objects and the assets involved in the valuation report. We have paid necessary attention to the status of legal ownership of the valuation objects and its assets involved and inspected on the information of the legal ownership of the valuation objects and the assets involved. We have also truthfully disclosed the issue discovered and presented to the entrusting party and relevant parties for ameliorating proprietary right in order to fulfill the requirement in issuing the valuation report. However, the statement to the legal ownership in the valuation report did not represent the provision of assurance or forensic opinion by the valuer.

5. The analysis, judgment and conclusion in the valuation report issued by us are subject to the assumptions and restriction of the valuation report. The users of the valuation report shall fully consider the assumptions, restrictions, special matters and their impact on the conclusion of valuation as set out in the valuation report.

6. The users of the valuation report should comprehend the use of the valuation report correctly and that the registered valuer and valuation institution shall not be liable to the consequences resulting from the misuse of the valuation report by the entrusting party and other users of the valuation report.

7. Except for the requirement of laws and regulations and otherwise agreed upon by the relevant parties, the whole or part of the content in the valuation report shall not be extracted, copied, quoted or disclosed in the public media.

EXTRACT OF THE ASSET VALUATION REPORT

The content below was extracted from the main body of the asset valuation report. For the understanding of the overall condition of this valuation project and reasonable comprehension of the conclusion of valuation, you should read the full text of the asset valuation report.

China Valuer International Co., Ltd. was entrusted by Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation on the market value as at 31 December 2011, the valuation date of the assets of GPHL intended to be acquired through private placement of additional shares of Guangzhou Pharmaceutical Company Limited ("GPC"), in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the asset-based approach and the income approach. The valuation target is the 100% equity interest in Po Lian Development Co. Ltd. held by GPHL.

Market value refers to the estimated amount of the value of the valuation object in a normal and fair transaction on the valuation date under the condition that the voluntary buyer and the voluntary seller acted rationally without being forced.

China Valuer International Co., Ltd. performed appropriate valuation procedure and the valuation conclusion is as follows:

1. The market value of 100% equity interest in Po Lian Development Co. Ltd. held by GPHL on 31 December 2011, the valuation date, by adopting the asset-based approach was RMB57.3397 million;

2. The market value of 100% equity interest in Po Lian Development Co. Ltd. held by GPHL on 31 December 2011, the valuation date, by adopting the income approach was RMB60.2914 million;

3. After analysis, the valuation result using the asset-based approach is finally selected to be the final valuation result:

   According to the result of the valuation, the market value of 100% equity interest in Po Lian Development Co. Ltd. held by GPHL on 31 December 2011, the valuation date, was RMB57.3397 million.

According to provision of Article 11 of "Asset Valuation Standard – Valuation Report" and Article 21 of "Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises" (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12), the validity period for the use of valuation report is usually one year since the valuation date (31 December 2011 to 30 December 2012).

ASSET VALUATION REPORT (MAIN BODY)

To: Guangzhou Pharmaceutical Holdings Limited

China Valuer International Co., Ltd. was entrusted by the Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation with necessary valuation procedures on the market value as at 31 December 2011, the valuation date, of the 100% equity in Po Lian Development Co. Ltd. held by GPHL and to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited ("GPC") in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the asset-based approach and the income approach, and reports the asset valuation as follows:

I. ENTRUSTING PARTY, PROPRIETOR AND OTHER USERS OF THE VALUATION REPORT

Guangzhou Pharmaceutical Holdings Limited is the entrusting party while Po Lian Development Company Limited is the subject under valuation, the users of this valuation report are the entrusting party and other users of the valuation report as required by the laws and regulations of the State.

The overview of each of the parties is as follows:

(1) Entrusting party: Guangzhou Pharmaceutical Holdings Limited

Guangzhou Pharmaceutical Holdings Limited ("GPHL") was established on 7 August 1996, the address is 45 Sha Mian North Street, Liwan District, Guangzhou. The legal representative is Yang Rongming. The registered capital is Renminbi One Billion Two Hundred Fifty Two Million Eight Hundred Ten Thousand Nine Hundred Eighty Four Yuan. The nature of enterprise is company with limited liability (wholly State-owned) and its main scope of business is the operation and investment of State-owned assets; manufacture and sales of pharmaceutical intermediates, Chinese and western medicine, Chinese herbs, biotechnical products, medical devices, pharmaceutical machinery, pharmaceutical packaging materials, healthcare food and beverage products, hygiene materials and products wholly related to pharmaceutical within the scope authorized by the People's Government of Guangzhou Municipality, import and export of products related to pharmaceutical products, real estate development and leasing of self-owned properties.

GPHL is a large scale State-owned enterprise group authorized by Guangzhou municipal government with the integration of science, industry and trade. It is mainly engaged in the research and development as well as the manufacturing and operation businesses in fields such as Chinese medicine, herbal medicine, chemical raw materials, formulation and biological and pharmaceutical preparations. GPHL owns Guangzhou Pharmaceutical Company Limited ("GPC"), with its H shares listed in Hong Kong and A shares listed in Shanghai) and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan"), with its A shares listed in Shenzhen), two listed companies and six enterprises wholly controlled by them, which is the largest medicine production base of

Chinese medicine in China, the largest logistics centre of modern medicine in southern China region and one of the largest production enterprises for anti-infective preparations in the whole country.

(2) Subject under valuation: Po Lian Development Company Limited

The address of Po Lian Development Company Limited ("Po Lian") is Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong. Its authorized and issued share capital is HK$5,000,000 and its principal scope of business is import and export trading. For details, please refer to " II. Company under valuation".

II. COMPANY UNDER VALUATION

1. General information of Po Lian

Name of enterprise and abbreviation:	PO LIAN DEVELOPMENT COMPANY LIMITED
Address:	Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
Nature of company:	Limited Liability Company
Authorized and issued share capital:	HK$5,000,000
Principal scope of business:	import and export trading
Date of incorporation:	15 January 1988
Relationship with the entrusting party:	a wholly-owned subsidiary of the entrusting party, GPHL

2. History of Po Lian

As approved by the Circular Sui Wai Jing Mao [1988] No.125 (穗外經貿[1988]125號) issued by the Foreign Economic and Trade Commission of the People's Government of Guangzhou Municipality and the Circular Sui Wai Jing Mao Ji Qing [1990] No. 07 (穗外經貿際清[1990]07號) issued by the Leadership Group for Consolidation and Rectification of Agencies in Hong Kong and Macau of Guangzhou Municipality, Po Lian is a wholly-owned Hong Kong company incorporated and operated by GPHL. Po Lian was incorporated as a limited liability company under the Companies Ordinance on 15 January 1988 in Hong Kong. Its authorized and issued share capital was HK$1,000,000.

The authorized and issued share capital of Po Lian was increased to HK$5,000,000 in October 1998.

Since its establishment to present, GPHL has held 100% equity interest in Po Lian.

3. Business of Po Lian

The main scope of the business of Po Lian is to expand the import and export of GPHL's pharmaceutical products and develop the international market; operate the import and export business involving pharmaceutical products, pharmacy and packaging machinery products and chemical products; introduce foreign capital and advanced technologies for pharmaceutical industry in Guangzhou; conduct compensation trade and processing on customer-supplied materials; provide the economic information on pharmaceutical technologies to facilitate the development of pharmaceutical industry in Guangzhou.

Po Lian mainly conducts connected transactions with Guangzhou Pharmaceutical Import & Export Co., Ltd., a subsidiary of GPC (a listed company controlled by GPHL) mainly involving the import and export of raw medicine, medicine and medical equipment. From 2009 to 2011, sales of Po Lian amounted to RMB101.7493 million, RMB108.4066 million and RMB121.6411 million respectively.

4. Financial condition of Po Lian

Assets and liabilities	**2009-12-31**	**2010-12-31**	**2011-12-31**
	(RMB'0000)	*(RMB'0000)*	*(RMB'0000)*
Total assets	6,355.64	5,044.60	4,924.34
Total liabilities	3,031.96	1,616.82	1,497.71
Owners' equity	3,323.68	3,427.78	3,426.63

Profit and loss	**2009**	**2010**	**January to December 2011**
	(RMB'0000)	*(RMB'0000)*	*(RMB'0000)*
Revenue from principal operations	10,174.93	10,840.66	12,164.11
Profit from principal operations	256.11	391.11	445.32
Operating profit	16.02	276.07	199.98
Total profit	16.02	276.07	199.98
Net Profit	13.38	219.46	164.90
Audit opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion

Note: The data in the above table are extracted from the audit report issued by BDO China Shu Lun Pan CPAs LLP (Xin Kuai Shi Bao Zi (2012) No.410259 (信會師報字[2012]第410259號)). The accounting year of Po Lian is from 1 April of each year to 31 March of next year, and the data in the above table were adjusted and prepared in accordance with the PRC accounting year (1 January to 31 December of each year) and the PRC accounting standards.

5. Significant accounting policies adopted by Po Lian

Po Lian adopted the requirements of the Hong Kong accounting standards and their related notes and amendments. Financial data herein involving Po Lian are extracted from the audit report prepared by BDO China Shu Lun Pan CPAs LLP and adjusted in accordance with the PRC accounting year, being 1 January to 31 December each year, and the PRC accounting standards.

III. OBJECTIVE OF VALUATION

Pursuant to the "Resolutions Passed at the 13th Meeting of the Fifth Session of the Board of Guangzhou Pharmaceutical Company Limited" and the "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited", GPC intended to acquire 100% equity interest in Po Lian held by GPHL through private placement of additional shares. This asset valuation report forms a pricing basis for the relevant parties reference.

IV. SUBJECT AND SCOPE OF VALUATION

According to the commission of the entrusting party, the subject for this valuation is the 100% equity in Po Lian held by GPHL. The scope of appraisal of 100 % equity interest in Po Lian covers the assets and liabilities as shown in the audited balance sheet of Po Lian as at the valuation date 31 December 2011.

The assets and liabilities as shown in the audited balance sheet of Po Lian as at the valuation date are as follows:

Items	Serial Number	Book value *(RMB'0000)*	Note
Current assets	1	3,863.69	Mainly including: bank deposits of RMB14.0625 million and accounts receivable of RMB24.2363 million
Non-current assets	2	1,060.65	A total of two items: investment properties and fixed assets
Including: Investment properties	3	472.31	Including five properties
Fixed assets	4	588.34	Including properties and ancillary facilities of RMB4.7804 million, motor vehicles and electronic equipment of RMB1.103 million
Total assets	**5**	**4,924.34**	
Current liabilities	6	1,469.17	Including accounts payable of RMB9.5937 million, taxes payable of RMB2.1065 million and other payables of RMB2.9914 million
Non-current liabilities	7	28.54	Accrued long service payments

Items	Serial Number	Book value	Note
		(RMB'0000)	
Total liabilities	**8**	**1,497.71**	
Net assets	**9**	**3,426.63**	

Note: The data in the above table are extracted from the audit report issued by BDO China Shu Lun Pan CPAs LLP (Xin Kuai Shi Bao Zi (2012) No.410259 (信會師報字[2012]第410259號)). The accounting year for Po Lian is from 1 April of each year to 31 March of next year, and the data in the above table were adjusted and prepared in accordance with the PRC accounting year (1 January to 31 December of each year) and the PRC accounting standards.

The subject being commissioned for appraisal and scope of the appraisal are the same as the subject and scope of the appraisal involved in the economic behavior and have been audited.

V. TYPE OF VALUE AND DEFINITION

The type of value for this valuation engagement is market value.

Market value means the estimated amount of appraisal target on the valuation date in an arm's length transaction between a willing buyer and a willing seller, each acting rationally free from duress.

VI. VALUATION DATE

According to the principle of selection that the valuation date should be as close as possible to the implementation date of the valuation of the target economic behavior, and taking into account of the time arrangement for the whole plan regarding the valuation of the target economic behavior and time needed for the preparation of data and information for the assets appraisal, the benchmark date of this asset valuation was determined by the entrusting party as at 31 December 2011.

VII. BASIS OF VALUATION

(I) Behaviour basis

1. "Resolutions Passed at the 13th Meeting of the Fifth Session of the Board of Guangzhou Pharmaceutical Company Limited";

2. "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited";

3. Assets Valuation Engagement Agreement.

(II) Relevant laws, regulations, criteria and standards relating to assets appraisal

1. Property Law of the People's Republic of China;

2. Company Law of the People's Republic of China;

3. Administrative Measures for the Valuation of State-owned Assets (Order No. 91 of the State Council, 1991);

4. Several Issues Concerning the Administration of the Valuation of State-owned Assets (Order No. 14 issued by the Ministry of Finance);

5. Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council);

6. Asset Valuation Standards – Basic Standards (Ministry of Finance Cai Qi [2004]No. 20);

7. Asset Valuation Standards – Valuation Report, Asset Valuation Standards – Valuation Procedures, Guidance Opinion on the Type of Valuation in Asset Valuation (China Appraisal Society, Zhong Ping Xie [2007] No. 189);

8. Guide on Valuation Report of Enterprise State-owned Assets (China Appraisal Society, Zhong Ping Xie [2008] No. 218);

9. the Administrative Rules on Major Asset Restructuring of Listed Companies (No. 53 Directive of China Securities Regulatory Commission("CSRC"))

10. the Provisions on Certain Issues concerning the Regulation of Major Assets Restructuring by Listed Companies (CSRC Announcement [2008] No.14);

11. Administrative Measures on Acquisitions of Listed Companies (No. 77 Directive of China Securities Regulatory Commission);

12. Guiding Opinions for Registered Valuer on Legal Ownership of Subject under Appraisal) (Chinese Institute of Certified Public Accountants, Hui Xie [2003] No. 18);

13. Guiding Opinion on the Appraisal of Investment Properties (Pilot) (China Appraisal Society, Zhong Ping Xie [2009] No. 211)

14. Guiding Opinion on the Appraisal of Enterprise Value (Pilot) (China Appraisal Society, Zhong Ping Xie [2004] No. 134);

15. System of Accounting Standards for Business Enterprises issued by the Ministry of Finance;

16. Administration Law of the Urban Real Estate of the People's Republic of China;

17. Land Administration Law of the People's Republic of China and Implementation Regulations for Land Administration Law of the People's Republic of China;

18. Asset Valuation Standards -Immovable Properties (China Appraisal Society, Zhong Ping Xie [2007] No.189);

19. Asset Valuation Standards -Machinery and Equipment (China Appraisal Society, Zhong Ping Xie [2007]No.189);

(III) Information provided by the entrusting party or third parties

1. "Statement of appraised enterprise for valuation issues"（"企業關於進行資產評估有關事項的說明"）by GPHL;

2. Detailed list of evaluation and declaration in relation to assets provided by the enterprise involved in the appraisal target;

3. Audit Report issued by BDO China Shu Lun Pan CPAs LLP (Xin Kuai Shi Bao Zi [2012] No.410259)（信會師報字[2012]第410259號）;

4. Business licenses and articles of associations of enterprise involved in the appraisal target;

5. Audit reports of Po Lian involved in the appraisal target;

6. Financial information and other corporate operation information of enterprise involved in the appraisal target as at the valuation date;

7. Property right documents and other relevant documents of assets involved in the appraisal target;

(IV) Other relevant information

1. Property market transaction price information of the location of the property;

2. Recent equipment and material market transaction price information;

3. Catalogue of National Fixed Assets Value Re-evaluation Coefficient Standard (National Bureau of Statistics of China);

4. Common Data and Parameter Manual for Assets Appraisal (Beijing Science and Technology Press);

5. National macro-economy, industry, regional market and corporate statistics;

6. Corporate Performance Appraisal Benchmark Value (Appraisal Bureau of SASAC and Economics and Science Press);

7. Public information of relevant listed companies;

8. CCER (China Center for Economic Research) Chinese securities market database and Wind Information database;

9. Bond trading information posted on www.chinabond.com.cn;

10. Financial institutions' deposit and loan interest rates quoted by the People's Bank of China;

11. Other relevant information collected by the valuer.

VIII. METHODS OF APPRAISAL

(I) Basic methods of assets appraisal

In accordance with China's appraisal standards, regulations and international practices, basic methods of assets appraisal include market approach, income approach and cost method. It is necessary to properly select one or more basic methods by analyzing the availability of the three basic methods based on relevant conditions including appraisal target, value type and information collection in the performing the valuation.

1. Market approach

Market approach represents the appraisal method of estimating the asset value through direct comparison or analogical analysis of recent transaction prices of the same or similar assets. Basic prerequisites for adopting the market approach: ① an active open market is available; ② comparable assets and their trading activities are available in the open market.

Market approach in enterprise value appraisal represents the appraisal method of comparing the appraisee and the comparable enterprises, i.e. equity assets including comparable enterprises, equities and securities already traded in the market to determine its value after adjustment and correction based on the trading price of the reference enterprises.

2. Income approach

Income approach represents the appraisal method of judging the asset value through the present value of future expected earnings of the appraised asset. Basic prerequisites for adopting the income approach: ① future expected earnings of the appraised asset can be forecasted and measured in monetary terms; ② risks assumed by the asset owner to obtain expected earnings can be forecasted and measured in monetary terms; ③ member of years to generate expected earnings of the appraised asset can be forecasted.

In enterprise value appraisal, income approach primarily applies to enterprises which their future expected profitability can be reasonably and reliably estimated and, generally, enterprises which have entered a stage of stable operation, have relatively steady results and can operate continuously and stably in the future. In accordance with Article 25 of Guiding Opinion on the Appraisal of Enterprise Value: "A registered valuer shall adequately consider the availability of income approach based on the establishment date, track records, especially the operation and income stability of enterprises, and the predictability of future earnings."

3. Cost method

Cost method is an appraised method that firstly use the existing reacquisition cost (replacement cost) of the assets being valued, and then estimates various depreciation factors prevailing in those assets and deduct them from the replacement cost to derive the value of such assets. Basic prerequisites for adopting the cost method are: ①the assets being valued are under use on an ongoing basis or set as under use on an ongoing basis; ② the existing source to acquire and construct such assets and the information on corresponding average social cost can be accessed through investigation.

Cost method for valuation of an entity is also known as asset-based approach or build-up method, a collective term for various specific valuation techniques determining the valuation of the entity on the basis of reasonable valuation of the entity's assets and liabilities. Asset-based approach relies on the investment amounts required to rebuild an entity same as the subject or independent profit-recording entity on the valuation date to judge the value of the overall assets, and reflect the value of the entity from the perspective of its acquisition and construction.

(II) Selection of Appraisal Method

Because the enterprise equity transactions market is not well developed and there is a lack of market data on enterprise equity transactions, it is difficult to appraise the 100% equity interest in Po Lian using market approach.

This appraisal of 100% equity interest in Po Lian is made on the prerequisite of the enterprise continuing as a going concern and all assets and liabilities information is complete, satisfying the prerequisites for adopting asset-based approach. Thus, asset-based approach can be adopted for appraisal.

Meanwhile, in light of the appraisee in this appraisal, Po Lian, is an import and export enterprise continuing as a going concern, its operation has entered a relatively stable stage, and it mainly conducts connected transactions with Guangzhou

Pharmaceutical Import & Export Co., Ltd., a subsidiary of GPC (a listed company controlled by GPHL), and its special mode of operating results in the enterprise has a stable income which can be reasonably predicted, therefore, income approach is also adopted for appraisal.

(III) Value of 100% equity interest in Po Lian is appraised through asset-based approach

To appraise the market value of 100% equity interest of Po Lian with the asset-based approach is to evaluate the respective market value of each asset of the Po Lian through the proper appraisal method as at the valuation date, and to sum up. Then, get the market value of total equity of shareholders of Po Lian by deducting the market value of all liabilities that Po Lian actually bears as at the valuation date.

Specific appraisal methods of various assets and liabilities are as follows:

(1) Monetary assets and credit assets

Monetary assets include bank deposits, adjustment of prior years auditing differences before the auditing adjustment in 2009, credit assets include accounts receivable and other receivables, and its appraisal value is the amount based on the amount to which the enterprise holds or enjoys recourse by deducting possible recovery costs and risk losses as at the valuation date.

(2) Investment Properties

Po Lian held a total of five investment properties with a total gross floor area of 383.37 square meters, including 4 residential and 1 floor of an office building.

Investment properties are appraised using market approach.

(3) Properties of Fixed Assets

Po Lian held a total of two properties of fixed assets with a total gross floor area of 170.75 square meters, both of which are properties for residential purpose.

Properties of fixed assets are appraised using market approach.

(4) Equipment

Equipment is assessed using cost method. Replacement cost of the equipment is estimated on the valuation date, including the acquisition price of alternative same or similar equipment or construction cost, taxes and charges, freight and miscellaneous charges, installation cost, necessary deferred pre-investment cost of fixed assets and management cost, as well as interest on funds utilized and reasonable profits. After that, its physical depreciation and possible functional depreciation or economical depreciation and others are deducted accordingly according to the equipment's existing status of operation and maintenance and its expected future use, thereby determining the valuation of the subject equipment.

(5) Liabilities

To appraise liabilities is to determine based on liabilities items Po Lian should actually bear as at the valuation date and the amount of such liabilities items the enterprise should bear as at the valuation date.

(IV) Appraisal of Value of Total Equities of Shareholders of Po Lian Using Income Approach

Appraising the value of the subject enterprise equity using income approach represents estimating the future expected earnings of the major corresponding income-generating assets and liabilities portfolio of the subject enterprise equity, discounting them to present value through appropriate discount rate and aggregating, then plus the value of the assets that need separate appraisal, including surplus assets, non-income-generating assets, and non-operational assets, less the value of the non-operational liability to determine the market value of the subject enterprise equity.

(1) The calculation model adopted by the income approach is:

$$PV = \sum_{i=t_0}^{t_n} \frac{R_i}{(1+r)^i} + \frac{R_E}{(1+r)^{t_n}} + OA - OL$$

Where:

PV Appraised value of the subject using income approach

i Time interval from the valuation date after the valuation date, unit: year

t_0 Time interval between the starting point of the existence of expected earnings for the subject equity and the valuation date

t_n Time interval between the ending point of the existence of expected earnings for the subject equity and the valuation date

R_i Estimated value of expected earnings (interest/free cash flow of enterprise) at the point of i years from the valuation date

R_E Liquidation value of the subject equity when its expected earnings cease

r Discount rate applicable to the expected earnings

OA The value of surplus assets, non-income-generating assets, non-operational assets or the assets that need separate appraisal not considered in the forecast of expected earnings (R_i, R_E)

OL Non-operational liability and other liabilities not considered in the forecast of expected earnings (R_i, R_E)

(2) Selection of Major Parameters in the Application of Income Approach

① Time for Expected Earnings And Realized Earnings of the Subject Equity Expected earnings are forecasted using the free cash flow of equity, and the specific forecast formula is:

Free cash flow of equity = net profit + depreciation and amortization – capital expenditures – net increase in working capital + net increase in interest-bearing debts

② The Continuing Time of Expected Earnings for the Subject Equity

As the articles of association, joint venture contract and other documents of Po Lian do not provide the term of operation of the enterprise, and the relevant law and regulations of the State do not have limitation on the term of operation for the enterprise, the valuers consider that, under normal conditions, the enterprise will continue to operate as a going concern, therefore, the valuers set the ending point for the existence of future earnings for the subject equityas $t_n=\infty$.

③ Discount Rate of Expected Earnings for the Subject Equity

Cost of equity capital (discount rate), r_e, is determined using the capital asset pricing model (CAPM), and the specific model formula is:

$$r_e = r_f + \beta \times (r_m - r_f) + \alpha$$

Where:

r_e	Discount rate of equity
r_f	Risk-free rate of return
β	Beta coefficient
$r_m - r_f$	Market average risk rate of return
α	Individual risks adjustment value of equity

IX. APPRAISAL PROCEDURES

The valuers have executed the following basic appraisal procedures and submitted this report:

1. defined basic matters of assets appraisal including appraisal purpose, appraisal target and scope, valuation date, value type, key assumptions of appraisal and limitations;

2. entered into assets appraisal engagement agreement;

3. prepared assets appraisal plan;

4. The valuers investigated assets, underwent on-site inspection on the relevant assets at the locations of various assets, obtained or had access to necessary documents and information, and made necessary verification and inspection on relevant information from 20 March to 25 March 2012.

   As to current assets and liabilities, cash was counted and checked at the site; accounts receivable were confirmed by letters and checked; original vouchers and payment vouchers of development costs were inspected; liabilities were confirmed by letters and checked, and other work.

   As to non-current assets, records were investigated on site and property rights were verified; discussed with the corporate management, finance department and assets management department of the enterprise to understand corporate management, financial position and assets management and use; surveyed land, buildings and main equipment on site.

   The valuers also interviewed with the corporate management to understand the future business plan and expected earnings of the enterprise.

5. collected assets appraisal information;

6. assessed and estimated;

7. prepared and submit assets appraisal report.

X. ASSUMPTIONS OF APPRAISAL

(I) General assumptions

1. Assuming the appraisal target is in the course of transaction, the estimation of valuers is based on simulated market including terms of trade of the appraisal target, and the appraisal result is the estimation of the transaction prices for the appraisal target to be most possibly arrived at.

2. Assuming the assets of appraisal target are traded in the open market, the buyer and seller are on equal position in the market, and both buyer and seller have ample opportunity and time to acquire market information and complete a deal on voluntary, rational, and non-compulsory basis.

3. Assuming after implementation of the economic behaviour of the appraisal purpose, the appraisal target and assets involved in will be continuously used at the original location according to the purpose and usage as at the valuation date.

(II) Assumptions of Appraisal Target as at Valuation Date

1. Assuming purchase, acquisition and construction and development process of the appraisal target and assets involved in are in compliance with national laws and regulations concerned.

2. Assuming the appraisal target and tangible assets including properties and equipment involved have no key technical failure that would affect their continuous operation, and such assets are free from harmful substances adverse to their value, and the place of such assets are free from dangerous matters and other harmful environment conditions which have adverse impacts on such assets.

(III) Forecast Assumptions

1. Assuming that the company involved in the appraisal will continue its business operation in the same way as before the economic behavior that is set out in the appraisal purpose is performed and its earnings can be forecasted.

2. Assuming the assets involved in the appraisal target are still developed or operated pursuant to the scheduled development and operation plan and operation model after implementation of economic behaviors of appraisal purposes.

3. Assuming macro-environment including national industry policies, financial policies and taxation policies is relatively stable.

4. Assuming the enterprise involved in the appraisal target will maintain its total investment as at the valuation date.

5. Assuming the enterprise involved in the appraisal target will continue to operate at the existing standard management as at the valuation date and not taking into account of the impact of the level of management in the future on its future earnings.

(IV) Limiting condition of Appraisal

1. The entrusting party shall take responsibility for the truthfulness of relevant appraisal information including legal documents, technical information and operation information provided by the entrusting party and relied upon herein. We shall not assume any legal matters in relation to property rights of assets involved in the appraisal target.

2. We have not measured the property boundary involved in the appraisal target, and all information of such property including area and shape shall be provided by the entrusting party which shall take responsibility for its truthfulness.

3. We only inspect the visible substance appearance of tangible assets involved in the appraisal target, without making special technical inspection to technical data, technical status, structure and affixtures of such assets.

4. The effect on asset value due to the government's macroeconomic regulations and such unpredictable factors as the force majeure is not under consideration of this appraisal report.

XI. CONCLUSIONS OF APPRAISAL

(I) Conclusions of Appraisal

Upon implementation of necessary appraisal procedures, and taking appraisal purpose, hypothesis and assumptions of the appraisal as well as restrictions into consideration, the result of the market value appraisal of the 100% equity in Po Lian held by GPHL as at the valuation date, 31 December 2011 are as follows:

1. Valuation result under asset-based approach

The valuation result of the 100% equity interest of Po Lian, being the valuation target, is RMB57.3397 million, with the details as follows:

The carrying amount of assets of Po Lian under valuation amounted to RMB49.2434 million and the appraised value was RMB72.3168 million, representing an increase of 47% in value.

The carrying amount of liabilities of Po Lian under valuation amounted to RMB14.9771 million and the appraised value was RMB14.9771 million. There was no difference between two amounts.

The carrying amount of net assets of Po Lian under valuation amounted to RMB34.2663 million and the appraised value was RMB57.3397 million, representing an increase of 67% in value.

Summary of Assets Valuation (Asset-Based Approach)
Valuation Date: 31 December 2011

Subject under valuation:
Po Lian Development Company Limited *Unit: RMB'0,000*

Item		Carrying amount A	Assessed value B	Changes C=B-A	Value appreciation D=C/|A|
Current assets	1	3,863.69	3,888.18	24.49	1.0%
Non-current assets	2	1,060.65	3,343.50	2,282.85	215.0%
Of which: Investment properties	3	472.31	1,681.48	1,209.17	256.0%
Fixed assets	4	588.34	1,662.02	1,073.68	182.0%
Total assets	5	4,924.34	7,231.68	2,307.34	47.0%
Current liabilities	6	1,469.17	1,469.17	–	0.0%
Non-current liabilities	7	28.54	28.54	–	0.0%
Total liabilities	8	1,497.71	1,497.71	–	0.0%
Net assets	9	3,426.63	5,733.97	2,307.34	67.0%

2. ***Valuation result under income approach***

The carrying amount of the 100% equity in Po Lian, being the valuation target, amounted to RMB34.2663 million and the appraised value was RMB60.2914 million, representing an increase of 75.95% in value.

3. ***Confirmation of the final valuation result.***

As shown above, the difference in the results of appraisal using the two valuation methods is RMB 2.9517 million. The difference in the results of appraisal using two appraisal methods are mainly due to the technical process of such two appraisal methods is different with income approach considering from the perspective of future earning capability of the enterprise and the asset-based approach considering from the perspective of ways of assets reacquisition. The type of business of Po Lian is import and export, and it mainly conducts connected transactions with the subsidiaries of GPC with no strong independence of operation. In light of the economic behavior of this appraisal, based on the sake of prudence, we consider that the result of appraisal using asset-based approach can more fairly reflect the value of 100% equity interest in Po Lian, therefore, the appraised value using asset-based approach was selected as the final appraisal result, i.e.:

The market value of the 100% equity interest of Po Lian on 31 December 2011, the valuation date, is RMB Fifty-seven millions, three hundreds and thirty-nine thousands and seven hundreds (RMB 57.3397 million).

The final valuation result represents an appreciation in value of 1,340.15% compared with the book value of equity investment (RMB3.9815 million) and 67.0% compared with the net assets of the investee (RMB34.2663 million).

(II) Relevant Explanations for Appraisal Conclusions

1. The appraisal conclusions do not take into account expenses of all trading taxes and handling fees possibly necessary for payment in the transfer of the appraisal target.

2. In using the appraisal conclusions, it is necessary to pay special attention to "Assumptions of Appraisal", and "Restriction on the Use of The Valuation Report".

XII. RESTRICTION ON THE USE OF THE VALUATION REPORT

(I) This report shall only be used for the purposes and uses as specified herein.

(II) This report shall only be used by the users as specified herein.

(III) Unless otherwise specified by laws, regulations and relevant parties, all or part of the content of the appraisal report shall not be extracted, quoted or disclosed in public media without review and written consent by us.

(IV) As an important part of this report, all appendices to this report shall be read together with it to understand the details and have a reasonable understanding on the conclusions.

(V) Term of Validity of the Appraisal Report

The conclusions of this report have strong timeliness and conclusions drawn in certain conditions shall be only applied to a specific period. The value of the appraisal target may vary with changes in situations including politics, economy and society. The user of this report shall reasonably determine the term of validity hereof in accordance with changes in situations including politics, economy and society after the valuation date.

In accordance with article 11 of Asset Valuation Standards – Valuation Report and article 21 of Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council), this report shall be valid for one year from the valuation date.

(VI) This assets appraisal project is state-owned assets appraisal project which needs to be approved or filed. Pursuant to the relevant requirements of the administration of state-owned assets, the appraisal report of state-owned assets which needs to be approved or filed can only be used as the reference for the consideration of the corresponding economic behaviour after having been approved or filed with the competent state-owned assets supervision and administration organization or its authorised unit.

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Appraisal Institution: China Valuer International Co., Ltd.

Legal Representative: ____________________________
(Xiao Huanqi)

Chinese Certified Public Valuer: ____________________________
(Zeng Cuixia)

Chinese Certified Public Valuer: ____________________________
(Chen Yang)

9 June 2012

(B) EXPLANATION ON VALUATION OF 100% EQUITY INTEREST IN PO LIAN

(1) Description of Asset-based Valuation Method for 100% Equity Interest of Po Lian

The long-term investment of 100% equity in Po Lian is valued by asset-based approach, the process of which is as follows:

1. Cash

(1) Information of monetary funds

		Carrying amount *(RMB)*	Note
1	Bank deposit	15,053,316.94	The adjustment is made for the translation discount of Euro time deposits at the closing rate for the period
2	Auditing adjustment	-990,823.11	The adjustment is made for an auditing difference for the previous year of -RMB990,823.11 in accordance with the auditing adjustment made in 2009
	Subtotal	14,062,493.83	

(2) Verification of cash and valuation method

1. Verified the spreadsheet, including bank deposit, with the balance in the Company's daily ledger, general ledger and financial statements.

2. After obtaining banking statements, verified the amount in each bank account listed on the spreadsheet of bank deposit with the banking account and recognized the balance in such account if the amount was in line with that in the banking statements.

3. For the amount not in line with that in the banking statements, the enterprise was requested to provide its bank reconciliation statements for checking with such deposit in transit and then included the reconciliation statements in the working paper.

4. For deposit in transit which did not affect the net assets of the enterprise, the amount of bank deposit was recognized.

5. Investigated whether the deposit of the enterprise was kept in custody, frozen or enforced due to litigation or other reasons.

6. For the net assets of the enterprise affected by deposit in transit, adjustment was made to the corresponding account in which deposit was held and the valuation amount was determined by the verified carrying amount after auditing.

(3) Method in determining the verified result of monetary funds and valuation

After verification, the actual amount of bank deposit of the enterprise was in line with the carrying amount on the valuation date and there was no deposit in transit. Therefore, the valuation amount of the bank deposit was determined by the verified carrying amount after auditing.

Deposit in foreign currency held in bank deposit was converted into RMB with reference to the median of the foreign exchange rate quoted on the valuation date.

(4) Valuation result and reasons for the difference

		Carrying amount *(RMB)*	**Valuation amount** *(RMB)*	**Reasons for the difference**
1	Bank deposit	15,053,316.94	15,053,316.94	
2	Audit adjustment	-990,823.11	-990,823.11	
	Sub-total	14,062,493.83	14,062,493.83	

2. Accounts receivable and other receivables

(1) Primary business subject to valuation and amount

		Primary business	**Carrying amount** *(RMB)*	**Note**
1	Accounts receivable	Trading	24,236,272.33	
2	Other receivables	Fees paid in advance on others' behalf, deposits, household deposits	338,175.27	
	Sub-total		24,574,447.60	

(2) Verification and valuation method for accounts receivable

1. Checked the general ledger, sub-ledger and financial statements against the spreadsheet.

2. Investigated whether the enterprise establishes any internal control on sales and receivables, the payment collection policy and its credit policy and sales policy.

3. Carried out a preliminary check on the accuracy and completeness of the entries on spreadsheet of accounts receivable; found out the cause of the debt not included in business settlement and the entries with amounts standing to the credit and reclassifying such items if necessary.

4. For the accounts receivable which has been collected on the date that valuation team carrying out on-site valuation, the valuation team checked the bank receipt voucher, bank deposit amount and the sub-ledger of accounts receivable and determined the valuation amount by the carrying amount if there was no error after checking.

5. For the accounts receivable which has not been collected on the date that valuation team carrying out on-site valuation, the valuation team checked the source document through external confirmation to investigate the operation and credibility of the debtors and carried out aging analysis to have a comprehensive analysis and adjustment. Valuation amount of such accounts receivable was determined by its collectable amount.

6. Enterprise makes provision for bad debt for prudence. As each accounts receivable has been valued in accordance with the above procedure, the valuation amount for the bad debt provision made by the enterprise was zero.

(3) Verification and valuation method for other receivables

1. Checked the general ledger, sub-ledger and financial statements against the spreadsheet.

2. Carried out a preliminary check on the accuracy and completeness of the entries listed on spreadsheet of other receivable; finding the cause of the debt not included in business settlement and the entries with amounts standing to the credit and reclassifying such items if necessary.

3. For such other receivables which have been collected or hedged when the valuation team carried out valuation, the valuation team checked the bank deposit amount and the sub-ledger of other receivable and determined the valuation amount by the carrying amount if there was no error after checking.

4. For such other receivables which have not been collected or reversed when the valuation team carried out valuation, the valuation team checked the source documents through external confirmation to investigate the operation

and credibility of the debtors and carried out aging analysis to have a comprehensive analysis and adjustment. Valuation amount of such other receivables was determined by its collectable amount.

(4) Verification result

After verification, it is shown that the entries of debt listed on the spreadsheet reported by the enterprise is accurate and complete and all of them are ordinary debts.

(5) Valuation method

Valuation amount of debt receivable = Carrying amount of debt receivable – recognized bad debt loss – projected bad debt loss

1. Determination of the carrying amount of debt receivable

Firstly, valuation team classified each debt asset. In addition to checking the external debt with the statements, the team also dispatched an enquiry letter for verification purpose in respect of the material debt and cross-checked the historical communication between independent internal auditing departments.

2. Determination of the recognition of bad debt loss

The valuation team classified and analyzed the accounts receivable of the enterprise according to the business relationship between the enterprise and the debtors as well as the credibility of the debtors. By analyzing the timing and reason for each debt, there was no recognized bad debt loss identified in the debt receivable reported by the enterprise.

3. Determining the projected bad debt loss

The valuation team classified and analyzed the accounts receivable of the enterprise according to the business relationship between the enterprise and the debtors as well as the credibility of the debtors. By analyzing the timing and reason for each debt, adjustment was made to the possible recoverability of the debt by using aging analysis method.

Such debts are newly incurred, and the accounts receivable of which incurred in 2011. The debtors of other debt receivable include related companies of the enterprise with business relationship or internal departments. Basically, there is no bad debt risk and no bad debt loss is projected.

(6) Valuation result

		Carrying amount *(RMB)*	Valuation amount *(RMB)*	Note
1	Accounts receivable	24,236,272.33	24,236,272.33	
2	Other receivables	338,175.27	338,175.27	
	Sub-total	24,574,447.60	24,574,447.60	

3. Investment properties

(1) Number of investment properties and its carrying amount

Po Lian owns five investment properties, including four residential properties and one office premise, gross floor area of which amounts to 383.87 m^2 with an original carrying amount and net carrying amount of RMB6,536,356.71 and RMB4,723,098.33 respectively.

1. Room 8, 4/F, Block M, Telford Gardens, Room 7, 2/F, Block C, Telford Gardens, Room 6, 5/F, Block I, Telford Gardens

2. 6/F, Manley Commercial Building, Mong Kok

3. Room 12, 5/F, Sincere House, Mong Kok

(2) Valuation method for investment property and result of valuation

1. Verification method for property asset

(1) Based on the list of real estate provided by the entrusting party, the valuer communicated with the staff of the financial department responsible for managing fixed assets. The valuer then carried out verification of the ledger, sub-ledger, financial statements and real estate list and make adjustment to any mistakes in those statements.

(2) The valuer collected all property ownership certificates or alternative ownership certificates and verified the contents of the documents including ownership certificates and the lists. Any inconsistency found therein is marked to find out the reasons.

(3) The valuer verified the corresponding relationship between the properties and lands.

(4) The valuer found out whether the composition of the carrying value of the assets categorized into real estate is audited or valued or reconciliated. For the assets the unit carrying value of which is

obviously too high or too low, the valuer found out the reasons for the formation of the carrying value and whether it contains value of other assets or whether it is caused by the reasons such as reconstruction or expansion.

(5) The valuer conducted spot inspection for the properties and recorded the inspection to find out whether the properties are the reported assets of the company and whether the properties are in compliance with the planning of the region they are located.

(6) The valuer verified whether the actual status of the properties (location, structure and area) is in line with the ownership certificates and whether the properties are reconstructed, expanded or decorated for specific purposes. The valuer also recorded the specific content and found out how the cost and expenditures are presented in financial records.

(7) The valuer investment summed up and analyzed the conclusion of the investigation.

2. *Valuation result of investment property*

After on-site inspection, the property rights to five properties are clear and they are basically functional.

(3) Principle basis of valuation

1. *Principle laws and regulations and industrial practices*

(1) Hong Kong property laws including Land Registry Ordinance;

(2) Assets Valuation Standards – Fixed Assets (China Appraisal Society, Zhong Ping Xie [2007] No. 189);

(3) Guidance on Appraisal of Investment Property (Trial) (China Appraisal Society, Zhong Ping Xie [2009] No. 211);

2. *Other principle basis of valuation*

(1) Information of the market transaction price in which the properties are located;

(2) Relevant information collected by the valuation team through on-site inspection and market survey.

(4) Valuation method

There are three basic methods for the valuation for property market, namely market approach, income approach and cost approach. Besides, there are other valuation methods developed from those basic valuation methods, such as hypothetical development method (residual method), secular trend method, route appraisal method for land use right and method of base price of land coefficient modification for land use right. During the course of valuation, it is required to select one or more property valuation methods in accordance with the relevant conditions such as valuation subject, type of value and information collected as well as the applicability of each valuation method.

As the five investment properties under valuation are located in an active market and there are a lot of comparable transactions, market approach has been applied in determining the market price of such five properties on the valuation date, during which the impact of the executed leasing agreement on the valuation amount on the valuation date was taken into account.

Market approach values the market value of the property by comparing the comparable transactions concerning similar properties around valuation date and correcting the known transaction priced of such similar properties by making the transaction status correction, transaction date correction, location correction, actual condition correction and title ownership correction.

The calculation model of market approach is as follows:

$$K = \sum_{i=1}^{n} \left[M_i \times \frac{AY_0}{AY_i} \times \frac{BY_0}{BY_i} \times \frac{CY_0}{CY_i} \times \frac{DY_0}{DY_i} \times \frac{EY_0}{EY_i} \times H_i \right]$$

whereas:

K	Value of the property subject to valuation (unit price);	M_i	Property price (unit price) of comparable transaction i;
AY_0	Transaction status coefficient of property subject to valuation;	AY_i	Transaction status coefficient of comparable transaction i;
BY_0	Property price coefficient of the property subject to valuation on the time of valuation;	BY_i	Property price coefficient of comparable transaction i on the transaction date;
CY_0	Location coefficient of the property subject to valuation;	CY_i	Location coefficient of comparable transaction i;

DY_0 Actual condition coefficient of the property subject to valuation;

DY_i Actual condition coefficient of comparable transaction i;

EY_0 Title ownership coefficient of the property subject to valuation;

EY_i Title ownership coefficient of the comparable transaction i;

n Number of comparable transactions;

i Serial number of comparable transaction;

H_i Weighting of i in the comparable transaction.

(5) Valuation result

After the above valuation procedure, the valuation result of the five investment properties of Po Lian is as follows:

Serial number	Property (Location)	Main feature	Floor area (m^2)	Original carrying amount (RMB)	Net carrying amount (RMB)	Appraised value (RMB)	Appraised rate	Appraised unit value (RMB/m^2)
1	Room 8, 4/F, Block M, Telford Garden	Residential	58.06	814,656.22	856,317.28	3,190,000	272.50%	54,930
2	Room 7, 2/F, Block C, Telford Gardens	Residential	56.02	772,807.88	775,175.12	2,910,000	275.40%	51,946
3	Room 6, 5/F, Block I, Telford Gardens	Residential	56.11	1,464,886.26	1,561,451.98	3,040,000	94.70%	54,179
4	6/F, Manley Commercial Building, Mong Kok	Office	144.37	2,494,952.35	2,511,977.05	4,690,000	86.70%	32,486
5	Room 12, 5/F, Sincere House, Mong Kok	Residential	69.31	989,054.00	1,049,167.43	2,984,800	184.50%	43,064
6	Investment property – real estate Sub-total	–	383.87	6,536,356.71	6,754,088.86	16,814,800	149.00%	–
7	Less: Accumulated depreciation of investment property	–	–	–	(2,030,990.53)	–	100.00%	–
	Investment property		**383.87**	**6,536,356.71**	**4,723,098.33**	**16,814,800**	**256.00%**	**–**

Note: Carrying amounts stated above include the carrying amounts of revocation costs and auxiliary facilities costs of the corresponding properties.

As each investment property has been valued in accordance with the above procedure, the provision for depreciation by the enterprise is calculated at zero.

4. Fixed assets

(1) Fixed assets – property

1. Number of properties and carrying value

Po Lian owns two properties as its fixed assets, both are residential properties with gross floor area of 170.75 m^2 in total. The total original carrying amount is RMB7,209,469.98 and the net carrying amount is RMB4,780,367.10.

2. *Basic information of the properties*

   (1) Room E, 27/F, Block 1, Park Towers, Tin Hau

   (2) Room C, 26/F, Block 2 Jupiter Terrace, Fortress Hill

3. *Verification method for properties and result of valuation*

   Properties are valued by the following way:

   (1) Based on the list of real estate provided by the entrusting party, the valuer communicated with the staff of the financial department responsible for managing fixed assets. The valuer then carried out verification of the ledger, sub-ledger, financial statements and real estate reporting list and make adjustment to any mistakes in those statements.

   (2) The valuer collected all property ownership certificates or alternative ownership certificates and verified the contents of the documents including ownership certificates and the lists. Any inconsistency found therein is marked to find out the reasons.

   (3) The valuer verified the corresponding relationship between the properties and lands.

   (4) The valuer found out whether the composition of the carrying value of the assets categorized into real estate is audited or valued or reconciliated. For the assets the unit carrying value of which is obviously too high or too low, the valuer found out the reasons for the formation of the carrying value and whether it contains value of other assets or whether it is caused by the reasons such as reconstruction or expansion.

   (5) The valuer conducted spot inspection for the properties and recorded the inspection to find out whether the properties are the reported assets of the company and whether the properties are in compliance with the planning of the region they are located.

   (6) The valuer verified whether the actual status of the properties (location, structure and area) is in line with the ownership certificates and whether the properties are reconstructed, expanded or decorated for specific purposes. The valuer also recorded the specific content and find out how the cost and expenditures are presented in financial records.

(7) The valuer summed up and analyzed the conclusion of the investigation. If there is any incorrect consolidation and division of carrying value, the valuer communicated with the company and informed it to make adjustments.

After on-site inspection, the property rights to two fixed asset properties under valuation are clear and they are basically functional.

4. Principle basis of valuation

Principle laws and regulations and industrial practices

(1) Assets Valuation Standards – Fixed Assets (China Appraisal Society, Zhong Ping Xie [2007] No. 189);

Other principle basis of valuation

(2) Information of the market transaction price in which the properties are located;

(3) Relevant information collected by the valuation team through on-site inspection and market survey.

5. Valuation method

There are three basic methods for the valuation for property market, namely market approach, income approach and cost approach. Besides, there are other valuation methods developed from those basic valuation methods, such as hypothetical development method (residual method), secular trend method, route appraisal method for land use right and method of base price of land coefficient modification for land use right. During the course of valuation, it is required to select one or more property valuation methods in accordance with the relevant conditions such as valuation subject, type of value and information collected as well as the applicability of each valuation method.

As the two fixed asset properties under valuation are located in an active market and there are a lot of comparable transactions, market approach has been applied in determining the market price of such two properties on the valuation date.

Market approach values the market value of the property by comparing the comparable transactions concerning similar properties around valuation date and correcting the known transaction priced of such similar properties by making the transaction status correction, transaction date correction, location correction, actual condition correction and title ownership correction.

The calculation model of market approach is as follows:

$$K = \sum_{i=1}^{n}\left[M_i \times \frac{AY_0}{AY_i} \times \frac{BY_0}{BY_i} \times \frac{CY_0}{CY_i} \times \frac{DY_0}{DY_i} \times \frac{EY_0}{EY_i} \times H_i\right]$$

whereas:

K	Value of the property subject to valuation (unit price);	M_i	Property price (unit price) of comparable transaction i;
AY_0	Transaction status coefficient of property subject to valuation;	AY_i	Transaction status coefficient of comparable transaction i;
BY_0	Property price coefficient of the property subject to valuation on the time of valuation;	BY_i	Property price coefficient of comparable transaction i on the transaction date;
CY_0	Location coefficient of the property subject to valuation;	CY_i	Location coefficient of comparable transaction i;
DY_0	Actual condition coefficient of the property subject to valuation;	DY_i	Actual condition coefficient of comparable transaction i;
EY_0	Title ownership coefficient of the property subject to valuation;	EY_i	Title ownership coefficient of the comparable transaction i;
N	Number of comparable transactions;	i	Serial number of comparable transaction;
H_i	Weighting of i in the comparable transaction.		

6. Valuation result

After the above valuation procedure, the valuation result of the two fixed-assets properties of Po Lian is as follows:

Serial number	Property	Main purpose	Floor area (m^2)	Original carrying amount *(RMB)*	Net carrying amount *(RMB)*	Appraised value *(RMB)*	Appraised rate	Appraised unit value (RMB/m^2)
1	Room E, 27/F, Block 1, Park Towers, Tin Hua	Residential	112.41	5,147,134.30	5,154,130.64	12,300,000	138.60%	109,421
2	Room C, 26/F, Block 2 Jupiter Terrace, Fortress Hill	Residential	58.34	2,062,335.68	2,171,407.25	3,840,000	76.80%	65,821
3	Auditing adjustment: accumulated depreciation of housing structures		–	–	(2,545,170.79)	–	100.00%	–
	Fixed assets – housing structures Total		**170.75**	**7,209,469.98**	**4,780,367.10**	**16,140,000**	**237.60%**	**–**

As each property has been valued in accordance with the above procedure, the provision for depreciation by the enterprise is calculated at zero.

(2) Fixed assets – machinery and equipment

1. Number and carrying value

	Category	Number	Original carrying amount *(RMB)*	Net carrying amount *(RMB)*	Note
1	Vehicle	2	718,104.36	718,104.36	Automobiles in Hong Kong and Guangzhou
2	Electronic equipment and furniture	75	1,365,480.93	384,902.61	Mainly electronic equipment for office and home furniture in the leased office premise and other properties
	Provision for depreciation of fixed assets				
	Total		2,083,585.29	1,103,006.97	

2. Verification method for equipment asset

(1) Examined the spreadsheet of machinery and equipment assets; requested the enterprise to correct and supplement the unreasonable and unfilled entries in order to ensure that there was no deception, omission

and duplication. For revised and supplemented spreadsheet of machinery and equipment assets, seal of the relevant unit should be affixed as the basis of valuation.

(2) Communicated with the staff responsible for the fixed asset management of financial department in accordance with the spreadsheet of machinery and equipment assets provided by the enterprise and checked the fixed asset ledger and general ledger with the spreadsheet to ensure consistency between the the statements and spreadsheet; investigated the composition of the carrying amount of machinery and equipment to find out any depreciation, record time and source through the books of fixed assets.

(3) Cooperated with the fixed asset management department of the enterprise and verified the breakdown of books for equipment to ensure consistency between the accounting records and the statements and to identify any concealed accounts, deception and omission.

(4) Classified the equipment and carried out on-site inspection by checking the name, specification, model, manufacturer and quantity of equipment to see whether they were consistent with those listed on the spreadsheet; carried out on-site research and record the operation environment, working condition and maintenance of the equipment; listened to the operators and management on the acquisition and manufacturing progress of the machinery equipment as well as its quality, daily operation, maintenance condition and technological transformation.

(5) Collected and verified the acquisition and installation agreement of material equipment and payment voucher, and the asset delivery break down and relevant manuals and drawing.

(6) For the automobiles subject to registration, vehicle licenses were collected and the registration of such vehicle licenses verified.

After on-site inspection, the equipment under valuation is functional with good maintenance condition.

3. Principle basis of valuation

Principle laws and regulations and industrial practices

(1) Assets Valuation Standards – Machinery and Equipment;

Other principle basis of valuation

(2) spreadsheet of machinery and equipment, original information and other relevant information provided by the enterprise;

(3) copies of vehicle licenses;

(4) Quotation Manual for Electrical and Mechanical Products (CMIP);

(5) Common Data and Parameter Manual for Assets Appraisal (Beijing Science and Technology Press);

(6) record of price enquiry made to equipment suppliers;

(7) information of market price obtained by the valuation team through survey and enquiry and other information related to valuation;

(8) other relevant information provided by the enterprise.

4. Valuation method

Cost approach was applied. The appraised value of asset subject to valuation was determined by its current replacement cost less depreciation.

The specific formula of cost approach is: Valuation amount V = Replacement cost C x Consolidated residue ratio q

1. Determination of the replacement cost

① For the equipment whose prevailing acquisition cost or construction cost could be obtained, its replacement cost (updated replacement cost) is determined by the replacement cost calculation method:

$$C = C1 + C2 + C3 + C4 + C5$$

whereas:

C1: Market acquisition cost or construction cost of the equipment, including the relevant tax incurred by the acquisition of such equipment.

C2: domestic freight and miscellaneous charges; small equipment at low unit price and requiring no installation could be ignored.

C3: installation and commissioning fee; equipment requiring no installation could be ignored.

C4: financing cost; equipment with a short installation and commissioning period could be ignored.

C5: other construction cost, construction unit management fee and training cost incurred due to the acquisition, construction and commissioning of large equipment.

② For vehicles for transportation, the replacement cost is determined by the market price on valuation date plus vehicle purchase tax and other reasonable cost (such as license fee):

Replacement cost C = Acquisition cost C1 + Vehicle purchase tax C2 + Other reasonable cost including license fee C3

(2) Determination of consolidated residue ratio

① For general small equipment, its consolidated residue ratio is determined by the working condition of the equipment, prevailing technology and its economic useful life (In this valuation, we determine the residue ratio of the equipment mainly by this method).

② Office electronic equipment and instruments

The residue ratio of the office electronic equipment and instruments is determined by using age limit method with reference to the on-site inspection for the usage of equipment.

③ Determination of the consolidated residue ratio of vehicle

In this valuation, theoretical residue ratio of vehicle is determined by using age limit method and mileage method (whichever is lower):

Residue ratio under age limit method = remaining useful life / economic useful life = 1 – life used/ economic useful life

Residue ratio under mileage method = remaining mileage available/ standard travelling miles = 1 – mileage driven/ standard travelling miles

On-site inspection was then carried out to examine the condition of each component of the vehicle, including its appearance, structure (whether there are damages or not), operation of the main engine and circuits (whether they work normally or not), function of the brakes (whether they are reliable or not), and the emission standard of greenhouse gas (whether it meets the standard or not).

④ For the equipment operating beyond its expected operating life, residue ratio is determined by on-site technical inspection with reference to its physical wear and tear and expected intangible loss as well as the specific condition of the equipment, including the loading, technical transformation and maintenance. Residue ratio shall be not less than 15% for equipment under normal working condition.

5. *Valuation result*

After the above valuation procedure, the valuation result of equipment asset is as follows:

	Category	Original carrying amount *(RMB)*	Net carrying amount *(RMB)*	Replacement cost *(RMB)*	Appraised value *(RMB)*
1	Vehicle	718,104.36	718,104.36	630,000	359,100
2	Electronic equipment	1,365,480.93	384,902.61	185,630	121,130
3	Provision for depreciation of fixed assets				
	Total	2,083,585.29	1,103,006.97	815,630	480,230

5. Accounts payable and other payables

Accounts payable were incurred in the course of business for such reasons on such dates:

Number	Party	Subject matter	Date of occurrence	Carrying amount *(RMB)*	Note
1	HONG KONG WING-HING TRADING LTD.	Equipment fee	2011-10	17,120.77	
2	Guangzhou Pharmaceutical Holdings Limited	Fee for Xiasangju granule (夏桑菊沖劑)	2011-10	60,901.81	Paid in November, but the amount was recorded in a wrong account
3	Guangzhou Pharmaceutical Holdings Limited	Fee for Xiasangju granule (夏桑菊沖劑)	2011-11	174,280.39	
4	THE GOKEI TRADING CORP	Fee for CEFDINIR CAP	2011-12	5,613,421.17	

Number	Party	Subject matter	Date of occurrence	Carrying amount *(RMB)*	Note
5	Hoe Hin Pak Fah Yeow Manufactory Ltd	Fee for Pak Fah Yeow（百花油）	2011-12	1,459,600.49	
6	KYOWA HAKKO (H.K.) CO., LTD.	Fee for ATP	2011-12	327,239.06	
7	PROPER FIELD LIMITED	Fee for 5SETS 1260 HPLC	2011-12	1,941,145.40	
	Accounts payable Total			**9,593,709.09**	

Other payables were incurred in the course of business for such reasons on such dates:

Number	Party	Subject matter	Date of occurrence	Carrying amount *(RMB)*	Note
1	Guangzhou Pharmaceutical Holdings Limited	Arising from dealing with the difference between the subsidiaries of Guangzhou Pharmaceutical Group	Accumulated prior and up to 2006	2,621,377.832	
2	Guangzhou Pharmaceutical Import & Export Co. Ltd.	Training fee paid in advance	Mainly in March and November 2011	154,966.853	
3	Haixing Engineering Company Limited*（海興工程有限公司）	Housing deposit	2005-7, 2007-5, 2007-6, 2008-12, 2010-7, 2011-6	83,826.384	
4	Guangzhou Bairun Properties Limited*（廣州百潤置業有限公司）	Receivable collected on behalf of others	2010-6-1	128,689.636	
5	Liangyou Pharmaceutical Company Limited*（良友藥業有限公司）	Miscalculation of the accounts payable for Xiasangju granule	2011-12-30	171.467	
6	Guangzhou Qi Xing Pharmaceutical Factory*（廣州奇星製藥廠）			2,414.59	
		Other payables Total		9,593,709.09	

The valuation team crosschecked the historical communication between internal independent auditing departments by spot-checking the account vouchers of the enterprise. After verification, it was found that the items and amount of accounts payable and other payables reported by the enterprise were in line with the actual items and amount and no further payment needed. Therefore, the valuation amount of such liabilities was determined by the carrying amount after verification.

6. Tax payable

Po Lian has recorded the following tax payable on its book:

Number	Taxing authority	Type of tax	Date of occurrence	Carrying amount *(RMB)*	Note
1	Inland Revenue Department of Hong Kong	Profit tax	2011	2,106,502.39	Including the provision for profit tax for 2011 and addition provision for profit tax made due to the auditing adjustment to the difference of an open account
	Tax payable Total			**2,106,502.39**	

Currently, Po Lian is subject to 16.5% profit tax rate according to the Hong Kong Tax Law and there is no other preferential tax treatment.

The valuation amount of the tax payable was determined by the carrying amount after valuation.

7. Other non-current liabilities

Other non-current liabilities included the long service payment of RMB285,409.37 provided by Po Lian in March 2011 in accordance with Employment Ordinance of Hong Kong.

The valuation team reviewed the related requirements of long service payment and verified the book amount of the enterprise. The valuation mount of such liabilities was determined by the carrying amount after verification.

8. Valuation result under asset-based approach

Subject to the purpose of valuation, valuation assumption and restriction stated in this report, the valuation result of the 100% equity interest of Po Lian by using asset-based approach on 31 December 2011, the valuation date after the above valuation progress is RMB57.3397 million. Details of which are as follows:

The carrying amount of assets under valuation amounted to RMB49.2434 million and the appraised value was RMB72.3168 million, representing an increase of 47%.

The carrying amount of liabilities under valuation amounted to RMB14.9771 million and the appraised value was RMB14.9771 million. There was no difference between two amounts.

The carrying amount of net assets under valuation amounted to RMB34.2663 million and the appraised value was RMB57.3397 million, representing an increase of 67%.

Summary of Assets Valuation (Asset-Based Approach)
Valuation Date: 31 December 2011

Subject under valuation:
Po Lian Development Company Limited *Unit: RMB'0,000*

Item		Carrying amount *A*	Assessed value *B*	Changes *C = B - A*	Value appreciation *D = C/A*
Current assets	1	3,863.69	3,888.18	24.49	1.0%
Non-current assets	2	1,060.65	3,343.50	2,282.85	215.0%
Of which:					
Investment properties	3	472.31	1,681.48	1,209.17	256.0%
Fixed assets	4	588.34	1,662.02	1,073.68	182.0%
Total assets	**5**	**4,924.34**	**7,231.68**	**2,307.34**	**47.0%**
Current liabilities	6	1,469.17	1,469.17	–	0.0%
Non-current liabilities	7	28.54	28.54	–	0.0%
Total liabilities	**8**	**1,497.71**	**1,497.71**	**–**	**0.0%**
Net assets	**9**	**3,426.63**	**5,733.97**	**2,307.34**	**67.0%**

(2) Technical explanation on valuation for income approach of 100% Equity interest in Po Lian

I. Income approach's conditions for application and reasons and basis

(1) Definition and principle of income approach

The value of a company is the company's on-going profitability in a specific time of period at a specific location under specific conditions. The valuation of a company is a valuation principally based on the company's profitability after integrated consideration on any factors affecting the profitability and any risks the company faces.

Valuation of equity of a company by income approach is to determine the market value of equity of such company through estimating the sum of present value of future expected return of equity of such company using an appropriate discount rate.

(2) Prerequisites for application of income approach

Valuation of a company by income approach is to determine the value of such company through estimating the present value of expected return of such company in the future. There are three prerequisites for application of such method approach:

1. Expected earnings of the company in the future can be forecasted and measured by currency;

2. Risks on expected earnings of the company can be forecasted and measured by currency; and

3. Number of years for the company to generate expected earnings can be forecasted.

(3) Reasons and basis for adoption of income approach

This valuation was conducted on an on-going concern basis. The company to be valued has stable operation and satisfied the basic conditions for the adoption of income approach. Therefore, income approach is adopted.

(4) Basic steps for valuation of a company by income approach

1. Studying and analysing the historical operating results of the company; and

2. Analysis of assets and liabilities position of the company based on business operation of the company, in which assets and liabilities of the company on the valuation date are classified into the following categories to determine correspondence between expected earnings and assets and liabilities:

   (1) Assets and liabilities of principal business;

   (2) Assets and liabilities irrelevant to operating business or external investment to be separately valued; and

(3) Other non-operating assets and liabilities.

Assets and liabilities of which earnings is to be projected do not include those of category (3);

In income approach, assets and liabilities of (2) may or may not be included in those of which earnings is to be projected, depending on their significance and availability of their information;

Assets and liabilities under category (2) and (3) which are not included in the earnings forecast are generally separately valued.

3. Analysis on factors affecting operation and allocation of profit of the company, including macroeconomic factors, industrial factors, the company's specific factors and others;

4. Defining expected earnings of assets and liabilities included in profit projection by determining whether to take net profit, net cash flow, profit before interest and tax or other income as expected earnings for projection;

5. Estimation of liquidation value of assets and liabilities included in earnings projection at termination of operation;

6. Selection of a discount rate as appropriate to earnings projection;

7. Substitution of parameters of income approach into calculation model for sum of earnings discounted; and

8. Summing up of the sum of earnings discounted and the appraised value of assets and liabilities not included in (2) and (3) to arrive at the valuation under income approach.

II. Significant assumption used in and basis of valuation

(1) Significant assumption used in valuation

1. There will be no significant change in current relevant laws, regulations and policies and macroeconomic environment of China; there will be no significant change in politics, economics and social situation of places where parties of this transaction domicile; and there will be no material adverse impact due to any other unforeseeable factor or force majeure.

2. The company will be an on-going concern based on valuation of the actual situation of assets as at the valuation date.

3. Operators of the company will assume their responsibilities and management of the company are competent for their duties.

4. The company is in full compliance with all relevant laws and regulations unless otherwise stated.

5. The accounting policies to be adopted by the company in future are basically consistent in all material respects with those adopted when this report was prepared.

6. Under the same mode and standard of management, scope and mode of business of the company will remain the same.

7. There will be no significant change in relevant interest rate, exchange rate, tax basis and rate and charges under policies.

8. There will be no material adverse impact due to any other force majeure or unforeseeable factor.

(2) Significant laws and regulations and regulatory documents of the industry

1. Assets Appraisal Standards – Basic Standards (Cai Qi [2004] No.20 of the Ministry of Finance);

2. Pilot Guidelines for Valuation of Company (企業價值評估指導意見（試行）) (Zhong Ping Xie [2004] No.134 of China Appraisal Society)

(3) Significant information and sources of data

1. All previous capital verification reports, audit reports and valuation reports of companies related to the valuation subject;

2. Financial statements as at the valuation date and other corporate operational information of companies related to the valuation subject;

3. Enterprise Performance Appraisal Benchmark (企業效績評價標準值) (SASAC, Economic Science Press);

4. Statistics published by National Bureau of Statistics;

5. Information disclosed by relevant listed companies;

6. CCER's database of China securities market;

7. Aswath Damodaran's research data in connection to market average risk premium;

8. Interest rates of deposit and loan of financial institutions published by People's Bank of China; and

9. Information of bond transactions published on chinabond.com.cn (www.chinabond.com.cn).

III. Analysis on operation of the company

(1) Current condition of operation and management of the company

Main products or services of the company: the company is principally engaged in import and export trading of medicine and pharmaceutical equipment.

Market and customers: customers of the company are mainly related companies within the same group.

The company is principally engaged in trading of goods. It currently has 7 employees. It has an established internal control system, where its network and platform of sales is relying on GPHL, its parent company, and Guangzhou Pharmaceutical Company Limited, a company controlled by the parent company.

Seasonal or cyclical impact on operation of the company: nil.

Normal flow of operation of the company: goods is purchased by the company according to demands from related companies, where the company is the intermediate.

Current principal accounting policies of the company: Po Lian adopts Hong Kong Accounting Standards and relevant requirements including interpretation and amendments.

(2) Macroeconomic factor

1. Economic condition

Hong Kong is located at the east of Pearl River Estuary in southern Guangdong Province, 61 km from Macau, which is on the other side of the river in the west, 130 km from Guangzhou in the north and 1,200 km from Shanghai. Its harbor is one of the three best harbors in the world.

Hong Kong's external trading includes three main divisions, namely importation, exportation of products locally made and transit trade. The place is an important hub of finance, trade, transportation, travel, information and communication. Following New York and London, it is the third largest international financial centre. In 1990, there were 84 banks ranked top 100 world-wide having operation in Hong Kong, and the volume of Hong Kong's FX market was at the sixth place in the world. The city, among London, New York and Zurich, is also one of the four largest gold markets in the world. It is a significant international business centre.

Hong Kong is positioned at a strategic location for going into Mainland China. It is a global trade, financial, commercial and telecommunication centre with business-friendly environment, free trade, free flow of information, fair and open competition, a well-established financial network, a superb transport and communication infrastructure and a labour market with a well-educated workforce.

Moreover, it has substantial foreign exchange reserves, a fully convertible currency, prudent fiscal management and a simple tax system with low tax rates. It is known as the freest economy in the world.

In last 20 years, the economy of Hong Kong grew more than two times with gross domestic production ("GDP") actually growing at an average of 4.1% every year and GDP per capita nearly doubled. Merchandise trade expanded about six times and service trade four. It is the most invested place in Asia other than Mainland China. The economy of Hong Kong is led by service sector, where financial service, trading and logistics, tourism and business support and professional services are the four pillar industries.

The Hong Kong economy exhibited much resilience in countering the global financial tsunami and the ensuing global recession. Financial market activities and inbound tourism, in particular, bounce-back significantly. Local consumer confidence promptly rebounded after its weak performance in the early 2009 and revitalized local economic activities. The government put forward measures one after one in stabilizing the financial market, supporting of enterprises, accelerating finalization of public works, enhancing employment and other areas, whereby succeeded in containing the economic downturn.

With the recovery in global manufacturing and trade in addition to Asian leading rebound, driven by a significant increase in foreign trade of the Mainland in 2010, export of Hong Kong products increased 20.4%, transit increased 22.8% and import 25.0% year-on-year.

In 2011, Hong Kong's GDP reached RMB1,543.6 billion, ranking third in China, with GDP per capita of USD34,200, four times that of Shanghai. Its annual total merchandise export and total merchandise import grew by 3.6% and 4.8% respectively, while export of service and import of service increased by 6.3% and 3.0% respectively.

(3) Factors relating to pharmaceutical market

Medical is one of the 15 international industries segmented by international standards. It is a thriving industry with the fastest growth in world trade and at the same time one with weak cyclical influence. According to relevant information of China Association of Pharmaceutical Commerce, sales of global pharmaceutical market have an average annual growth of 9.83% in 2000-2008, which is much higher than economic growth in the world for the period.

Although there are still many markets around the globe suffering from impact due to economic recession, overall demand for medicine is strong. Continuous and rapid growth in emerging pharmaceutical markets will mitigate impact on markets world-wide. In 2008, global pharmaceutical markets grew by 4.8%, 7.0% for 2009, reaching USD837 billion, and over 5% for 2010.

From 2010 to 2014, it is expected that emerging pharmaceutical markets will grow by 14%-17%, where major developed pharmaceutical markets will grow by 3%-6%. By 2014, accumulated sales of medicine of emerging pharmaceutical markets will catch up with that of developed ones, amounting to USD120 billion to USD140 billion, while that for the past five years were USD69 billion and USD126 billion.

Currently, the overall pharmaceutical industry of China is still characterized by being "small, scattered and disorderly". However, it is highly market-oriented and with sufficient competition. Profit of pharmaceutical companies has improved gradually. In 2008, top 100 China pharmaceutical companies together have sales of RMB246.937 billion, increased by 26.37% over last year, and concentration of 40.59%, increased by 0.97% over last year. In 2010, aggregate gross production of China pharmaceutical industry amounted to RMB1,193.382 billion, increased by 27.07% over last year, with its concentration gradually increasing.

According to statistics of IMS Health, a world market research institution of medical and healthcare product, by 2013, sales of global pharmaceutical market will break USD975 billion and its annual compound growth rate will remain between 4%-7%. From 2010-2013, China will contribute 20% to the growth of global pharmaceutical sales, while China pharmaceutical market will grow with a rate over 20% each year. China will rank top 3 in pharmaceutical market with sales reaching USD80 billion. By 2015, China will be the second largest country in terms of medicine consumption.

(4) Specific factors of the company and the subject equity interest

The company is principally engaged in merchandise import and export trade. Its major customers are mainly related companies of the same group. Relying on strong capacity of GPHL, its parent company, the company records stable operating results. It has 7 employees, with scientific internal control system, self-owned properties and investment properties and ample capital.

IV. Financial analysis of the company

(1) Summary of historic operating data of the company

1. Condensed statement of income and profit distribution of the company for the year ended as at the valuation date and for the two years ended preceding to such date

	Item	**2009** *RMB'000*	**2010** *RMB'000*	**2011** *RMB'000*
1	Income from principal business	101,749.32	108,250.96	121,383.06
2	Costs of principal business	99,188.21	104,339.85	116,929.84
3	Taxes and surcharges of principal business	–	–	–
4	Profit of principal business	2,561.11	3,911.11	4,453.22
5	Profit of other business	855.94	723.18	750.73

	Item	2009	2010	2011
		RMB'000	*RMB'000*	*RMB'000*
6	Selling expenses	72.53	66.19	51.96
7	Administrative expenses	2,553.91	2,331.64	2,719.93
8	Finance costs	465.55	-395.09	356.24
10	Assets impairment loss	164.83	-129.14	76.03
9	Operating profit	160.24	2,760.69	1,999.79
11	Non-operating income	–	–	–
12	Non-operating expenses	–	–	–
13	Total profit	160.24	2,760.69	1,999.79
14	Income tax	26.44	566.06	350.75
15	Net profit	133.80	2,194.63	1,649.04
16	Dividends payable	–	–	–

Note: Figures in the above table are extracted from the Audit Report (Xinkuaishibao [2012] No. 410259)（信會師報[2012]第410259號）issued by BDO China Shu Lun Pan CPAs LLP. While the financial year of Po Lian commences on 1 April each year and ends on 31 March next year, data in the above table are adjusted and prepared in accordance with China's financial year (being 1 January to 31 December each year) and PRC accounting standards.

2. *Condensed balance sheet of the company as at the valuation date and for the two years ended date prior to such date*

	Item	2009	2010	2011
		RMB'000	*RMB'000*	*RMB'000*
1	Current assets	51,496.66	39,054.78	38,636.94
2	Investment properties	5,128.98	4,842.84	4,723.10
3	Fixed assets	6,930.77	6,548.38	5,883.37
4	Intangible assets and other assets	–	–	–
5	Total assets	63,556.41	50,446.00	49,243.41
6	Current liabilities	30,016.53	15,879.58	14,691.66
7	Long-term liabilities	303.10	288.64	285.41
8	Minority interest	–	–	–
9	Owner's equity	33,236.78	34,277.77	34,266.35

Note: Figures in the above table are extracted from the Audit Report (Xinkuaishibao [2012] No. 410259)（信會師報[2012]第410259號）issued by BDO China Shu Lun Pan CPAs LLP. While financial year of Po Lian commences on 1 April each year and ends on 31 March next year, data in the above table are adjusted and prepared in accordance with China's financial year (being 1 January to 31 December each year) and PRC accounting standards.

3. *Financial analysis of the company as at the valuation date and for the two years ended date prior to such date*

Analysis of indicator	Description of indicator	2009	2010	2011
Analysis of profitability:				
Return on net assets	Net profit / average net assets	N/A	6.91%	6.54%
Return on total assets	(Total profit + interest expenses) / average total assets	0.50%	4.84%	4.53%
Profit margin of principle business	Profit of principle business / income from principle business	2.52%	3.61%	3.67%
Operating profit margin	Operating profit / income from business	0.16%	2.53%	1.64%
Ratio of profit to cost	Total profit / total cost	0.16%	2.64%	1.71%
Ratio of selling expenses to income	Selling expenses / income from business	96.67%	95.75%	95.74%
Analysis of asset operation efficiency (times):				
Turnover of total assets	Income from business / average total assets	3.23	1.91	2.77
Turnover of current assets	Income from business / average current assets	3.99	2.41	3.69
Turnover of accounts receivable	Income from business / average accounts receivable	6.55	4.44	5.83
Analysis of liquidity:				
Gearing ratio	Total liabilities / total assets	48%	32%	40%
Quick ratio	Quick assets / current liabilities	1.72	2.46	1.86
Current ratio	Current assets / current liabilities	172%	246%	186%
Interest coverage	Profit before interest and tax / interest expenses	1.34	-5.99	6.61
Analysis on development capability:				
Growth rate of sale	Growth in sale of this year / total sale of last year	N/A	6.20%	12.07%
Rate of capital accumulation	Growth in owners' equity of this year / owners' equity at beginning of year	N/A	3.13%	-0.03%
Growth rate of cost	Growth in cost of this year / total cost of last year	N/A	5.19%	12.07%
Ratio of selling expenses	Selling expenses / income from business	0.07%	0.06%	0.04%
Ratio of administrative expenses	Administrative expenses / income from business	2.49%	2.14%	2.23%

Note: Figures in the above table are extracted from the Audit Report (Xinkuaishibao [2012] No. 410259)（信會師報[2012]第410259號）issued by BDO China Shu Lun Pan CPAs LLP. While financial year of Po Lian commences on 1 April each year and ends on 31 March next year, data in the above table are adjusted and prepared in accordance with China's financial year (being 1 January to 31 December each year) and PRC accounting standards.

(2) Explanation of historic annual financial analysis of the company

The assessment subject is a transit trading company of pharmaceutical equipment and medicine with stable financial indicators. Its return on net assets maintained at the range of 6.5% to 6.9%. Driven by increase in trading of pharmaceutical equipment, its growth rate of sale reached 6.2% and 12.07% for last two years respectively.

V. Mapping of the company's gearing analysis to assets and liabilities included in profit projection

(1) Balance on the valuation date

As at the valuation date, the current assets of the company mainly consisted of cash, accounts receivable and other receivables. Its non-current assets consisted of fixed assets and investment properties. Its current liabilities represented accounts payable, taxes payable and other payables. Its non-current liabilities represented provision for long service payment. A bank term deposit of RMB11,363,588.97 included in cash was not involved in normal operation of the company and was regarded as surplus assets. Investment properties is classified as non-operating assets.

(2) Analysis on operating assets, non-operating assets and idle assets of the company

According to the analysis on assets and liabilities of the company as at the valuation date set out above, and the prerequisites for the application of income approach, the valuer conducted corresponding classification of certain assets of the company as at the valuation date, which is specified below:

	General division	Carrying value	General division	Carrying value
1	Category (1) assets and liabilities: assets and liabilities of principal business			
	Total assets	33,156,726.53	Total liabilities	14,977,067.59
	Total net assets	18,179,658.94		
2	Category (2) assets and liabilities: assets and liabilities irrelevant to principal business such as external investment			
	Total assets	0.00	Total liabilities	0.00
	Total net assets	0.00		
3	Category (3) assets and liabilities: non-operating assets and liabilities			
	Total assets	16,086,687.3	Total liabilities	0.00
	Total net assets	16,086,687.3		
	Total assets	49,243,413.83	Total liabilities	14,977,067.59
	Total net assets	34,266,346.24		

As category (2) and category (3) assets and liabilities:

1. Included a bank term deposit under cash of RMB11,363,588.97 which was not involved in operation of the company;

2. Included investment property with a carrying value of RMB4,723,098.33 (including its decoration, ancillary facilities, etc.) which was not involved in operation of the company; and

3. Included the above two assets which were not due to and was irrelevant to principal business of the company,

In view of the above features of category (2) and category (3) assets and liabilities, only category (1) assets and liabilities was included in profit projection, while category (2) and category (3) assets and liabilities are to be valued separately.

VI. Discounted earnings valuation model and determination of period and amount of earnings

(1) Adoption of discounted earnings valuation model

Enterprise business value (PV) by adoption of discounted earnings valuation is generally divided into three parts:

1. Discounted value of expected earnings for all periods before business of the company reaching a stable development (PV1);

2. Discounted value of expected earnings for all operating periods after business of the company reaching a stable development (PV2); and

3. Discounted value of liquidation value on termination of operation of business of the company.

Of which:

$$PV1 = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i}; \quad PV2 = \frac{R_n(1+g)}{(r-g)}\left[\frac{1}{(1+r)^n} - \frac{(1+g)^{m-n}}{(1+r)^m}\right]; \quad PV3 = \frac{R_E}{(1+r)^m}$$

$PV = PV1 + PV2 + PV3$

Parameters in the formula are:

PV Sum of discounted earnings from business of the company

i Time interval from the valuation date after the valuation date, in years

n Time interval between the point of time when business of the company is expected to reach a stable development and the valuation date

m Time interval between the point of time when business of the company is expected to terminate and the valuation date

t_0 Time interval between the point of time when business of the company is expected to begin making profit and the valuation date

t_n Time interval between the point of time when business of the company is expected to stop making profit and the valuation date

R_i Estimation of expected earnings as at i years from the valuation date

g Estimated annual growth rate of expected earnings after the company reaching a stable development

R_E Liquidation value of the company when its business stops making profit

r A discount rate appropriate for the expected earnings

Generally, when business of the company is assumed to be a perpetual operation, the discounted earnings model will be simplified as follows:

$$PV = PV1 + PV2 = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n(1+g)}{(r-g)(1+r)^n}$$

(2) Determination of earnings generating period

There is no provision in documents such as articles of association and joint venture contract of the company under valuation providing for the term of operation of such company, nor relevant laws of China restricting such term. In the opinion of the valuer, under normal circumstances, the company is an on-going concern, and therefore the valuer set the ending point for the existence of expected earnings for the company as $t_n = \infty$.

(3) Determination of expected earnings

Based on specific situation of the subject under valuation, expected earnings R_i is determined by adoption of equity free cash flow forecast, the formula of which is specified as follows:

Equity free cash flow = net profit + depreciation and amortization – capital expenditure – net increase of operating capital + net increase of interest bearing debt

After consideration of analysis on historic operating results of the company, the valuers are of the view that the company will enter into a status of stable development within 5 years (set n = 5). Therefore, we projected R_i for next 5 years by detailed projection of income, costs, expenses and other items for each year, and for R_i after 5 years, by simplified growth trend method based on projection of the long-term trend in changes of R_i and the projection of earnings for next 5 years.

In projecting net profit, the valuer gave no consideration of unforeseeable extraordinary income and expenditure, such as non-operating income and expenditure and subsidies, and investment gains, as external investment of the company are separately valued. The formula adopted by the valuer in projecting net profit is as below:

Expected net profit = operating income – operating cost – operating tax and surcharges – operating expenses – administrative expenses – finance cost – income tax

VII. Projection of expected earnings

(1) Projection of income from principal business

Leveraging on Hong Kong as a global trade, financial, commercial and telecommunication centre and relying on the strong capability of GPHL, its parent company, the company carries on import and export trade of medicine and pharmaceutical equipment and retained a stable operating income, which, though shrunk due to the global financial crisis in 2008, promptly rebounded with the global economic recovery in 2009 especially in China and attained a rapid growth even with and more than previous years.

Management of the company conducted analysis respectively on major indicators affecting income from principal business such as scale of principal business and on trend of historic changes of such indicators, considered the influence of various factors on changes of such indicators after the valuation date, analysed various incomes from principal business for 2009 to 2011 and taking into account the current turnover of 2012, to arrive at the forecasted income from principal business of the company for 2012 to 2016 to be RMB123.79 million, RMB141.86 million, RMB158.83 million, RMB172.62 million and RMB172.62 million respectively.

(2) Projection on cost of principal business

Cost of principal business of the company represents acquisition cost of medicine and pharmaceutical equipment. Costs of principal business of the company for the 2 years before the valuation date and that for the year in which the valuation date falls ranged between 95%~97% of income from principal business. Considering purchase of goods which affects cost of principal business of the company, it is expected to maintain at around 96% ~ 97% for 2012~2016.

Taking into account historic operating data of the company, cost of principal business for 2012~2016 is expected to be RMB117.96 million, RMB135.10 million, RMB151.24 million, RMB164.39 million and RMB164.39 million respectively.

(3) Projection on selling expenses

Selling expenses of the company represents declaration charges, shipping fee of documents, insurance premium and transportation costs. Selling expenses of the company for the 2 years before the valuation date and that for the year in which the valuation date falls ranged between RMB50,000 to RMB70,000. Based on analysis on selling expenses incurred in previous years and that incurred as at present, the selling expenses for 2012~2016 are expected as follows:

Unit: RMB'0000

Item	2012	2013	2014	2015	2016
Selling expenses	5.20	5.46	5.73	5.84	5.84

(4) Projection on administrative expenses

Administrative expenses of the company represents salary and benefit, utilities, business entertainment, telecommunication, pension, depreciation and amortization, consultation fee and others. Administrative expenses of the company for the 2 years before the valuation date and that for the year in which the valuation date falls ranged between approximately RMB2.3 million to RMB2.7 million. Based on administrative expenses incurred in previous years and that incurred as at present, administrative expenses for 2012~2016 are expected as follows:

Unit: RMB'0000

Item	**2012**	**2013**	**2014**	**2015**	**2016**
Administrative expenses	253.52	266.19	271.52	276.95	276.95

(5) Projection on finance cost

Finance cost of the company mainly represents bank handling fee and exchange gain and loss, which was large due to appreciation of Renminbi. Finance cost for 2009 amounted to HK$460,000, which was subsequently audited and adjusted on exchange rate as at end of the period by an exchange gain and loss adjustment of HK$60,000. Finance cost for 2010 amounted to HK$180,000, which was subsequently audited and adjusted by an exchange gain and loss adjustment of -HK$637,800. Finance cost for 2011 amounted to HK$310,000, which was subsequently audited and adjusted by an exchange gain and loss adjustment of HK$118,700.

Projection on future finance cost of the company is as follows:

Unit: RMB'0000

Item	**2012**	**2013**	**2014**	**2015**	**2016**
Finance cost	14.22	15.18	16.70	18.37	18.37

(6) Projection on income tax

The company implements Hong Kong accounting principles and pays its enterprise income tax at the Hong Kong profit tax rate of 16.5%. Income tax payable in the future is expected to be as follows:

Unit: RMB'0000

Number	Item	2012	2013	2014	2015	2016
PR	Taxable Income for current year	309.88	389.30	465.41	521.66	521.66
TR	Income tax rate	16.50%	16.50%	16.50%	16.50%	16.50%
T	Income tax	51.13	64.24	76.79	86.07	86.07

(7) Projection on capital expenditure such as acquisition and construction of fixed assets and intangible assets and depreciation and amortization

Based on each long-term asset existing as at the valuation date and those expected to be acquired and built, according to policy of depreciation, assets are divided into property, vehicle and electronic equipment. Total depreciation and amortization for the year of such long-term assets is estimated by the original cost and annual depreciation rate (amortization rate) of those functioning in the year.

Taking into account the current state, operation condition and renewal plan of fixed assets as at the valuation date, fixed assets of the company is currently able to satisfy demand of merchandise transit trade, and depreciation charges provided by the company for its long-term assets up to present is able to satisfy renewal needs. With renewal expenses of assets being consistent with annual depreciation rate thereof, production may remain stable.

(8) Projection on net increase in liquidity

By projecting the assets, liabilities and equity as at the end of each year projected, and then applying by the formulae "liquidity (working capital) = current assets – current liabilities", liquidity (working capital) as at the end of each year may be calculated, the increment of which over last year represents liquidity (working capital) required to be supplemented in the year.

1. Reasons for additional working capital

Generally, with expansion of scope or scale of business, normal business credit provided by a company to its customers will rise correspondingly. To meet the expanded sales, its inventory will occupy more capital. Also, cash balance required to satisfy its normal operating expenditure increases. All of the above produce greater demand for liquidity. However, the company receives normal business credit from suppliers, which reduces immediate payment and thus saves certain liquidity.

2. *Process and result of estimation and calculation of additional working capital*

Requirement of additional working capital depends on the effect of factors including accounts receivable, prepayments, inventory and operating cash of current assets, and accounts payable of current liabilities and others. Items under other receivables and other payables are non-operating income and expenditure. Salary of staff payable remains stable for each month with little changes. Other items such as tax payable are generally provided for at end of the month they occur and payable early next month with short turnaround period. Occurrence and amount of other items are less relevant to scale of operating activities and were supposed to remain the same in projection.

By projection on operation, purchase and sales policies of the company in the future and analysis on financial indicators of the industry and the company, working capital requirement for 2012~2016 are expected to be RMB1.7408 million, RMB0.6404 million, RMB2.0250 million, RMB1.6452 million and nil respectively.

(9) Projection on net increase in interest bearing debt

The company principally engaged in merchandise transit trade and is not involved in production. Its customers are mainly connected companies within the same group. Relying on strong capability of its parent company and its unique manner of operation, it has little advances and current capital is able to meet operation needs.

(10) Long-term projection on changes of expected earnings

Overall operation of the company will remain stable. By 2016, operation of the company will have reached a steady stage. Therefore, it is assumed in the projection that its revenue after 2016 will maintain on the level of that for 2016 and the return of equity under valuation will also maintain on the level of that for 2016, which means setting $g = 0$.

(11) Projection on cash flow of the company in the future

As unlimited term of year was adopted for this valuation, after the period for which projection was conducted year by year, that is for the time after 2016, uncertainty for the projection rises. On prudent basis, calculating data for the years after 2016 will be set as the same as those of 2016, as when the scale of the company remains the same, no additional working capital would be required and thus no additional working capital will be invested after 2016.

According to the above procedures, the future cash flow forecast of Po Lian is as follows:

Unit: RMB'0000

Item	2012	2013	2014	2015	2016	Remark
Projected income from principal business	12,379.00	14,186.00	15,883.00	17,262.00	17,262.00	
Less: cost of principal business	11,796.19	13,509.87	15,123.65	16,439.18	16,439.18	
Less: tax and surcharges of principal business	–	–	–	–	–	
Less: selling expenses	5.20	5.46	5.73	5.84	5.84	
Less: administrative expenses	253.52	266.19	271.52	276.95	276.95	
Less: finance cost	14.22	15.18	16.70	18.37	18.37	
Operating profit	309.88	389.30	465.41	521.66	521.66	
Total profit	309.88	389.30	465.41	521.66	521.66	
Income tax	51.13	64.24	76.79	86.07	86.07	
Net profit	258.75	325.07	388.62	435.59	435.59	
Add: depreciation and amortization	66.49	66.49	66.49	66.49	66.49	
Add: new interest bearing borrowings	0	0	0	0	0	
Less: repayment of interest bearing borrowings	0	0	0	0	0	
Less: capital expenditure	66.49	66.49	66.49	66.49	66.49	
Less: injection of additional working capital	174.08	64.04	202.50	164.52	–	
Free cash flow	84.67	261.03	186.12	271.07	435.59	

VIII. Selection of discount rate

The discount rate is estimated by the formula below:

The discount rate applicable to the expected earnings r_e = risk-free rate r_f + risked rate r_r

(1) The determination of risk-free rate r_f

The valuer selected the bond-return rate similar to the maturity of return of the equity being valued as the risk-free rate, taking into consideration the recent "yield curve of fixed-rate government bond" issued by "chinabond.com.cn" (www.chinabond.com.cn) as at the valuation date.

(2) The determination of the risked rate r_r

We determine the risked rate with reference to risk factors such as the borrowing rate of Renminbi announced by the People's Bank of China and the corporate return rate in the sector, taking into account the operating risk and financial risk of the enterprise being valued, the impact of the relevant contracts on the steadiness of the earnings of the equity being valued, and the distribution priority of the earnings in the income of the enterprise being valued.

The adoption of capital asset pricing model (CAPM) to estimate risked rate

The CAPM's formula for the estimation of the risked rate of the equity is as follows:

$$r_r = \beta \times (r_m - r_f) + \alpha$$

The parameters in the formula are:

r_r	Risked rate
r_f	Risk-free rate
β	Beta coefficient
$r_m - r_f$	Average market risked rate
α	Adjustment to specific risk of equity

① Average market risked rate

Average market risked rate (market risk premium) reflects the risk compensation for an investor who invests in the capital market with relatively higher risk rather than in bond market with relatively lower risk (or risk-free). The basic calculation method is to obtain the difference between the average return level in the market and the risk-free rate within a period of time. In the valuation, we took the Composite market risk premium level of various countries established by American financial expert Aswath Damodaran as reference.

② Beta coefficient

Beta is an indicator in measuring the systematic risk of the corporate and is usually replaced by the beta of stock of a company announced by commercial data services agencies. The data announced by Wind Info is used in the valuation. The beta observed by us reflects the impact of the capital structure of the enterprise (financial leverage). In order to reflect the risk level in the sector of the enterprise in a more accurate way, we need to make adjustment to the observed beta of the stock of the company to determine the risk level of the enterprise without financial leverage. The specific adjusting method is as follows:

$$\beta_u = \beta_e \times \frac{1}{1+(1-t)\times\frac{D}{E}}, \quad \beta_e = \beta_u \times \left[1+(1-t)\times\frac{D}{E}\right]$$

The parameters in the formula are:

β_u β without financial leverage

β_e β with financial leverage

D Market value of debt

E Market value of equity

T Enterprise Income Tax rate

③ The arriving at of α, the specific corporate risk

α adjustment was determined by the comprehensive analysis of the specific risk factors of the enterprises like the status of the subject enterprise in its industry, the scale of the company, technical risk, management analysis, market risk and financial risk.

(3) The determination of the discount rate for the capital cost of the equity r_e

The discount rate of equity 11% is obtained by putting the selected risk-free rate and risked rate into the calculation formula of discount rate of equity. Taking into consideration the various risk factors affecting the realization of the return, 11% is finally selected as the discount rate applicable to the expected return, i.e. r_e = 11%.

IX. The calculation of the sum of the discounted earnings

According to the above estimation and analysis of the prediction of expected earnings and the discount rate, the valuer put in various predicted data and estimated data into the income approach model of this valuation project and the following result was calculated:

$$PV1 = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} = \text{RMB8.6129 million;}$$

$$PV2 = \frac{R_n(1+g)}{(r-g)} \left[\frac{1}{(1+r)^n} - \frac{(1+g)^{m-n}}{(1+r)^m} \right] = \text{RMB23.5001 million;}$$

$$PV3 = \frac{R_E}{(1+r)^m} = 0;$$

The sum of the discounted earnings, PV = PV1+PV2+PV3 = RMB32.1130 million.

X. The valuation value of other assets and liability

As the valuation scope of income approach only includes the assets and liabilities of enterprise (Category 1), the valuation of the assets and liabilities of enterprise (Category 3) is conducted separately. The valuation result of the corresponding items according to the asset-based approach are:

The book value of bank time deposits under cash is RMB11.3636 million and the valuation is RMB11.3636 million.

The book value of the investment properties is RMB4.7231 million, the valuation by adopting market comparison approach is RMB16.8148 million.

The valuation of the assets and liabilities of enterprise (Category 3), V3 = RMB28.1784 million.

XI. The valuation result

The final valuation value in total = PV + V2 + V3 = RMB32.1130 + 0 + RMB28.1784 = RMB60.2914 million

The detailed forecast and the valuation result are follows:

The table for the estimation of enterprise value
Valuation date: 31 December 2011

The owner of the assets: Po Lian Development Co. Ltd.

Sequence No.	*Unit: '0000*						Remark
I	**the assets and liabilities of enterprise (Category 1)**						
1	**Item**	**2012**	**2013**	**2014**	**2015**	**2016**	
2	The Projected income from principal business	12,379.00	14,186.00	15,883.00	17,262.00	17,262.00	
3	Less: cost of principal business	11,796.19	13,509.87	15,123.65	16,439.18	16,439.18	
4	Less: tax and surcharges of principal business	–	–	–	–	–	
5	Less: selling cost	5.20	5.46	5.73	5.84	5.84	
6	Less: administrative expenses	253.52	266.19	271.52	276.95	276.95	
7	Less: finance cost	14.22	15.18	16.70	18.37	18.37	
8	Operating profit	309.88	389.30	465.41	521.66	521.66	8 = 2 (3 + 4 + 5 + 6 + 7)
9	Total profit	309.88	389.30	465.41	521.66	521.66	9 = 8
10	Income Tax	51.13	64.24	76.79	86.07	86.07	10 = 8*16.5%
11	Net profit	258.75	325.07	388.62	435.59	435.59	11 = 9 – 10
12	Add: depreciation and amortization	66.49	66.49	66.49	66.49	66.49	
13	Add: new interest-bearing borrowings	0	0	0	0	0	
14	Less: repayment of interest-bearing borrowings	0	0	0	0	0	
15	Less: capital expenditure	66.49	66.49	66.49	66.49	66.49	
16	Less: injection of additional working capital	174.08	64.04	202.50	164.52	–	
17	Free cash flow	84.67	261.03	186.12	271.07	435.59	17 = 11 + 12 + 13 – 14 – 15 – 16
18	Discount Coefficient (Discount rate 11%)	0.9009	0.8116	0.7312	0.6587	0.5935	
19	The present value of free cash flow	76.28	211.86	136.09	178.56	258.50	19 = 17*18
20	The estimated annual discounted value for 2012-2016					861.29	
21	The perpetual discounted value after 2016					2,350.01	

Sequence No.		Unit: '0000	Remark
22	The valuation of the assets and liabilities of enterprise (Category 1)	3,211.30	22 = 20 + 21
II	**The valuation of the assets and liabilities of enterprise (Category 2)**	0.00	
III	**The valuation of the assets and liabilities of enterprise (Category 3)**	2,817.84	Including the valuation value of bank time deposit and investing properties
IV	**The total valuation result**	6,029.14	IV = 22 + II + III

(3) Conclusion and analysis of the valuation of the 100% equity interest of Po Lian

1. Conclusion of the valuation of the 100% equity interest of Po Lian

Subject to the valuation objectives, valuation assumptions and limitations, the following conclusion of valuation is made according to the above valuation work done:

The carrying value of the 100% equity interest of Po Lian is RMB34.2663 million, with appraised value by the asset-based approach of RMB57.3397 million and appraised value by the income approach of RMB60.2914 million respectively.

The difference between the valuation results from the two valuation methods is primarily due to the different techniques used. The income approach takes the future profitability of the company into account while the asset-based approach puts into consideration the sources of re-acquisition of assets. Po Lian is principally engaged in import/export business and have connected transactions primarily with subsidiaries of Guangzhou Pharmaceutical Company Limited (an affiliate of GPHL). There are no obvious independent operations. Together with the economic activities for the purpose of this valuation, taking into consideration the prudence in performing valuation, we are of the view that the valuation result of the asset-based approach can better reflect fairly the value of the 100% equity interest of Po Lian. Therefore, the valuation by the asset-based approach is finally selected to give the final valuation result of the 100% equity interest of Po Lian, the appraised value of the 100% equity interest of Po Lian is RMB57.3397 million, details of which are set out as follows:

The carrying value of the total assets within the scope of valuation amounts to RMB49.2434 million with appraised value of RMB72.3168 million, representing an increase in value of 47%.

The carrying value of the total liabilities within the scope of valuation amounts to RMB14.9771 million with appraised value of RMB14.9771 million, representing no change in value.

The carrying value of the net assets within the scope of valuation amounts to RMB34.2663 million with appraised value of RMB57.3397 million, representing an increase in value of 67%.

2. Changes in appraised value compared with the carrying value of the 100% equity interest of Po Lian and the reasons

(1) Changes in appraised value compared with the carrying value of the 100% equity interest of Po Lian and the reasons

From the foregoing, the carrying value of the net assets within the scope of valuation amounts to RMB34.2663 million with appraised value of RMB57.3397 million, representing an increase in value of 67%.

From the analysis, the increase in value is mainly due to the increase in appraised value of the investment properties and fixed assets. The investment properties and fixed assets held by Po Lian are acquired in earlier years, and thus the original acquisition cost is relatively low when compared with the prevailing price level of real estate market in Hong Kong. Besides, the carrying value of the investment properties was recorded at the original cost by using the cost method and deducted with the depreciation. As the appraised value of the properties is calculated based on the current real estate market conditions, it can better reflect the actual market value of the properties as at the valuation date. This is the reason of the increase in value of the investment properties and fixed assets, which in turn leads to an increase in the valuation result.

(2) Changes in the appraised value of the 100% equity interest of Po Lian compared with the carrying value of the long-term equity investments of GPHL and the reasons

The appraised value of the 100% equity interest of Po Lian is RMB57.3397 million and the carrying value of the long-term equity investments of GPHL is RMB3.9815 million, representing an increase of 1,340.15%.

From the analysis, the carrying value of the long-term equity investments in the 100% equity of Po Lian held by GPHL is recorded using the cost method as historical cost. On the other hand, the appraised value is the current value of the long-term equity investments in Po Lian by GPHL. This includes the difference between the carrying value of equity attributable to owners (RMB34.2663 million) and the carrying value of the investment made by GPHL (RMB3.9815 million).

The following is the text of a valuation report together with its explanation prepared for the purpose of inclusion in this circular received from China Valuer International Co., Ltd, an independent valuer in the PRC, in connection with its valuation as at 31 December 2011 of Baxter.

This report together with its explanation is prepared in Chinese and translated into English. In case there is any inconsistency, the Chinese version shall prevail.

(A) VALUATION REPORT OF BAXTER

Asset valuation on the equity assets in
Baxter Healthcare (Guangzhou) Company Ltd. held by
Guangzhou Pharmaceutical Holdings Limited
intended to be acquired through private placement of additional shares by
Guangzhou Pharmaceutical Company Limited

Asset Valuation Report

Zhong Tian Heng Ping Ping Zi [2012] No. 028

China Valuer International Co., Ltd.

CONTENT

DECLARATION OF THE REGISTERED ASSET VALUER

1. When executing the asset valuation, we comply with relevant laws and regulations and asset valuation standards and adhere to the principle of independence, objectivity and fairness. According to the information we collected during the execution process, the content stated in the valuation report is objective, we have the corresponding liability on the rationality of the conclusion of the valuation.

2. The list of objects and scope for valuation involved in this report were declared with the signature confirmation by the entrusting party and the parties valuated (or the parties holding the proprietary right). The essential information required for the valuation and its truthfulness, legality and completeness were provided and ensured by them.

3. We have no existing or anticipated interest with the valuation objects in the valuation report. We have no existing or anticipated interest with the relevant parties, there is no prejudice on the relevant parties.

4. We have conducted on-site investigation on the valuation objects and the assets involved in the valuation report. We have paid necessary attention to the status of legal ownership of the valuation objects and its assets involved and inspected on the information of the legal ownership of the valuation objects and its assets involved. We have also truthfully disclosed the issue discovered and presented to the entrusting party and relevant parties for ameliorating proprietary right in order to fulfill the requirement in issuing the valuation report. However, the statement to the legal ownership in the valuation report did not represent the provision of assurance or forensic opinion by the valuer.

5. The analysis, judgment and conclusion in the valuation report issued by us are subject to the assumption and restriction of the valuation report. The users of the valuation report shall fully consider the assumption, restriction, special matter and its impact on the conclusion of valuation as set out in the valuation report.

6. The users of the valuation report should comprehend the use of the valuation report correctly and that the registered valuer and valuation institution shall not be liable to the consequences resulting from the misuse of the valuation report by the entrusting party and other users of the valuation report.

7. Except for the requirement of laws and regulations and otherwise agreed upon by the relevant parties, the whole or part of the content in the valuation report shall not be extracted, copied, quoted or disclosed in the public media.

EXTRACT OF THE ASSET VALUATION REPORT

The content below was extracted from the main body of the asset valuation report. For the understanding of the overall condition of this valuation project and reasonable comprehension of the conclusion of valuation, you should read the full text of the asset valuation report.

China Valuer International Co., Ltd. was entrusted by the Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation on the market value as at 31 December 2011, the valuation date of the assets of GPHL intended to be acquired through private placement of additional shares of Guangzhou Pharmaceutical Company Limited ("GPC"), in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the asset-based approach and the income approach. The valuation target is the 12.5% equity in Baxter Healthcare (Guangzhou) Company., Ltd. held by GPHL.

Market value refers to the estimation amount of the value of the valuation object in a normal and fair transaction on the valuation date under the condition that the voluntary buyer and the voluntary seller acted rationally without any enforcement.

China Valuer International Co., Ltd. performed appropriate valuation procedure and the valuation conclusion is as follows:

1. The result of the valuation on the market value of 12.5% equity in Baxter Healthcare (Guangzhou) Company Ltd. held by GPHL on 31 December 2011, the valuation date, by adopting the asset-based approach (cost approach) was RMB82.3388 million;

2. The result of the valuation on the market value of 12.5% equity in Baxter Healthcare (Guangzhou) Company Ltd. held by GPHL on 31 December 2011, the valuation date, by adopting the income approach was RMB87.0884 million;

3. After analysis, the valuation result by the asset-based approach (cost approach) is finally selected to be the final valuation result:

   The result of the valuation on the market value of 12.5% equity in Baxter Healthcare (Guangzhou) Company Ltd. held by GPHL on 31 December 2011, the valuation date, was RMB82.3388 million.

According to provision of Article 11 of "Asset Valuation Standard – Valuation Report" and Article 21 of "Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises" (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12), the validity period for the use of valuation report is usually one year since the valuation date (31 December 2011 to 30 December 2012).

ASSET VALUATION REPORT (MAIN BODY)

To: Guangzhou Pharmaceutical Holdings Limited

China Valuer International Co., Ltd. was entrusted by the Guangzhou Pharmaceutical Holdings Limited ("GPHL") to conduct valuation with necessary valuation procedures on the market value as at 31 December 2011, the valuation date of the 12.5% equity in Baxter Healthcare (Guangzhou) Company Ltd. held by GPHL and to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited ("GPC") in accordance with relevant laws and regulations as well as the standards and principles of asset valuation and by valuation methods such as the asset-based approach and the income approach, and reports the asset valuation as follows:

I. ENTRUSTING PARTY, PROPRIETOR AND OTHER USERS OF THE VALUATION REPORT

Guangzhou Pharmaceutical Holdings Limited is the entrusting party while Baxter Healthcare (Guangzhou) Company Ltd. is the subject under valuation, the users of this valuation report are the entrusting party and other users of the valuation report as required by the laws and regulations of the state.

The overview of each of the parties is as follows:

(1) Entrusting Party: Guangzhou Pharmaceutical Holdings Limited

Guangzhou Pharmaceutical Holdings Limited ("GPHL") was established on 7 August 1996, the address is 45 Sha Mian North Street, Liwan District, Guangzhou. The legal representative is Yang Rongming. The registered capital is Renminbi One Billion Two Hundred Fifty Two Million Eight Hundred Ten Thousand Nine Hundred Eighty Four Yuan. The nature of enterprise is company with limited liability (wholly state-owned) and its main scope of business is the operation and investment of state-owned assets; manufacture and sales of pharmaceutical intermediates, Chinese and western medicine, Chinese herb, biotechnical products, medical devices, pharmaceutical machinery, pharmaceutical packaging materials, healthcare food and beverages products, hygiene materials and products wholly related to pharmaceutical within the scope authorized by the People's Government of Guangzhou Municipality, import and export of products related to pharmaceutical products, real estate development and lease of the self-owned properties.

GPHL is a large scale state-owned enterprise group authorized by Guangzhou municipal government with the integration of science, industry and trade. It is mainly engaged in the research and development as well as the manufacturing and operation businesses in fields such as Chinese medicine, herbal medicine, chemical raw materials, formulation and biological and pharmaceutical preparations. GPHL owns Guangzhou Pharmaceutical Company Limited ("GPC"), with its H shares listed in Hong Kong and A shares listed in Shanghai) and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan"), with its A shares listed in Shenzhen), the two listed companies and six enterprises wholly controlled by them, which is the largest production base of Chinese medicine in China, the largest logistics centre of modern medicine in southern China region and one of the largest production enterprises for anti-infective preparations in the whole country.

(2) Subject under valuation: Baxter Healthcare (Guangzhou) Company Ltd.

The address of Baxter Healthcare (Guangzhou) Company Ltd. ("Baxter") is Jiaoyuan Road, Dongji Industrial Zone, Guangzhou Economic and Technological Development Zone. Its registered capital is USD 11.00 million and the legal representative is San jay Prabhakaran. The principle scope of business is manufacture of high volume injection, solution (for external use) (pharmaceutical licensed); manufacture of category II 6845 extracorporeal circulation and blood processing equipment, category II 6866 medical macromolecule materials and products, category III 6866 medical macromolecule materials and products (medical apparatus licensed); manufacture of minicap with Povidone-Iodine;and sales of products of the Company. For details, please refer to " II. Company under valuation".

II. COMPANY UNDER VALUATION

1. General information

Name of the enterprise and its abbreviation:	BAXTER HEALTHCARE (GUANG ZHOU) COMPANY, LTD.
Address:	Jiaoyuan Road, Dongji Industrial Zone, Guangzhou Economic and Technological Development Zone
Nature of company:	limited liability company (Sino-foreign equity joint venture)
Legal representative:	San jay Prabhakaran
Registered capital:	USD 11,000,000
Principal scope of business:	manufacture of high volume injection, solution (for external use) (pharmaceutical licensed); manufacture of category II 6845 extracorporeal circulation and blood processing equipment, category II 6866 medical macromolecule materials and products, category III 6866 medical macromolecule materials and products (medical apparatus licensed); manufacture of minicap with Povidone-Iodine;and sales of products of the Company.
Date of establishment:	Established on 13 August 1993; until 13 August 2043
Relationship with the entrusting party:	an investee company in which the entrusting party, GPHL holds 12.5% of its equity interest

2. Development history

Baxter was established as a limited liability company (Sino-foreign equity joint venture) on 13 August 1993 with a registered capital of USD10,000,000. It was jointly established by Baxter Global Trade Company（美國百特世界貿易公司）, Guangzhou Pharmaceutical Development Company（廣州醫藥建設開發公司）and Guangzhou Economic and Technological Development Zone Industrial Development Corporation（廣州經濟技術開發區工業發展總公司）in proportion of capital contribution of 75%, 12.5% and 12.5% respectively.

In 1999, Guangzhou Pharmaceutical Development Company transferred its entire equity interest amounting to USD1,250,000 in Baxter to GPHL at equivalent price; Baxter Global Trade Company transferred its entire equity interest amounting to USD7,500,000 in Baxter to its related company, Baxter (China) Investment Company Limited.

In 2000, the registered capital of Baxter has been changed to USD11 million. On 20 May 2002, Guangzhou Economic and Technological Development Zone Industrial Development Corporation（廣州經濟技術開發區工業發展總公司）and Baxter (China) Investment Company Limited entered into a shareholding transfer agreement, pursuant to which Guangzhou Economic and Technological Development Zone Industrial Development Corporation（廣州經濟技術開發區工業發展總公司）transferred its 12.5% equity interest in Baxter to Baxter (China) Investment Company Limited, and the parties to the joint venture, Baxter, had been changed to GPHL and Baxter (China) Investment Company Limited, after that, GPHL held its 12.5% equity interest, being USD1,375,000; Baxter (China) Investment Limited held its 87.5% equity interest, being USD9,625,000.

As of the valuation date, the paid-up capital of Baxter was USD11,000,000. GPHL held its 12.5% equity interest, and Baxter (China) Investment Company Limited held its 87.5% equity interest.

The de facto controller of Baxter (China) Investment Company Limited is Baxter Trade Company（美國百特世界貿易公司）, an American public company listed on the New York Stock Exchange. GPHL is not connected with Baxter (China) Investment Company Limited.

3. Financial condition

Assets and liabilities	**2009-12-31** *(RMB'0000)*	**2010-12-31** *(RMB'0000)*	**2011-12-31** *(RMB'0000)*
Total assets	51,093.27	70,493.84	88,301.63
Total liabilities	10,283.07	17,571.98	22,430.60
Owners' equity	40,810.20	52,921.85	65,871.03

Profit and loss	2009	2010	January to December 2011
	(RMB'0000)	*(RMB'0000)*	*(RMB'0000)*
Revenue from principal operations	68,013.55	81,904.50	97,499.37
Profit from principal operations	33,840.29	41,687.97	47,686.92
Operating profit	18,698.59	21,808.35	22,389.26
Total profit	18,988.15	22,202.24	22,881.52
Net Profit	15,177.30	17,111.65	17,299.84
Audit opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion

For the three years ended the valuation date, the cash dividends distributed by Baxter was RMB50.0 million, 50.0 million and 50.0 million; GPHL shared in proportion to its equity interest and recognized investment income of RMB6.25 million, RMB6.25 million and RMB6.25 million for the three years ended the valuation date.

4. Major accounting policies adopted by the enterprise

Baxter implements both the relevant requirements of the China Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises.

III. OBJECTIVE OF VALUATION

Pursuant to the "resolutions passed at the 13th meeting of the fifth session of the Board of Guangzhou Pharmaceutical Company Limited" and the "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited", GPC intended to acquire 12.5% equity in Baxter Healthcare (Guangzhou) Company, Ltd. held by GPHL through private placement of additional shares. This asset valuation report forms a pricing basis for the relevant parties reference.

IV. SUBJECT AND SCOPE OF VALUATION

According to the commission of the entrusting party, the subject for this valuation is the 12.5% equity in Baxter held by GPHL. The scope of appraisal of 12.5% equity in Baxter covers the assets and liabilities as shown in the audited balance sheet of Baxter as at the valuation date 31 December 2011.

The Auditing report of Baxter Healthcare (Guangzhou) Company, Ltd. for the year ended 31 December 2011 was issued by PricewaterhouseCoopers Zhong Tian CPAs Limited Company Guangzhou branch. An unqualified opinion was issued.

The assets and liabilities as shown in the audited balance sheet of Baxter as at the valuation date are as follows:

Items	**Book value** *(RMB'0000)*	**Note**
Current assets	39,267.87	Mainly including: cash of RMB26.8976 million, entrusted loans of RMB66.5747 million, notes receivable of RMB14.5970 million, accounts receivable of RMB191.2807 million, other receivables of RMB0.6443 million and inventories of RMB90.5731 million
Non-current assets	49,115.55	
Including: Fixed assets	48,591.74	
Intangible assets	523.81	
Total assets	88,301.63	
Current liabilities	22,496.67	
Total liabilities	22,496.67	
Net assets	65,871.03	

The subject being commissioned for appraisal and scope of the appraisal are the same as the subject and scope of the appraisal involved in the economic behavior and have been audited.

V. TYPE OF VALUE AND DEFINITION

The type of the value for the valuation engagement is market value.

Market value means the estimated amount of appraisal target on the valuation date in an arm's length transaction between a voluntary buyer and a voluntary seller, each acting rationally free from duress.

VI. VALUATION DATE

According to the principle of selection that the valuation date should be as close as possible to the implementation date of the valuation of the target economic behavior, and taking into account of the time arrangement for the whole plan regarding the valuation of the target economic behavior and time needed for the preparation of data and information for the assets appraisal, the benchmark date of this asset valuation was determined by the entrusting party as 31 December 2011.

VII. BASIS OF VALUATION

(I) Behaviour basis

1. "resolutions passed at the 13th meeting of the fifth session of the Board of Guangzhou Pharmaceutical Company Limited";

2. "Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Company Limited through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions by Guangzhou Pharmaceutical Company Limited";

3. Assets Valuation Engagement Agreement.

(II) Relevant laws, regulations, codes and standards relating to assets appraisal

1. Property Law of People's Republic of China;

2. Company Law of the People's Republic of China;

3. Administrative Measures for the Valuation of State-owned Assets (Order No. 91 of the State Council, 1991);

4. Several Issues Concerning the Administration of the Valuation of State-owned Assets (Order No. 14 issued by the Ministry of Finance);

5. Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council);

6. Asset Valuation Standards – Basic Standards (Ministry of Finance Cai Qi [2004]No. 20);

7. Asset Valuation Standards – Valuation Report, Asset Valuation Standards – Valuation Procedures, Guidance Opinion on the Type of Valuation in Asset Valuation (China Appraisal Society, Zhong Ping Xie [2007] No. 189);

8. Guide on Valuation Report of Enterprise State-owned Assets (China Appraisal Society, Zhong Ping Xie [2008] No. 218);

9. the Administrative Rules on Major Asset Reorganization of Listed Companies (No. 53 Directive of China Securities Regulatory Commission ("CSRC"))

10. the Provisions on Certain Issues concerning the Regulation of Major Assets Reorganizations by Listed Companies (CSRC Announcement [2008] No.14);

11. Administrative Measures on Acquisitions of Listed Companies ((No. 77 Directive of China Securities Regulatory Commission(“CSRC”))

12. Guiding Opinions for Certified Public Valuer on Legal Ownership of Subject under Appraisal) (Chinese Institute of Certified Public Accountants, Hui Xie [2003] No. 18)

13. Guidance Opinion on the Appraisal of Company Valuation (Pilot) (China Appraisal Society, Zhong Ping Xie [2004] No. 134)

14. System of Accounting Standards for Business Enterprises issued by the Ministry of Finance;

(III) Information provided by the entrusting party or the third party

1. “Statement of appraised enterprise for valuation issues”（「關於資產評估有關事項的說明」）by GPHL;

2. “The 2011 financial statement and auditing report of Baxter Healthcare (Guangzhou) Company, Ltd.” (PricewaterhouseCoopers Su Zhen Zi (2012) No. 066) issued by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou branch);

3. Business licenses for the enterprise involved in the appraisal target;

4. Audit reports of the past years of Baxter involved in the appraisal target;

5. Other operation information of enterprise involved in the appraisal target as at the valuation date;

(IV) Other relevant information

1. National macro-economy, industry, regional market and corporate statistics;

2. Corporate Performance Appraisal Benchmark Value (Appraisal Bureau of SASAC and Economics and Science Press);

3. Statistics issued by National Bureau of Statistics of China;

4. Public information of relevant listed companies;

5. CCER (China Center for Economic Research) Chinese securities market database and Wind Information database;

6. Bond trading information issued on www.chinabond.com.cn

7. Financial institutions’ deposit and loan interest rates quoted by the People’s Bank of China;

8. Other relevant information collected by valuers.

VIII. METHODS OF APPRAISAL

(I) Basic methods of assets appraisal

In accordance with China's appraisal standards, regulations and international practices, basic methods of assets appraisal include market approach, income approach and cost method. It is necessary to properly select one or more basic methods by analyzing the availability of the three basic methods based on relevant conditions including appraisal target, value type and information collection when performing the valuation.

1. Market approach

Market approach represents the appraisal method of estimating the asset value through direct comparison or analogical analysis of recent transaction prices of the same or similar assets. Basic prerequisites for adopting the market approach: ① an active open market is available; ② comparable assets and their trading activities are available in the open market.

Market approach in enterprise value appraisal represents the appraisal method of comparing the appraisee and the comparable enterprises, i.e. equity assets including comparable enterprises, equities and securities already traded in the market to determine its value after adjustment and correction based on the trading price of the reference enterprises.

2. Income approach

Income approach represents the appraisal method of judging the asset value through the present value of future expected earnings of the appraised asset. Basic prerequisites for adopting the income approach: ① future expected earnings of the appraised asset can be forecasted and measured by currency; ② risks assumed by the asset owner to obtain expected earnings can be forecasted and measured by currency; ③ number of years to generate expected earnings of the appraised asset can be forecasted.

In corporate value appraisal, income approach primarily applies to enterprises which can reasonably and reliably estimate the future expected profitability and, generally, enterprises which have entered the stable operation stage, have relatively steady results and can operate continuously and stably in the future. In accordance with Article 25 of Guidance on Appraisal of Enterprise Value: "The Certified Public Valuer shall adequately consider the availability of income approach based on the establishment date, track records, especially, operation and income stability of enterprises, and the predictability of future earnings."

3. Cost method

Cost method is an appraised method that firstly use the existing reacquisition cost (replacement cost) of the assets being valued, and then estimates various depreciation factors prevailing in those assets and deduct them from the replacement cost to derive the value of such assets. Basic prerequisites for adopting the cost method are: ①the assets being valued are under use on an ongoing basis or set as under use on an ongoing basis; ② the existing source to acquire and construct such assets and the information on corresponding average social cost can be accessed through investigation.

Cost method for valuation of an entity is also named assets basis method or build-up method, a collective term for various specific valuation techniques determining the valuation of the entity on the basis of reasonable valuation on an entity's assets and liabilities. Assets basis method relies on the investment amounts required to rebuild an entity same as the subject or independent profit-recording entity on the valuation date to judge the value of the overall assets, and reflect the value of the entity from the perspective of its acquisition and construction.

(II) Selection of Appraisal Method

GPHL held 12.5% equity interest in Baxter while another shareholder held 87.5% which is an absolute controlling stake. Thus, the equity of the appraisal target is a non-controlling long-term investment. The marketing, production technology and other operational management of the company under valuation is under the absolute control of the controlling party, GPHL received the returns of investment by dividends. Since GPHL cannot control the company invested, except for the audit report, it has no access to the details of other financial information such as assets and liabilities of the company invested. Hence, based on the advice on the valuation of long term investment by the Pilot Guidelines for Valuation of Company, the amount of net assets as shown in the audited balance sheet of Baxter as at the valuation date 31 December 2011 multiply by the proportion of the shareholding of GPHL and calculate the value of such long term equity investment by asset-based approach (cost approach).

In addition, income approach is also adopted. The appraised value of the equity interest of GPHL in Baxter has been arrived at through the summation of the present value of the total profit (dividend) which GPHL is expected to be able to receive each year plus the present value of the net assets held by GPHL in proportion to its shareholding equity at the expiry of the term of joint venture of Baxter, in which, the duration of GPHL's long term investment in Baxter was determined by the article of association of Baxter and the joint-venture contract while re, the discount rate of the expected earnings, is determined using the capital asset pricing model (CAPM), and the specific model formula is:

$$r_e = r_f + \beta \times (r_m - r_f) + \alpha$$

Where:

r_e	Discount rate of equity
r_f	Risk-free rate of return
β	Beta coefficient
$r_m - r_f$	Market average risk rate of return
α	Individual risks adjustment value of equity

IX. APPRAISAL PROCEDURES

The valuers have executed the following basic appraisal procedures and submitted this report:

1. defined basic matters of assets appraisal including appraisal purpose, appraisal target and scope, valuation date, value type, key assumptions of appraisal and limitations;

2. entered into assets appraisal engagement agreement;

3. prepared assets appraisal plan;

4. The valuers investigated assets, underwent on-site inspection on the relevant assets at the locations of various assets, obtained or had access to necessary documents and information, and made necessary verification and inspection on relevant information.

   The valuers also interviewed with the corporate management to understand the future business plan and expected earnings of the enterprise.

5. collected assets appraisal information;

6. assessed and estimated;

7. prepared and submitted assets appraisal report.

X. ASSUMPTIONS OF APPRAISAL

(I) General assumptions

1. Assuming the appraisal target is in the course of transaction, the estimation of valuers is based on simulated market including terms of trade of the appraisal target, and the appraisal result is the estimation of the transaction prices for the appraisal target to be most possibly arrived at.

2. Assuming the assets of appraisal target are traded in the open market, the buyer and seller are on equal position in the market, and both buyer and seller have ample opportunity and time to acquire market information and complete a deal on voluntary, rational, and non-compulsory basis.

3. Assuming after implementation of the economic behaviour of the appraisal purpose, the appraisal target and assets involved in will be continuously used at the original location according to the purpose and usage as at the valuation date.

(II) Assumptions of Appraisal Target as at Valuation Date

1. Assuming purchase, acquisition and construction and development process of the appraisal target and assets involved in are in compliance with national laws and regulations concerned.

2. Assuming the appraisal target and tangible assets including properties and equipment involved have no key technical failure that would affect their continuous operation, and such assets are free from harmful substances adverse to their value, and the place of such assets are free from dangerous matters and other harmful environment conditions which have adverse impacts on such assets.

(III) Forecast Assumptions

1. Assuming that the company involved in the appraisal will continue its business operation in the same way as before the economic behavior that is set out in the appraisal purpose is performed and its earnings can be forecasted.

2. Assuming the assets involved in the appraisal target are still developed or operated pursuant to the scheduled development and operation plan and operation model after implementation of economic behaviors of appraisal purposes.

3. Assuming macro-environment including national industry policies, financial policies and taxation policies is relatively stable.

4. Assuming the enterprise involved in the appraisal target will maintain its total investment as at the valuation date.

5. Assuming the enterprise involved in the appraisal target will continue to operate at the existing level of management as at the valuation date and not taking into account of the impact of the level of management in the future on its future earnings.

(IV) Limiting condition of Appraisal

1. The entrusting party shall take responsibility for the truthfulness of relevant appraisal information including legal documents, technical information and operation information provided by the entrusting party and relied upon herein. We shall not assume any legal matters in relation to property rights of assets involved in the appraisal target.

2. We have not measured the property boundary involved in the appraisal target, and all information of such property including area and shape shall be provided by the entrusting party which shall take responsibility for its truthfulness.

XI. CONCLUSIONS OF APPRAISAL

(I) Conclusions of Appraisal

Upon implementation of necessary appraisal procedures, and taking appraisal purpose, hypothesis and assumptions of the appraisal as well as restrictions into consideration, the result of the market value appraisal of the 12.5% equity in Baxter held by GPHL as at the valuation date, 31 December 2011 are as follows:

1. Valuation result under asset-based approach (cost approach)

As for 12.50% equity interest in Baxter, the valuation target, by using cost approach, the appraised value was determined as RMB82.3388 million based on the carrying amount of net assets of Baxter held by GPHL in proportion to its equity interest;

2. Valuation result under income approach

The appraised value of the 12.5% equity in Baxter by adopting the income approach is RMB 87.0884 million.

3. Confirmation of the final valuation result.

As shown above, the valuation result of income method outweighed the result of cost method by RMB4.7496 million and there was a difference between two methods. Taking into account that the valuation subject is a non-controlling enterprise and GPHL does not control the production, operation and profit distribution of the invested entity, the future operation and profit distribution of the invested entity will be materially influenced by the controlling shareholder, in view of the economic activity in this valuation, the valuation result of assets-based method (cost method) is selected as the final valuation result for the purpose of prudence, i.e:

The market value of the 12.5% equity interest of Baxter held by GPHL on 31 December 2011, the valuation date, is RMB Eighty-two Million Thirty-three Thousand Eight hundred and Eighty yuan. (RMB82.3388million).

The final valuation result represents an appreciation in value of 713.97% compared with the book value of equity investment (RMB10.1156 million) of GPHL and 0% compared with the net assets of the investee.

(II) Relevant Explanations for Appraisal Conclusions

1. The appraisal conclusions do not take into account expenses of all trading taxes and handling fees possibly necessary for payment in the transfer of the appraisal target.

2. In using the appraisal conclusions, it is necessary to pay special attention to "Assumptions of Appraisal" and "Restriction on the Use of The Valuation Report".

XII. RESTRICTION ON THE USE OF THE VALUATION REPORT

(I) This report shall only be used for the purposes and uses as specified herein.

(II) This report shall only be used by the users as specified herein.

(III) Unless otherwise specified by laws, regulations and relevant parties, all or part of the content of the appraisal report shall not be extracted, quoted or disclosed in public media without review and written consent by us.

(IV) As an important part of this report, all appendices to this report shall be read together with it to understand the details and have a reasonable understanding on the conclusions.

(V) Term of Validity of the Appraisal Report

The conclusions of this report have strong timeliness and conclusions drawn in certain conditions shall be only applied to a specific period. The value of the appraisal target may vary with changes in situations including politics, economy and society. The user of this report shall reasonably determine the term of validity hereof in accordance with changes in situations including politics, economy and society after the valuation date.

In accordance with article 11 of Asset Valuation Standards – Valuation Report and article 21 of Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision & Administration Commission of the State Council), this report shall be valid for one year from the valuation date.

(VI) This assets appraisal project is state-owned assets appraisal project which needs to be approved or filed. Pursuant to the relevant requirements of the administration of state-owned assets, the appraisal report of state-owned assets which needs to be approved or filed can only be used as the reference for the consideration of the corresponding economic behaviour after having been approved or filed with the competent state-owned assets supervision and administration organization or its authorised unit.

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Appraisal Institution: China Valuer International Co., Ltd.

Legal Representative: ____________________________
(Xiao Huanqi)

Chinese Certified Public Valuer: ____________________________
(Zeng Cuixia)

Chinese Certified Public Valuer: ____________________________
(Chen Yang)

9 June 2012

(B) EXPLANATION ON VALUATION OF 12.5% EQUITY IN BAXTER

1. The content and amount of the long-term equity investment

The proportion of shareholding in the long-term equity investment held by GPHL in Baxter was 12.5%, the carrying amount of which amounted to RMB10,115,645.17.

The dividend distributed in cash for the last three years were RMB50 million, RMB50 million and RMB50 million respectively.

For the last three years, GPHL received the dividend of RMB6.25 million, RMB6.25 million and RMB6.25 million respectively based on its shareholding and these amounts were recognized as investment income.

2. The verification and valuation method of the long-term equity investment

(1) Carried out verification of the general ledger, sub-ledger, financial statement and valuation breakdown.

(2) Collected the business licenses, contracts, articles of association, approval for capital injection and financial statements and auditor's reports for the last three years of the invested entity. Made judgment to the general conditions of the invested entity to determine the valuation method.

(3) Where the valuation subject is a non-controlling long-term investment, if the valuation date and the previous financial statements are audited and the assets account of the invested entity are basically true, the valuation is determined according to the amount of net assets set out in the audited balance sheet of the invested entity and based on the interest attributable to the investing entity.

(4) Where the valuation subject is a non-controlling long-term investment, if there were steady distributions of dividend in the previous years, the valuation is calculated by first discounting the estimated dividend income obtained per annum into present value and then adding with the discounted value of the assets receivable calculated according to the shareholding proportion upon the expiration of the term of the joint ventures.

(5) The final valuation conclusion is selected upon composite analysis of the preliminary valuation results arrived at by the two valuation methods above.

3. Process and results of the valuation

(1) Assets-Based Approach: Calculation of the appraised value in proportion to the shareholding with the carrying amount of the equity attributable to owners of the invested entity

The financial position of Baxter in the last three years are as follows:

Simplified Balance Sheet

Item	**2009-12-31** *(RMB)*	**2010-12-31** *(RMB)*	**2011-12-31** *(RMB)*
Current assets	267,163,364.00	370,011,313.00	391,860,788.00
Non-current assets	243,769,330.00	334,927,046.00	491,155,487.00
Total assets	510,932,694.00	704,938,359.00	883,016,275.00
Current liabilities	102,830,721.00	175,719,840.00	224,305,987.00
Non-current liabilities	–	–	–
Total liabilities	102,830,721.00	175,719,840.00	224,305,987.00
Shareholders' equity	408,101,973.00	529,218,519.00	658,710,288.00
Audit opinion status	Audited and unqualified	Audited and unqualified	Audited and unqualified

Income Statement

Item	**2009** *(RMB)*	**2010** *(RMB)*	**2011** *(RMB)*
Income from principal operations	680,135,521.00	819,045,046.00	974,993,700.00
Less: Cost of principal operations	341,732,659.00	401,126,339.00	489,347,057.00
Profit from principal operations	338,402,862.00	446,879,672.00	476,869,172.00
Less: Selling expenses	113,564,992.00	152,193,303.00	197,140,857.00
Administrative expenses	38,167,255.00	45,944,405.00	56,705,476.00
Net financial income/(expenses)	315,310.00	658,502.00	-869,779.00
Operating profit	1,868,985,925.00	218,083,462.00	223,892,618.00
Add: Investment income	1,328,489.00	3,229,675.00	5,154,919.00
Non-operating income	2,186,998.00	899,741.00	62,739.00
Less: Non-operating expenses	619,929.00	190,496.00	295,082.00
Total profit	189,881,483.00	222,022,382.00	228,815,194.00
Less: Income tax	38,108,458.00	50,905,836.00	55,816,825.00
Net profit	151,773,025.00	171,116,546.00	172,998,369.00
Audit opinion status	Audited and unqualified	Audited and unqualified	Audited and unqualified

The dividend distributed in cash for the last three years were RMB50 million, RMB50 million and RMB50 million respectively.

According to the data of the financial statement of Baxter set out in the above table, the production and operation of Baxter has become relatively stable, the growth rate of the net assets for the years 2010 and 2011 were 29.68% and 24.47% respectively and the growth rate of the net profit for the years 2010 and 2011 were 12.75% and 1.1% respectively.

According to the audited balance sheet as at the valuation date, the carrying amount of the net assets of Baxter as at the valuation date was RMB658,710,288.00. The value of the long-term equity investment held by GPHL, being 12.5% equity interest in Baxter, is RMB82.3388 million.

(2) Income approach

1. Calculation formula used by income approach

$$PV = \sum_{i=t_0}^{t_n} \frac{R_i}{(1+r)^i} + \frac{R_E}{(1+r)^{t_n}}$$

The parameters in the formula are:

PV Valuation of the subject by income approach

i The time interval from the valuation after the valuation date (unit: year)

t_0 The time interval between the point of time at which the subject equity begins to have an expected earning and the valuation date

t_n The time interval between the point of time at which the subject equity no longer has an expected earning and the valuation date

R_i The estimated value of the expected dividend income i years after the valuation date

R_E The net assets value recoverable of the subject equity upon the expiration of the terms of the joint venture

r The discount rate appropriate for the expected earnings

2. The estimation of the expected dividend income

(a) Projection of the annual net profit

According to the historical operating data of Baxter, the net profit for the years 2009-2011 were RMB189,881,483, RMB222,022,382 and RMB228,815,194 respectively. The growth rate of the total profit for the years 2010 and 2011 were 16.93% and 3.06% respectively. As the production and operation of Baxter has entered into a more stable stage, this valuation assumed that the annual total profit for the 30 years of the remaining term of the joint venture from the valuation date (2012-2042) will be the same as that of 2011, being RMB228,815,194; and the total profit for the year in which the joint venture term expires (2043, 0.62 year) will be RMB141,102,703 calculated in proportion to the time period;

Baxter is a Sino-foreign equity joint venture established in Guangzhou Economic and Technological Development Zone. According to relevant requirement of income tax law, the applicable enterprise income tax rate for Baxter for the 5 years of 2008-2012 will be gradually changed to 25% and the applicable income tax rate for 2011 is 24%. The income tax rate of 25% was used in this valuation which is applicable to Baxter starting from 2012;

According to the above analysis, the net profit of Baxter for the each of the years between 2012-2024 is RMB171,611,395 [= 228,815,194 x (1 – 25%)], and net profit for 2043 is RMB105,827,027 [= 141,102,703 x (1 – 25%)].

(b) Projection of the annual dividend income

According to the historical operating data of Baxter, the dividend distributed in cash for the last three years were RMB50 million, RMB50 million and RMB50 million respectively, representing 32.94%, 29.22% and 28.9% of the net profits of Baxter in the respective year. As the production and operation of Baxter has entered into a more stable stage, the cash dividend distributed in each of the last three years were RMB50 million, and it is assumed that in this valuation the future annual operating profit will be the same as that of 2011, therefore, the annual dividend for each of the 30 years in the remaining term of the joint venture from the valuation date (2012-2042) will remain at RMB50 million in this valuation, and the dividend for the year in which the joint venture term expires (2043, 0.62 year) will be RMB30,833,333 calculated in proportion to the time period.

3. The net assets receivable by GPHL calculated in proportion to its shareholding upon the expiration of the term of the joint venture

The value of net assets of Baxter upon the expiration of the term of the joint venture is calculated according to the following formula:

The net assets upon the expiration of the term of the joint venture of Baxter = the net assets at carrying value as at valuation date + (the expected total net profit of the remaining term of joint venture of Baxter – the expected total profit distributed in the remaining term of joint venture)

The net assets receivable by GPHL upon the expiration of the term of the joint venture in proportion to its shareholding = the net assets upon the expiration of the term of the joint venture of Baxter x shareholding proportion 12.5%

According to Baxter's net assets at carrying value as at the valuation date and the net profit and the profit distributed per annum of Baxter for the remaining operating year starting from the valuation date set out above, we can arrived at the net assets upon the expiration of the term of the joint venture of Baxter as RMB4,503,657,227, which is calculated as follows:

The net assets upon the expiration of the term of the joint venture of Baxter = the net assets at carrying value as at valuation date + (the total net profit of the remaining term of joint venture of Baxter – the profit distributed in the remaining term of joint venture

= RMB658,710,288 + (171,611,395 × 31 + 105,827,027) – (50,000,000 × 31 + 30,833,333)
= RMB4,503,657,227

The net assets receivable by GPHL upon the expiration of the term of the joint venture in proportion to its shareholding = the net assets upon the expiration of the term of the joint venture of Baxter x shareholding proportion 12.5%

= RMB4,503,657,227 x 12.5%
= RMB562,957,153 (rounded)

4. Discount rate

The discount rate applicable to the expected earnings r_e = risk-free rate r_f + risked rate r_r

(a) The determination of risk-free rate r_f

The valuer selected the bond-return rate similar to the maturity of return of the equity being valued as the risk-free rate, taking into consideration the recent "yield curve of fixed-rate government bond" issued by "Chinabond.com.cn" (www.Chinabond.com.cn) as at the valuation date.

(b) The determination of the risked rate r_r

We determine the risked rate with reference to risk factors such as the borrowing rate of Renminbi announced by the People's Bank of China and the corporate return rate in the sector, taking into account the operating risk and financial risk of the enterprise being valued, the impact of the relevant contracts on the steadiness of the earnings of the equity being valued, and the distribution priority of the earnings in the income of the enterprise being valued.

The adoption of capital asset pricing model (CAPM) to estimate risked rate

The CAPM's formula for the estimation of the risked rate of the equity is as follows:

$$r_r = \beta \times (r_m - r_f) + \alpha$$

The parameters in the formula are:

r_r	Risked rate
r_f	Risk-free rate
β	Beta coefficient
$r_m - r_f$	Average market risked rate
α	Adjustment to specific risk of equity

① Average market risked rate

Average market risked rate (market risk premium) reflects the risk compensation for an investor who invests in the capital market with relatively higher risk rather than in bond market with relatively lower risk (or risk-free). The basic calculation method is to obtain the difference between the average return level in the market and the risk-free rate within a period of time. In the valuation, we took the Composite market risk premium level of various countries established by American financial expert Aswath Damodaran as reference.

② Beta coefficient

Beta is an indicator in measuring the systematic risk of the corporate and is usually replaced by the beta of stock of a company announced by commercial data services agencies. The data announced by Wind Info is used in the valuation. The beta observed by us reflects the impact of the capital structure of the enterprise (financial leverage). In order to reflect the risk level in the sector of the enterprise in a more accurate way, we need to make adjustment to the observed beta of the stock of the company to determine the risk level of the enterprise without financial leverage. The specific adjusting method is as follows:

$$\beta_u = \beta_e \times \frac{1}{1 + (1-t) \times \frac{D}{E}}, \quad \beta_e = \beta_u \times \left[1 + (1-t) \times \frac{D}{E}\right]$$

The parameters in the formula are:

β_u β without financial leverage

β_e β with financial leverage

D Market value of debt

E Market value of equity

T Enterprise Income Tax rate

③ α adjustment

α adjustment is determined by the analysis on specific risk factors such as the size of companies in the sector of the enterprise being valued, technological risk and market risk and the risk difference between the equity of the valuation subject and the risk of the investment equity of the overall shareholders of the enterprise being valued.

(c) The determination of the discount rate for the capital cost of the equity r_e

The discount rate of equity is obtained by putting the selected risk-free rate and risked rate into the calculation formula of discount rate of equity, being r_e = 10% (rounded).

5. The discounting and calculation of return

Putting the above parameters into the calculation formula of the income approach, we obtained the value of the long-term equity investment held by GPHL in Baxter of RMB87.0884 million, the details of which is as follows:

Sequence No.	**Item**	**2012**	**2013-2041 per year**	**2042**	**2043**
		(RMB)	*(RMB)*	*(RMB)*	*(RMB, 0.62 year)*
1	Total profit	228,815,194	228,815,194	228,815,194	141,102,703
2	Income tax rate	25%	25%	25%	25%
3	Net profit of Baxter per annum	171,611,395	171,611,395	171,611,395	105,827,027
4	Total dividend of Baxter per annum	50,000,000	50,000,000	50,000,000	30,833,333
5	The dividend receivable by GPHL per annum based on its shareholding of 12.5%	6,250,000	6,250,000	6,250,000	3,854,167
6	Discount factor (discount rate = 10%)	0.9091	0.8264-0.0573	0.0521	0.0491
7	The forecasted discounted value of dividend of GPHL (RMB)				59,433,200

Sequence No.	Item	2012 (RMB)	2013-2041 per year (RMB)	2042 (RMB)	2043 (RMB, 0.62 year)
8	Net assets receivable by GPHL based on its shareholding of 12.5% upon the expiration of term of joint venture				562,957,153
9	The discounted value of equity based on its shareholding of 12.5% by GPHL upon the expiration of term of joint venture				27,655,200
10	The valuation result of the equity in Baxter, the long term investment of GPHL by the income approach				87,088,400

4. The determination of the valuation result

The preliminary valuation result of the valuation subject by the two valuation methods:

GPC intended to acquire 12.5% equity interest held by GPHL in Baxter through the targeted additional shares issuance with the carrying amount of RMB 3.9815 million. The valuation result of asset-based approach (cost approach) was RMB 82.3388 million. The valuation result of income approach was RMB 87.0884 million.

The valuation result of asset-based approach outweighed the result of income approach by RMB 4.7496 million and there was a difference between two methods. Taking into account that Baxter is a non-controlling enterprise of GPHL and GPHL does not control the production, operation and profit distribution of Baxter, the future operation and profit distribution of Baxter have relatively influenced more by the controlling shareholder, in view of the economic activity in the valuation, the valuation result of asset-based approach RMB82.3388 million is selected as the final valuation result for the 12.5% equity interest held by GPHL for the purpose of prudence.

5. Analysis on the changes in valuation

The carrying amount of the 12.5% equity held by GPHL in Baxter amounted to RMB10.1156 million, with valuation result and valuation increment of RMB82.3388 million and 713.97% respectively.

Upon analysis, the 12.5% long-term equity at carrying value of RMB10.1156 million held by GPHL in Baxter is obtained by the cost method, which is the original investment cost of GPHL (being the contribution in the registered capital of Baxter held by GPHL). The valuation result is obtained by multiplying the carrying value of the equity attributable to owners of Baxter as at the valuation date by the shareholding proportion. The valuation comprises portion attributable to GPHL in the contribution reserve and the undistributed profit of Baxter.

(A) Letter from the reporting accountant

立信会计师事务所(特殊普通合伙)
地址：上海南京东路61号4楼
邮编：200002
电话：86-21-63391166
传真：86-21-63392558

BDO CHINA SHU LUN PAN CPAS LLP
4F.No.61 Nan Jing Dong Road
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Comfort Letter for the Profit Forecast Formed in the Valuation Report

Xin Kuai Shi Bao Zi [2012] 410254
(信會師報字[2012]第410254號)

18 June 2012

To Guangzhou Pharmaceutical Company Limited

We have been engaged to report on the forecast related to the valuations of the Target Assets as at 31 December 2011 made by China Valuer International Co., Ltd. (hereinafter "China Valuer") based on income approach in the valuation reports (Zhong Tian Heng Ping Ping Zi [2012] No. 026, 027 and 028, hereinafter the "Valuation Reports") dated 9 June 2012 prepared in relation to the proposed private placement of additional shares by Guangzhou Pharmaceutical Company Limited (hereinafter the "Company") to acquire the Target Assets of Guangzhou Pharmaceutical Holdings Limited (hereinafter "GPHL").

Under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter the "Listing Rules"), the valuations of the Target Assets (other than the property interest) calculated and determined using the income approach in the Valuation Reports (hereinafter the "Valuation"), which is disclosed in the announcement of the Company dated 18 June 2012 (the "Announcement") is regarded as a profit forecast. Income approach is a valuation method to determine the value of the subject assets by estimating the present value of the assets' future forecasted income (hereinafter the "discounted future estimated cash flows"). The Target Assets valued under the income approach in the Valuation Reports include:

(1) 54 trademarks which GPHL has granted the Company and its subsidiaries the exclusive rights to use;

(2) GPHL's 100% equity interest in (Hong Kong) Po Lian Development Company Limited; and

(3) GPHL's 12.50% equity interest in Baxter Healthcare (Guangzhou) Company, Ltd.

Directors' Responsibility for the Forecast

The directors of the Company are responsible for the estimation of the discounted future estimated cash flows set out in the Valuation Reports. Such cash flows is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

Certified Public Accountants' Responsibility

It is our responsibility to report, as required by Rule 14.62(2) of the Listing Rules, on the accounting policies and calculations used in the valuation of the discounted future estimated cash flows. The discounted future estimated cash flows do not involve a selection of accounting policy.

The preparation of discounted future estimated cash flows depends on future events and on a number of bases and assumptions which cannot be confirmed or verified in the same way as past results and not all of which may remain valid throughout the period. Actual results are likely to be different from the forecast and the variation may be material. The Directors of the Company are responsible for the reasonableness and truthfulness of the bases and assumptions. Our responsibility is to form an opinion on the calculations of the related forecast. We have not reviewed the bases and assumptions, nor considered their appropriateness and validity or conducted any work thereon and thus express no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows and Valuation are based.

Basis of Opinion

We conducted our work based on the "Standard on Other Assurance Engagements 3101 for Chinese Certified Public Accountants – Assurance Work other than Audit or Review of Historical Financial Information" issued by the Chinese Institute of Certified Public Accountants, and made reference to "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

We have examined the arithmetical accuracy of the calculations of the Valuation. Our work is solely to assist the directors of the Company to evaluate whether the calculations of the discounted future estimated cash flows are properly prepared and for no other purpose. We accept no responsibility to any other person in respect of, arising from or in connection with our work. Our work does not form any part of the Valuation in the Valuation Reports.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been prepared in accordance with the bases and assumptions made by the Directors of the Company as set out in the Announcement.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China:
Wu Changhua

Certified Public Accountant of China:
Pan Wenzhong

Shanghai, the PRC

(b) Letter from the financial advisers

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

18 June 2012

The Board of Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street
Liwan District, Guangzhou City
Guangdong Province
The PRC

Dear Sirs,

**Re: Guangzhou Pharmaceutical Company Limited (the "Company")
– Very substantial acquisitions and connected transactions
(I) Involving Major Assets Reorganization: (A) Absorption and merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd; and (B) Acquisition of Target Assets from Guangzhou Pharmaceutical Holdings Limited; and (C) Compensation for profit shortfall; (II) Trademark custody; (III) Profit forecast in relation to the Major Assets Reorganization prepared under CASBE; and (IV) Profit forecasts underlying the valuation of certain Target Assets**

We refer to the announcement dated 18 June 2012 issued by the Company (the "**Announcement**") in relation to the Major Assets Reorganization. Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement. We refer to the discounted future estimated cash flows underlying the valuation of certain Target Assets (the "**Forecasts**") in the valuation reports (the "**Valuation Reports**") dated 18 June 2012 prepared by China Valuer International Co., Ltd ("**China Valuer**") in relation to the appraisal of, among others, the fair market value of those Target Assets.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Forecasts and have discussed with you the bases and assumptions made by you as the Directors upon which the Forecasts have been made. We have also considered the letter addressed to the Directors from BDO China Shu Lun Pan CPAs LLP dated 18 June 2012 regarding the calculations upon which the Forecasts have been made.

On the basis of the foregoing and without giving any opinion on the reasonableness of, bases and assumptions on the valuation methods adopted in the Valuation Reports by China Valuer, for which China Valuer and the Company are responsible, we are of the opinion that the Forecasts, for which you as the Directors are solely responsible, have been made after due and careful enquiry.

Yours faithfully,

For and on behalf of	For and on behalf of
Celestial Capital Limited	**Goldman Sachs (Asia) L.L.C.**
Daphne Ng	**Richard Campbell-Breeden**
Managing Director	*Managing Director*

The following is the text of a letter, summary of values and valuation certificates received from Savills Valuation and Professional Services Limited, an independent property valuer, prepared for the purpose of incorporation in this circular in connection with their valuations as at 30 June 2012 of the properties to be acquired by the Company.

savills
第一太平戴維斯

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

4 September 2012

The Directors
Guangzhou Pharmaceutical Company Limited
45 Sha Mian North Street,
Liwan District, Guangzhou City,
Guangdong Province,
The People's Republic of China

Dear Sirs

In accordance with the instructions from Guangzhou Pharmaceutical Company Limited (the "Company") for us to value the properties held by Guangzhou Pharmaceutical Holdings Limited, Po Lian Development Company Limited and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (hereinafter referred to as "GPHL" (the parent company which has a equity interest of 48.20% in the Company), "Po Lian" (a wholly owned subsidiary of GPHL, which is a connected party of the Company) and "BYS" (a 35.58% subsidiary of GPHL, which is a connected party of the Company) respectively) and BYS's subsidiaries (hereinafter GPHL, Po Lian, BYS and BYS's subsidiaries together referred to as the "Target Group") in the People's Republic of China ("PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 30 June 2012 ("Date of Valuation") for public circular purpose.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreement, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing property nos. 2-5, 10-11, 14, 16, 19, 23, 27 and 31-33 in Group A1, nos. 51, 56, 57, 62 and 63 in Group B1 and nos. 65 and 66 in Group C1, which are held for owner occupation by the Target Group in the PRC and Hong Kong, we have adopted the direct comparison approach by making reference to the comparable market transactions as available in the relevant markets assuming sales with the benefit of vacant possession.

Due to the specific purposes for which the buildings and structures of property nos. 1, 6-9, 13, 15, 17, 18, 20-22, 26 and 28 in Group A1 have been constructed, there are no readily identifiable market comparables. Thus the buildings and structures cannot be valued on the basis of direct comparison approach. They have therefore been valued on the basis of their depreciated replacement cost. We would define "depreciated replacement cost" to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on market sales. The depreciated replacement cost approach is subject to the adequate potential profitability of the business.

In valuing property nos. 34, 35, 37, 38, 40, 41, 43-45 and 47-49 in Group A2 and nos. 67-71 in Group C1, which are held for investment by the Target Group, we have valued such properties by making reference to sales evidence as available in the market and where appropriate on the basis of capitalization of their net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

In valuing the remaining properties in Groups A1 and A2 which are held by the Target Group for owner occupation and investment respectively in the PRC, we have attributed no commercial value to these properties due to their defective titles.

We have been provided with copies of extracts of title documents relating to the properties in the PRC, such as real estate title certificates, building ownership certificates, state-owned land use certificates etc. For the properties in Hong Kong, we have caused searches to be made in the Land Registry. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. We have relied to a considerable extent on the information given by the Company and its PRC legal adviser, Grandall Legal Group (Shanghai), regarding the titles and other legal matters relating to the properties in the PRC. We have also accepted advice given by the Company on such matters as planning approvals or statutory notices, easements, tenures, ownership, completion dates, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the floor areas of the properties and have assumed that the site and floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

We have inspected the exterior and where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. No structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The site inspections were carried out during the period from 23 April 2012 to 10 May 2012 by the following professional valuers and some other assistants:

Properties in the PRC –

Jim K K Wong, *a MRICS and a China Registered Real Estate Appraiser*;
Tom C P Chow, *a China Registered Real Estate Appraiser and China Land Valuer*;
Hu Shaohong, *a China Registered Land Valuer*;
Steven J Liao, *a China Registered Real Estate Appraiser and a China Registered Land Valuer*;
Sean S Wang, *a China Registered Real Estate Appraiser and a China Registered Land Valuer*; and
Jack W J Chen, *a China Registered Real Estate Appraiser and China Land Valuer*.

Properties in Hong Kong

Juliana Tham, *a MHKIS and a MRICS*

Our valuation is prepared in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. Our valuation is also prepared in accordance with the Valuation Standards on Properties (First Edition January 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi ("RMB"). In valuing property nos. 65 and 66 in Group C1 and property nos. 67 to 71 in Group C2 in Hong Kong, we have adopted an exchange rate of HK$1 to RMB0.8152 as at the Date of Valuation. There has been no material fluctuation in exchange rate between our valuation date and the date of this letter.

Our summary of values and valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS(GP)
Director

Note: Mr. Lau is a chartered surveyor and has over 19 years' experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
	Group A1 – Properties held for owner occupation by BYS and BYS's subsidiaries in the PRC	
1.	An industrial complex located at 808 East Binjiang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區濱江東路808號之一個工業綜合體)	128,700,000
2	Room 502, 343 Middle Guangzhou Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區廣州大道中343號502房)	1,400,000
3	Levels 3 to 5 and portion of Level 6 of an office building located at 4 East Jiangling Street, Guigang Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區龜崗大馬路江嶺東街4號之一幢寫字樓3至5層及部分6層)	15,000,000
4	Portion of a domestic building located at 9 Xiadu Dongyue Lane 2, Chigang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區赤崗路下渡東約二巷9號之一幢住宅樓宇的部分)	800,000
5	Room 502, 93-1 Shanhehou Street, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區山河後街93-1號502房)	700,000
6	An industrial complex located at 48 North Gongye Avenue, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區工業大道北路48號之一個工業綜合體)	74,700,000
7	An industrial complex located at North of 311 State Road, Yangmiao Village, Shibali Town, Qiaocheng District, Bozhou, Anhui Province, PRC (中國安徽省亳州市譙城區十八里鎮楊廟村311國道北側之一個工業綜合體)	13,700,000
8.	An industrial complex located at 16 Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石路16號之一個工業綜合體)	6,000,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
9.	An industrial complex located at 1 Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石路1號之一個工業綜合體)	33,100,000
10.	A warehouse located at No.20 of Lane 6, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路六巷20號之一個倉庫)	2,100,000
11	Level 1, Nos. 1-2 of New Lane 1, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路新一巷1-2號首層)	3,500,000
12.	Portion of a residential building located at 26-27 New 2nd Street, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路新二街26-27號之一幢住宅樓的部分)	No commercial value
13	An industrial complex located at 355 North Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太北路355號之一個工業綜合體)	38,300,000
14	Portion of an industrial complex located at 25 East Fangcun Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區芳村大道東25號之一個工業綜合體的部份)	77,900,000
15	An industrial complex located at 49 Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路49號之一個工業綜合體)	32,300,000
16	Level 1 of Nos. 39 & 39-1 and Level 1 of Nos. 41, 43 & 45 of Xinfu New Village, Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路幸福新村39及39-1號之首層及41、43和45號之首層)	5,300,000
17	An industrial complex located at 52 Xiaogang Avenue, Xinshijie, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區新市街蕭崗大馬路52號之一個工業綜合體)	49,300,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
18	An industrial complex located at 28 Temeisi Avenue, Hepo Town, Jiexi County, Jieyang, Guangdong Province, PRC (中國廣東省揭陽市揭西縣河婆鎮特美思大道28號之一個工業綜合體)	23,600,000
19	Units A401, A402, B401 and B402 of Block 12, Jingfeng Garden, Heshan Committee, Hepo Town, Jiexi County, Jieyang, Guangdong Province, PRC (中國廣東省揭陽市揭西縣河婆鎮河山居委金鳳花園第十二棟A401、A402、B401-B402號房)	1,300,000
20	An industrial complex located at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮同寶路78號之一個工業綜合體)	195,730,000
21	An industrial complex located at 2, 78 and 82 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路2、78及82號之一個工業綜合體)	786,150,000
22	A refinery workshop located at 1479 Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路1479號之一個提鍊廠)	17,000,000
23	Levels 4 and 5, 14 North Yilv Street, Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路倚綠北街14號四及五層)	39,200,000
24	An electric room located in the rear hill of Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路後山之一個供電站)	No commercial value
25	An electric room located in Zone 1 of the front hill, Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路前山一區之一個供電站)	No commercial value
26	Chuangxin Center, 5-6 Yuntai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲泰路5-6號創新中心)	85,100,000
27	Various buildings located at 46 West Wenquan Road, Wenquan Town, Conghua, Guangdong Province, PRC (中國廣東省從化市溫泉鎮溫泉西路46號之多幢樓房)	20,760,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
28	Various buildings located at 391-431 North Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太北路391-431號之多幢樓宇)	7,550,000
29	An industrial complex located at 78 Tongbao Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同寶路78號之一個工業綜合體)	No commercial value
30	Various buildings located at 389 Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太路389號之多幢樓房)	No commercial value
31	A stadium bleacher located at Affiliated Company of Guangzhou Baiyunshan Pharmaceutical Co., Ltd., Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮廣州白雲山製藥總廠範圍地段之一個球場看台)	61,100,000
32	An industrial complex located at Affiliated Company of Guangzhou Baiyunshan Pharmaceutical Co., Ltd., Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮廣州白雲山製藥總廠範圍之一個工業綜合體)	13,900,000
33	A parcel of land located at East of Yuandunling, Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮園敦嶺以東之一塊土地)	136,860,000
	Sub-total:	1,871,050,000

Group A2 – Properties held for investment by BYS and BYS's subsidiaries in the PRC

34	An industrial complex located at 14 Middle Baohua Lane, Baohua Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區寶華路寶華正中約14號之一個工業綜合體)	40,090,000
35	Portion of an industrial complex located at 25 East Fangcun Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區芳村大道東25號之一個工業綜合體的部分)	49,020,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
36	A building located at 127 Duobao Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區多寶路127號之一幢樓宇)	No commercial value
37	Rear block of No. 4 Lane 1, 15 Fu, Baohua Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區寶華路十五甫一巷4號後座)	2,330,000
38	Portion of the building located at 62 Jianglan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區槳攔路62號之樓宇之部分)	2,740,000
39	Level 1, 72 and 74 Duobao Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區多寶路72-74號首層)	No commercial value
40	Block 1, 808 East Binjiang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區濱江東路808號自編1號)	10,300,000
41	Levels 1 and 2 and portion of Level 6, 4 East Jiangling Street, Guigang Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區龜崗大馬路江嶺東街4號 1至2層及部分6層)	11,200,000
42	A building located at 25 East Jiangling Street, Guigang Avenue, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區龜崗大馬路江嶺東街25號之一幢樓宇)	No commercial value
43	Basement Unit 03 and Levels 1-4, Sections 1 and 4 of 49 Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路49號地下室03和49號之一及四1至4層)	70,800,000
44	Levels 1 and 2 of Nos. 48-52 and Section 1 of No. 50 of Guangya Lane, Shibafu Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區十八甫路光雅里48-52號首層及二層和50號之一)	15,400,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
45	A building located at 67 Baoyuan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區寶源路67號之一幢樓宇)	8,100,000
46	A building located at 28 Yangong Street, South Renmin Road, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區人民南晏公街28號之一幢樓宇)	No commercial value
47	Various buildings located at 2 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路2號之多幢樓宇)	33,100,000
48	A canteen located at 1496 Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路1496號之一個餐廳)	30,200,000
49	A football club and various retail shops located at 97 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路97號地段之一個足球會及多個商舖)	12,800,000
	Sub-total:	286,080,000

Group A3 – Property held for future development by BYS and BYS's subsidiaries in the PRC

50	A parcel of land located in Huaqiao Farm, Tonghu County, Huiyang County, Guangdong Province, PRC (中國廣東省惠陽縣潼湖華僑農場之一幅土地)	No commercial value
	Sub-total:	Nil

Group B1 – Properties held for owner occupation by GPHL in the PRC

51	Various office buildings located at 45 Sha Mian North Street, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區沙面北街45號之多幢寫字樓)	12,300,000
52	Rear block of 282 Beijing Road, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區北京路282號後座)	No commercial value

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
53	Various buildings located at 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區江村公路平沙蛤乸氹1號之多幢樓宇)	No commercial value
54	A building located at 28 Zengcha Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區增槎路28號之一幢樓宇)	No commercial value
55	Two buildings located at 30 Zengcha Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區增槎路30號之兩幢樓宇)	No commercial value
56	Levels 1 and 2, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區石井街潭村北約牌坊路88號1-2層)	12,800,000
57	Levels 1 to 3, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區石井街潭村北約牌坊路86號1-3層)	9,000,000
58	Levels 1 and 2, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街19-1號首層及二層)	No commercial value
59	Levels 8 and 9, 4 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街4號八至九層)	No commercial value
60	Level 2 of East Tower and the rear block of Level 3, 6 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街6號二層東樓及後座三層)	No commercial value
61	Levels 1 and 2, 118 West Heping Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區118號和平西路首層及二層)	No commercial value
62	Shop No.5 on Level 1, 246 Baogang Avenue, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區寶崗大道路246號首層5號商舖)	2,900,000

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
63	Shop No.2 on Level 1 of Danhuige, Hongmianyuan, Huadi Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區花地大道紅棉苑丹輝閣首層2號商鋪)	9,400,000
64	Block 2, 12 Saiba Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區塞壩路12號自編2號)	No commercial value
	Sub-total:	46,400,000

Group C1 – Properties held for owner occupation by Po Lian in Hong Kong

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
65	Apartment E on 27th Floor of Tower I, Park Towers, 1 King's Road, North Point, Hong Kong	12,610,000
66	Flat No. C on 26th Floor of Tower 2, Jupiter Terrace, 18 Jupiter Street, North Point, Hong Kong	4,260,000
	Sub-total:	16,870,000

Group C2 – Properties held for investment by Po Lian in Hong Kong

No.	Property	Market value in existing state as at 30 June 2012 *RMB*
67	Flat 408 on 4th Floor of Block M, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong	3,520,000
68	Flat 207 on 2nd Floor of Block C, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong	2,870,000
69	Flat 506 on 5th Floor of Block I, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong	3,360,000
70	Offices A, B and C on 6th Floor including air-conditioner room, Manly Commercial Building, 15 Soy Street, Mong Kok, Kowloon, Hong Kong	5,000,000
71	Flat 512 on 5th Floor, Sincere House, 83 Argyle Street, Mong Kok, Kowloon, Hong Kong	3,440,000
	Sub-total:	18,190,000
	Grand Total:	2,238,590,000

VALUATION CERTIFICATE

Group A1 – Properties held for owner occupation by BYS and BYS's subsidiaries in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
1	An industrial complex located at 808 East Binjiang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區濱江東路808號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 30,520.95 sq.m. (328,528 sq.ft.). The property comprises eleven 1 to 10-storey buildings of reinforced concrete and brick concrete structures completed in various stages between 1990 and 2001. The total gross floor area of the property is approximately 47,997.04 sq.m. (516,640 sq.ft.). The land use rights of the property have been granted for a term expiring on 22 April 2052 for industrial use.	As at the Date of Valuation, the property was occupied for industrial use.	RMB128,700,000 (please refer to Notes (4) and (5))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau between 4 November 2005 and 28 January 2011, the building ownership of portions of the property with a total gross floor area of approximately 39,024.04 sq.m. and their underlying land use rights with a site area of approximately 30,520.95 sq.m. are vested in Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司) ("Tianxin Pharmaceutical") or Guangzhou Tianxin Pharmaceutical Factory (廣州天心製藥廠) (as advised by BYS, currently known as Tianxin Pharmaceutical). As advised by BYS, Tianxin Pharmaceutical is an 82.49% subsidiary of BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C4014563 (粵房地證字第C4014563號)	26.17	Duty Room	N/A
ii.	Yue Fang Di Zheng Zi Di No. C6765933 (粵房地證字第C6765933號)	4,603.37	Industrial	22 April 2052
iii.	Yue Fang Di Zheng Zi Di No. C4014851 (粵房地證字第C4014851號)	8,252.50	Industrial	N/A

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
iv.	Yue Fang Di Zheng Zi Di No. C4014848 (粵房地證字第C4014848號)	1,042.29	Industrial	N/A
v.	Yue Fang Di Zheng Zi Di No. C4014567 (粵房地證字第C4014567號)	732.46	Electric Room	N/A
vi.	Yue Fang Di Zheng Zi Di No. C4014849 (粵房地證字第C4014849號)	1,434.58	Electric and Pump Room	N/A
vii.	Yue Fang Di Zheng Zi Di No. C4014847 (粵房地證字第C4014847號)	145.41	Storage	N/A
viii.	Yue Fang Di Zheng Zi Di No. C4014562 (粵房地證字第C4014562號)	10,806.81	Industrial	N/A
ix.	Yue Fang Di Zheng Zi Di No. C4565172 (粵房地證字第C4565172號)	5,269.86	Storage	N/A
x.	Yue Fang Di Zheng Sui Zi Di No. 0850031027 (粵房地權證穗字第0850031027號)	6,710.59	Office	N/A
	Total	**39,024.04**		

Regarding Item ix, the land grant formality has not been applied. As advised by BYS, the registered owner of this certificate under the name of Guangzhou Tianxin Pharmaceutical Factory is being changed to Tianxin Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Tianxin Pharmaceutical Factory was a subsidiary of BYS.

Regarding Item x, the title registration for the extra underground area with a gross floor area of approximately 662.46 sq.m. has not been applied.

(2) Pursuant to the Construction Works Planning Permit – Sui Hai Gui Jian [2004] 168 (穗海規建[2004]168號) issued by Guangzhou Urban Planning Bureau Haizhu Branch (廣州市城市規劃局海珠分局) on 28 June 2004, the construction scale of the remaining portion of the property with a gross floor area of approximately 8,973.00 sq.m. has been approved.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the owner of the Real Estate Title Certificate as mentioned in Item ix of Note (1) has not been changed to Tianxin Pharmaceutical and the land grant formality has also not been applied. Thus Tianxin Pharmaceutical is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. portion of the property with a gross floor area of approximately 8,973.00 sq.m. as mentioned in Note (2) has not obtained the Building Ownership Certificate. Thus Tianxin Pharmaceutical is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

iii. except for the negative situations as mentioned in Notes (1) and (2), Tianxin Pharmaceutical legally owns the building ownership of the remaining portion of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

iv. the building and its underlying land use rights as mentioned in Item x of Note (1) is subject to a mortgage for a term extended to 31 December 2012; and

v. except for the aforesaid mortgage, the property is not subject to other mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the portion of the property without completing the land grant formality as mentioned in Item ix of Note (1). For indicative purpose, the depreciated replacement cost of the aforesaid building was in the region of RMB10,910,000 as at the Date of Valuation.

(5) In the course of our valuation, we have assigned no commercial value to the building of the property with a gross floor area of approximately 8,973.00 sq.m. with no Building Ownership Certificate obtained as mentioned in Note (2). For indicative purpose, the depreciated replacement cost of the aforesaid building was in the region of RMB28,520,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
2	Room 502, 343 Middle Guangzhou Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區廣州大道中343號502房)	The property comprises a residential unit of a 9-storey domestic building of reinforced concrete structure completed in 1990. The gross floor area of the property is approximately 107.81 sq.m. (1,160 sq.ft.). The land use rights of the property have been granted for a term expiring on 31 March 2072 for residential use.	As at the Date of Valuation, the property was occupied for residential use.	RMB1,400,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C0910624（粵房地證字第C0910624號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 27 April 2002, the building ownership of the property with a gross floor area of approximately 107.81 sq.m. and its underlying land use rights are vested in Guangzhou Tianxin Pharmaceutical Co., Ltd.（廣州天心藥業股份有限公司）(as advised by BYS, currently known as Tianxin Pharmaceutical) for a term of 70 years from 1 April 2002 for residential use.

As advised by BYS, the registered owner of the property under the name of Guangzhou Tianxin Pharmaceutical Co., Ltd. is being changed to Tianxin Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Tianxin Pharmaceutical Co., Ltd. was a subsidiary of BYS.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property under the name of Guangzhou Tianxin Pharmaceutical Co., Ltd. has not been changed to Tianxin Pharmaceutical. Tianxin Pharmaceutical will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the formality of changing the owner name; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
3	Levels 3 to 5 and portion of Level 6 of an office building located at 4 East Jiangling Street, Guigang Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區龜崗大馬路江嶺東街4號之一幢寫字樓3至5層及部分6層)	The property comprises Levels 3 to 5 and portion of Level 6 of a 6-storey office building of reinforced concrete structure completed in 1979. The total gross floor area of the property is approximately 4,210.67 sq.m. (45,324 sq.ft.). The land use rights of the property have been granted for a term expiring on 7 July 2052 for office use.	As at the Date of Valuation, the property was occupied for office use.	RMB15,000,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C4014852（粵房地證字第C4014852號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 4 November 2005, the building ownership of the subject building with a gross floor area of approximately 8,259.77 sq.m. and its underlying land use rights are vested in Tianxin Pharmaceutical for office use.

The property with a gross floor area of 4,210.67 sq.m. forms part of the aforesaid Real Estate Title Certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Tianxin Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
4	Portion of a domestic building located at 9 Xiadu Dongyue Lane 2, Chigang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區赤崗路下渡東約二巷9號之一幢住宅樓宇的部分)	The property comprises portion of a 2-storey domestic building of brick and concrete structures completed in the 1990s. The gross floor area of the property is approximately 90.09 sq.m. (970 sq.ft.). The land use rights of the property have been granted for a term expiring on 21 December 2073 for residential use.	As at the Date of Valuation, the property was occupied for residential use.	RMB800,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C2502022（粵房地證字第C2502022號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 20 February 2004, the building ownership of the property with a gross floor area of approximately 90.09 sq.m. and its underlying land use rights are vested in Guangzhou Tianxin Pharmaceutical Co., Ltd. (as advised by BYS, currently known as Tianxin Pharmaceutical) for a term of 70 years from 22 December 2003 for residential use.

As advised by BYS, the registered owner of the property under the name of Guangzhou Tianxin Pharmaceutical Co., Ltd. is being changed to Tianxin Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Tianxin Pharmaceutical Co., Ltd. was a subsidiary of BYS.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property under the name of Guangzhou Tianxin Pharmaceutical Co., Ltd. has not been changed to Tianxin Pharmaceutical. Tianxin Pharmaceutical will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the formality of changing the owner name; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
5	Room 502, 93-1 Shanhehou Street, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區山河後街93-1號502房)	The property comprises a residential unit of an 8-storey domestic building of reinforced concrete structure completed in 1989. The gross floor area of the property is approximately 47.40 sq.m. (510 sq.ft.). The land use rights of the property have been granted for a term expiring on 28 September 2073 for residential use.	As at the Date of Valuation, the property was occupied for residential use.	RMB700,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C4901344（粵房地證字第C4901344號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 11 October 2006, the building ownership of the property with a gross floor area of approximately 47.40 sq.m. and its underlying land use rights are vested in Tianxin Pharmaceutical for a term of 70 years from 29 September 2003 for residential use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Tianxin Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
6	An industrial complex located at 48 North Gongye Avenue, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區工業大道北路48號之一個工業綜合體)	The property comprises a parcel of land with a site area of approximately 12,196.00 sq.m. (131,278 sq.ft.). The property comprises twenty-two 1 to 6-storey buildings of reinforced concrete and brick/wood concrete structures completed in various stages between 1971 and 2002. The total gross floor area of the property is approximately 26,306.31 sq.m. (283,161 sq.ft.). The land use rights of the property have been granted for a term expiring on 6 May 2052 for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB74,700,000 (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau between 3 February 1994 and 18 July 2005, the building ownership of the property with a total gross floor area of approximately 26,306.31 sq.m. and its underlying land use rights with a site area of approximately 12,196.00 sq.m. are vested in Guangzhou Mingxing Pharmaceutical Co., Ltd. (廣州明興製藥有限公司) (as advised by BYS, currently known as Mingxing Pharmaceutical) or Guangzhou Mingxing Pharmaceutical Factory (廣州明興製藥廠) (as advised by BYS, currently known as Mingxing Pharmaceutical). As advised by BYS, due to the reorganization of BYS, the registered owner of the following certificates under the name of Guangzhou Mingxing Pharmaceutical Co., Ltd. or Guangzhou Mingxing Pharmaceutical Factory is being changed to Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司) ("Mingxing Pharmaceutical"), which is a wholly owned subsidiary of BYS. Before the reorganization, Guangzhou Minxing Pharmaceutical Co., Ltd. and Guangzhou Mingxing Pharmaceutical Factory were subsidiaries of BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area (*sq.m.*)	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C3878975 (粵房地證字第C3878975號)	731.05	Office	6 May 2052
ii.	Yue Fang Di Zheng Zi Di No. C3878970 (粵房地證字第C3878970號)	2,065.88	Industrial	6 May 2052
iii.	Yue Fang Di Zheng Zi Di No. C3878981 (粵房地證字第C3878981號)	864.05	Industrial	6 May 2052
iv.	Yue Fang Di Zheng Zi Di No. C3878977 (粵房地證字第C3878977號)	485.20	Canteen	6 May 2052

No.	Certificate No.	Approximate Gross Floor Area (sq.m.)	Land Usage	Land Use Term Expiry Date
v.	Yue Fang Di Zheng Zi Di No. C3878964 (粵房地證字第C3878964號)	679.25	Industrial	6 May 2052
vi.	Yue Fang Di Zheng Zi Di No. C3878972 (粵房地證字第C3878972號)	101.82	Industrial	6 May 2052
vii.	Yue Fang Di Zheng Zi Di No. C3878968 (粵房地證字第C3878968號)	158.91	Industrial	6 May 2052
viii.	Yue Fang Di Zheng Zi Di No. C3878967 (粵房地證字第C3878967號)	242.10	Industrial	6 May 2052
ix.	Yue Fang Di Zheng Zi Di No. C3878966 (粵房地證字第C3878966號)	447.18	Industrial	6 May 2052
x.	Yue Fang Di Zheng Zi Di No. C3878982 (粵房地證字第C3878982號)	135.68	Industrial	6 May 2052
xi.	Yue Fang Di Zheng Zi Di No. C3878984 (粵房地證字第C3878984號)	175.22	Industrial	6 May 2052
xii.	Yue Fang Di Zheng Zi Di No. C3878971 (粵房地證字第C3878971號)	105.55	Industrial	6 May 2052
xiii.	Yue Fang Di Zheng Zi Di No. C3878983 (粵房地證字第C3878983號)	7,300.83	Industrial	6 May 2052
xiv.	Yue Fang Di Zheng Zi Di No. C3878965 (粵房地證字第C3878965號)	6,192.67	Industrial	N/A
xv.	Yue Fang Di Zheng Zi Di No. C3878974 (粵房地證字第C3878974號)	4,164.19	Industrial	6 May 2052
xvi.	Yue Fang Di Zheng Zi Di No. C3878980 (粵房地證字第C3878980號)	105.75	Industrial	6 May 2052
xvii.	Yue Fang Di Zheng Zi Di No. C3878963 (粵房地證字第C3878963號)	117.71	Industrial	6 May 2052
xviii.	Yue Fang Di Zheng Zi Di No. C3878978 (粵房地證字第C3878978號)	909.66	Industrial	6 May 2052
xix.	Yue Fang Di Zheng Zi Di No. C3878976 (粵房地證字第C3878976號)	134.45	Industrial	6 May 2052
xx.	Yue Fang Di Zheng Zi Di No. C3878969 (粵房地證字第C3878969號)	1,080.70	Industrial	6 May 2052
xxi.	Sui Fang Di Zheng Zi Di No. 74632 (穗房地證字第74632號)	56.80	Industrial	N/A
xxii.	Yue Fang Di Zheng Zi Di No. C3878979 (粵房地證字第C3878979號)	51.66	Industrial	6 May 2052
	Total	**26,306.31**		

Regarding Items xv, xvi, xx and xxi, portions of the property with a total gross floor area of approximately 1,346.87 sq.m. were built without obtaining planning approval and regarded as unauthorized construction by the government.

Regarding Item xxi, this certificate is currently owned by Guangzhou Mingxing Pharmaceutical Factory.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for Item xxi of Note (1), the remaining certificates are currently under the name of Guangzhou Mingxing Pharmaceutical Co., Ltd. As advised by Mingxing Pharmaceutical, the formality of changing the owner name is being processed and there will be no legal impediment for such formality;

ii. except for the portions of the property as mentioned in Note (1) which were regarded as unauthorized construction, Mingxing Pharmaceutical will be entitled to transfer, lease, mortgage or by other legal means dispose of the remaining portion of the property after completing the formality of changing the owner name; and

iii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the portions of the property which were regarded as unauthorized construction by the government.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
7	An industrial complex located at North of 311 State Road, Yangmiao Village, Shibali Town, Qiaocheng District, Bozhou, Anhui Province, PRC (中國安徽省亳州市譙城區十八里鎮楊廟村311國道北側之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 8,409.00 sq.m. (90,514 sq.ft.). The property comprises seven 1 to 5-storey buildings of brick and reinforced concrete structures completed in various stages between 1991 and 2004. The total gross floor area of the property is approximately 6,707.29 sq.m. (72,197 sq.ft.). The breakdown of areas is as follows:	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB13,700,000

Usage	Approximate gross floor area	
	sq.m.	*sq.ft.*
Production	4,336.04	46,673
Office	1,052.56	11,330
Warehouse	741.00	7,976
Ancillary Facilities	577.69	6,218
Total:	**6,707.29**	**72,197**

The land use rights of the property have been granted for a term expiring on 31 December 2053 for industrial use.

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Bo Qiao Guo Yong (2003) Zi Di No. 015（亳譙國用(2003)字第015號）issued by Qiaocheng District Land Resources Administrative Bureau of Bozhou City（亳州市譙城區國土資源管理局）on 31 December 2003, the land use rights of the property with a site area of approximately 8,409.00 sq.m. have been granted to Bozhou Baiyunshan Pharmaceutical Co., Ltd.（亳州白雲山製藥有限公司）("Bozhou Pharmaceutical"), an 80% owned subsidiary of BYS, for a term of 50 years expiring on 31 December 2053 for industrial use.

(2) Pursuant to the State-owned Land Use Certificate as mentioned in Note (1), portion of the land parcel of the property lies within the line boundary of Wo River Dam（渦河大堤）and 311 State Road. Such portion of land may be resumed for the construction requirements of these two facilities, namely Wo River Dam and 311 State Road. As advised by Bozhou Pharmaceutical, (i) these two facilities have been completed by the local government before the Date of Valuation, but such portion of land has not been resumed; and (ii) the construction cost of these two facilities and any costs thereby incurred have been and shall be borne by the government. No construction or associated costs will be borne by Bozhou Pharmaceutical.

(3) Pursuant to the following Real Estate Title Certificates issued by Bozhou Municipal Real Estate Administrative Bureau on 8 December 2003 and 19 July 2004, the building ownership of the property with a total gross floor area of approximately 6,707.29 sq.m. and its underlying land use rights with a site area of approximately 8,409.00 sq.m. are vested in Bozhou Pharmaceutical. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Fand Di Quan Bo Zi Di No. 200303701 (房地權亳字第200303701號)	2,058.05	N/A	N/A
ii.	Fang Di Quan Bo Zi Di No. 200303699 (房地權亳字第200303699號)	251.61	N/A	N/A
iii.	Fang Di Quan Bo Zi Di No. 200403219 (房地權亳字第200403219號)	1,052.56	N/A	N/A
iv.	Fang Di Quan Bo Zi Di No. 200303700 (房地權亳字第200303700號)	326.08	N/A	N/A
v.	Fang Di Quan Bo Zi Di No. 200403220 (房地權亳字第200403220號)	2,277.99	N/A	N/A
vi.	Fang Di Quan Bo Zi Di No. 200303698 (房地權亳字第200303698號)	741.00	N/A	N/A
	Total	**6,707.29**		

(4) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. potion of the land parcel of the property lies within the line boundary of Wo River Dam (渦河大堤) and 311 State Road. Such portion of land may be resumed for the construction requirements of these two facilities, namely Wo River Dam and 311 State Road;

ii. Bozhou Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

iii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
8	An industrial complex located at 16 Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石路16號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 2,429.97 sq.m. (26,156 sq.ft.). The property comprises six 1 to 3-storey buildings of brick concrete, brick and wood structures completed in various stages between 1974 and 2006. The total gross floor area of the property is approximately 2,199.05 sq.m. (23,671 sq.ft.). The land use rights of the property have been granted for a term expiring on 2 April 2052 for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB6,000,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 30 September 2005 and 8 October 2005, the building ownership of portions of the property with a total gross floor area of approximately 1,153.66 sq.m. and its underlying land use rights with a site area of approximately 2,429.97 sq.m. are vested in Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd. (廣州白雲山光華製藥股份有限公司) ("Guanghua Pharmaceutical"), an 84.48% owned subsidiary of BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C4011821 (粵房地證字第C4011821號)	29.4	Reception Office	2 April 2052
ii.	Yue Fang Di Zheng Zi Di No. C4085135 (粵房地證字第C4085135號)	82.52	Office	2 April 2052
iii.	Yue Fang Di Zheng Zi Di No. C4085136 (粵房地證字第C4085136號)	305.2	Industrial	2 April 2052
iv.	Yue Fang Di Zheng Zi Di No. C4085137 (粵房地證字第C4085137號)	36.13	Storage	2 April 2052
v.	Yue Fang Di Zheng Zi Di No. C4085138 (粵房地證字第C4085138號)	700.41	Industrial	2 April 2052
	Total	**1,153.66**		

(2) Pursuant to the Building Ownership Certificate – Sui Fang Di Zheng Zi Di No. 0079708 (穗房證字第0079708號) and the State-owned Land Use Certificate – Sui Di Zheng Zi Di No. 0079597 (穗地證字第0079597號) issued by Guangzhou Municipal Real Estate Administrative Bureau on 12 September 1991, the building ownership of the remaining portion of the property with a total gross floor area of

approximately 1,045.39 sq.m. and its underlying land use rights with a site area of approximately 2,429.97 sq.m. are vested in Guangzhou Guanghua Pharmaceutical Factory（廣州光華製藥廠）(as advised by BYS, currently known as Guanghua Pharmaceutical) for industrial use.

As advised by BYS, the registered owner of the aforesaid certificates under the name of Guangzhou Guanghua Pharmaceutical Factory is being changed to Guanghua Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Guanghua Pharmaceutical Factory was a subsidiary of BYS.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the portion of the property as mentioned in Note (2), which is under the name of Guangzhou Guanghua Pharmaceutical Factory, Guanghua Pharmaceutical legally owns the building ownership of the remaining portion of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. portion of the property as mentioned in Note (2) is subject to a mortgage. As advised by Guangzhou Pharmaceutical, the mortgage was paid off in 1996 whilst the formalities for the mortgage discharge have not been completed yet. Guanghua Pharmaceutical is now applying for the Building Ownership Certificate of this portion of the property and there is no legal impediment for the application; and

iii. except for the aforesaid mortgage, the property is not subject to other mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
9	An industrial complex located at 1 Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石路1號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 11,203.72 sq.m. (120,597 sq.ft.). The property comprises eleven 1 to 7-storey buildings of reinforced concrete, brick concrete and brick/wood structures completed in various stages between 1985 and 2001. The total gross floor area of the property is approximately 18,980.26 sq.m. (204,304 sq.ft.). The land use rights of the property have been granted for terms expiring on 2 April 2052 and 26 April 2052 respectively for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB33,100,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau between 2 August 2004 and 16 May 2012, the building ownership of portions of the property with a total gross floor area of approximately 19,931.69 sq.m. and its underlying land use rights with a site area of approximately 11,203.72 sq.m. are vested in Guanghua Pharmaceutical or Guangzhou Guanghua Pharmaceutical Co., Ltd.（廣州光華藥業股份有限公司）(as advised by BYS, currently known as Guanghua Pharmaceutical). As advised by BYS, the registered owner of Item viii under the name of Guangzhou Guanghua Pharmaceutical Co., Ltd. is being changed to Guanghua Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Guanghua Pharmaceutical Co., Ltd. was a subsidiary of BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C4011822 (粵房地證字第C4011822號)	359.69	Industrial	2 April 2052
ii.	Yue Fang Di Zheng Zi Di No. C4011824 (粵房地證字第C4011824號)	6,878.76	Industrial	2 April 2052
iii.	Yue Fang Di Zheng Zi Di No. C4011825 (粵房地證字第C4011825號)	778.77	Electric Room	2 April 2052
iv.	Yue Fang Di Zheng Zi Di No. C4085131 (粵房地證字第C4085131號)	473.64	Industrial	2 April 2052
v.	Yue Fang Di Zheng Zi Di No. C4085132 (粵房地證字第C4085132號)	371.84	Pump Room	2 April 2052

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
vi.	Yue Fang Di Zheng Zi Di No. C4085133 (粵房地證字第C4085133號)	280.02	Ancillary	2 April 2052
vii.	Yue Fang Di Zheng Zi Di No. C4085134 (粵房地證字第C4085134號)	141.30	Storage	2 April 2052
viii.	Yue Fang Di Zheng Zi Di No. C2923815 (粵房地證字第C2923815號)	457.79	N/A	2 April 2052
ix.	Yue Fang Di Quan Zheng Sui Zi Di No. 0850078433 (粵房地權證穗字第0850078433號)	4,501.21	Industrial	26 April 2052
x.	Yue Fang Di Quan Zheng Sui Zi Di No. 0850078426 (粵房地權證穗字第0850078426號)	5,688.67	Industrial	2 April 2072
	Total	**19,931.69**		

Regarding Item viii, this certificate is currently owned by Guangzhou Guanghua Pharmaceutical Co,, Ltd.

Portions of the property with a total gross floor area of 16,631.69 sq.m. form part of the aforesaid Real Estate Title Certificates.

(2) Pursuant to the Building Ownership Certificate – Sui Fang Zheng Zi Di No. 0079711 (穗房證字第0079711號) and the State-owned Land Use Certificate – Sui Di Zheng Zi Di No. 0068545 (穗地證字第0068545號) issued by Guangzhou Municipal Real Estate Administrative Bureau (廣州市房地產管理局) on 19 September 1991, the building ownership of the subject building with a total gross floor area of approximately 3,131.43 sq.m. and its underlying land use rights with a site area of approximately 11,203.72 sq.m. are vested in Guangzhou Guanghua Pharmaceutical Factory (as advised by BYS, currently known as Guanghua Pharmaceutical) for industrial use.

As advised by BYS, the registered owner of the aforesaid certificates under the name of Guangzhou Guanghua Pharmaceutical Factory is being changed to Guanghua Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou Guanghua Pharmaceutical Factory was a subsidiary of BYS.

Portion of the property with a gross floor area of 2,348.57 sq.m. forms part of the aforesaid Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the project issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the portion of the property as mentioned in Item viii of Note (1), which is under the name of Guangzhou Guanghua Pharmaceutical Co., Ltd., and the portion of the property as mentioned in Note (2), which is under the name of Guangzhou of Guanghua Pharmaceutical Factory, Guanghua Pharmaceutical legally owns the building ownership of the remaining portion of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. portion of the property as stated in Note (2) is subject to a mortgage. As advised by Guanghua Pharmaceutical, the mortgage was paid off in 1996 whilst the formalities of mortgage discharge have not been completed yet. Guanghua Pharmaceutical is now applying for the Building Ownership Certificate of this portion of the property and there is no legal impediment for the application;

iii. the registered owner of the property as stated in Item viii of Note (1) has not been changed to Guanghua Pharmaceutical. Guanghua Pharmaceutical is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property after completing the formality of changing the owner name; and

iv. except for the aforesaid mortgage, the property is not subject to other mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
10	A warehouse located at No. 20 of Lane 6, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路六巷20號之一個倉庫)	The property is erected on a parcel of land with a site area of approximately 472.12 sq.m. (5,082 sq.ft.). The property comprises an 1-storey building of brick and wood structures completed in 1995. The gross floor area of the property is approximately 437.70 sq.m. (4,711 sq.ft.). The land use rights of the property have been granted for a term of 50 years expiring on 2 April 2052 for storage use.	As at the Date of Valuation, the property was occupied for storage use.	RMB2,100,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C4011828（粵房地證字第C4011828號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 30 September 2005, the building ownership of the property with a gross floor area of approximately 437.70 sq.m. and its underlying land use rights with a site area of approximately 472.12 sq.m. are vested in Guanghua Pharmaceutical for a term of 50 years expiring on 2 April 2052 for storage use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Guanghua Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
11	Level 1, Nos. 1-2 of New Lane 1, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路新一巷1-2號首層)	The property comprises Level 1 of an 8-storey building of brick and wood structures completed in 1992. The gross floor area of the property is approximately 618.01 sq.m. (6,652 sq.ft.). The land use rights of the property have been granted for a term expiring on 2 April 2052 for storage use.	As at the Date of Valuation, the property was occupied for storage use.	RMB3,500,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di C4085139（粵房地證字第C4085139號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 8 October 2005, the building ownership of the property with a gross floor area of approximately 618.01 sq.m. and its underlying land use rights are vested in Guanghua Pharmaceutical for a term expiring on 2 April 2052 for storage use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Guanghua Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
12	Portion of a residential building located at 26-27 New 2nd Street, West Nanshi Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區南石西路新二街26-27號之一幢住宅樓的部分)	The property comprises portion of an 8-storey building of reinforced concrete structure completed in 2008. The gross floor area of the property is approximately 1,949.04 sq.m. (20,979 sq.ft.). The land use rights of the property have been granted for two concurrent terms of 50 and 70 years from 5 September 2000 for residential use.	As at the Date of Valuation, the property was occupied for residential use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Guangzhou Real Estate Title Proof – No. A0000663 issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 30 December 2006, the building ownership of the buildings with a gross floor area of approximately 9,025.37 sq.m. and its underlying land use rights are vested in Guanghua Pharmaceutical for two concurrent terms of 50 and 70 years from 5 September 2000 for residential use.

The property with a gross floor area of approximately 1,949.04 sq.m. forms part of the aforesaid title proof.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Guanghua Pharmaceutical is not entitled to transfer, lease, mortgage or by other legal means dispose of the property as the Real Estate Title Certificate has not been obtained; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the property with no valid title certificate obtained. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB4,700,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
13	An industrial complex located at 355 North Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太北路355號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 30,161.38 sq.m. (324,657 sq.ft.) The property comprises nineteen 1 to 3-storey buildings of reinforced concrete structure completed in various stages between 1985 and 2007. The total gross floor area of the property is approximately 10,440.43 sq.m. (112,381 sq.ft.). The land use rights of the property have been granted for a term expiring on 3 April 2052 for industrial use.	As at the Date of Valuation, the property was vacant.	RMB38,300,000 (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5098943（粵房地證字第C5098943號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 22 January 2007, the building ownership of the buildings with a gross floor area of approximately 10,530.35 sq.m. and its underlying land use rights with a site area of approximately 30,161.38 sq.m. are vested in Guanghua Pharmaceutical for a term expiring on 3 April 2052 for industrial use.

The property with a gross floor area of approximately 10,440.43 sq.m. forms part of the said Real Estate Title Certificate.

Portion of the property with a gross floor area of approximately 127.73 sq.m. was built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the portion of the property as mentioned in Note (1) which was regarded as unauthorized construction, Guanghua Pharmaceutical is entitled to transfer, lease, mortgage or by other legal means dispose of the remaining portion of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the unauthorized building as mentioned in Note (1).

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
14	Portion of an industrial complex located at 25 East Fangcun Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區芳村大道東25號之一個工業綜合體的部份)	The property is erected on various parcels of land with a total site area of approximately 80,873.04 sq.m. (870,517 sq.ft.). The property comprises portion of fourteen 1 to 6-storey buildings of reinforced concrete or brick concrete structures completed in various stages between 1973 and 2004. The total gross floor area of the property is approximately 31,388.76 sq.m. (337,869 sq.ft.). The land use rights of the property have been granted for terms expiring on 8 February 2052 and 19 February 2052 respectively for industrial use.	As at the Date of Valuation, except for portions of the property with a total gross floor area of approximately 1,112.60 sq.m. which were subject to two tenancies with the latest one due to expire on 31 March 2013 at a total monthly rental of approximately RMB18,090 for industrial use, the remaining parts were occupied by the owner for industrial use.	RMB77,900,000 (please refer to Note (4))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 19 March 2007, the building ownership of various buildings with a total gross floor area of approximately 34,621.90 sq.m. and their underlying land use rights of the property are vested in Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd. (廣州白雲山僑光製藥有限公司) ("Qiaoguang"), for a term expiring on 8 February 2052 and 19 February 2052 respectively for industrial use. As advised by BYS, the registered owner of the property under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to Affiliated Company of Guangzhou Baiyunshan Pharmaceutical Co., Ltd (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠) ("General Factory"), a branch of BYS. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C5343078 (粵房地證字第C5343078號)	9,655.78	Industrial	19 February 2052
ii.	Yue Fang Di Zheng Zi Di No. C5343085 (粵房地證字第C5343085號)	1,658.59	Industrial, Mining and Storage	19 February 2052
iii.	Yue Fang Di Zheng Zi Di No. C5343080 (粵房地證字第C5343080號)	10,895.44	Industrial	8 February 2052
iv.	Yue Fang Di Zheng Zi Di No. C5343082 (粵房地證字第C5343082號)	904.30	Industrial, Mining and Storage	19 February 2052

No.	Certificate No.	Approximate Gross Floor Area (sq.m.)	Land Usage	Land Use Term Expiry Date
v.	Yue Fang Di Zheng Zi Di No. C5343087 (粵房地證字第C5343087號)	1,234.77	Industrial, Mining and Storage	19 February 2052
vi.	Yue Fang Di Zheng Zi Di No. C5343083 (粵房地證字第C5343083號)	1,305.43	Industrial, Mining and Storage	19 February 2052
vii.	Yue Fang Di Zheng Zi Di No. C5343084 (粵房地證字第C5343084號)	1,884.15	Industrial, Mining and Storage	19 February 2052
viii.	Yue Fang Di Zheng Zi Di No. C5343077 (粵房地證字第C5343077號)	684.42	Industrial, Mining and Storage	19 February 2052
ix.	Yue Fang Di Zheng Zi Di No. C5343079 (粵房地證字第C5343079號)	6,399.02	Industrial	19 February 2052
	Total	**34,621.90**		

Portions of the property with a total gross floor area of 11,001.75 sq.m. form part of the aforesaid Real Estate Title Certificates.

(2) As advised by the Company, the remaining portion of the property with a total gross floor area of approximately 20,387.01 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

(i) portion of the property with a total gross floor area of approximately 20,387.01 sq.m. has not been granted with the Building Ownership Certificate and therefore the owner is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

(ii) the registered owner of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the said formality of changing the owner name is being processed. There will be no legal impediment for such formality;

(iii) except for the portion of the property as mentioned in Note (2), General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the buildings of the property and its underlying land use rights after completing the aforesaid formality; and

(iv) the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the portion of the property with no valid title documents obtained as mentioned in Note (2). For indicative purpose, the depreciated replacement cost of such buildings of the property was in the region of RMB23,100,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
15	An industrial complex located at 49 Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路49號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 16,780.83 sq.m. (180,629 sq.ft.). The property comprises twenty 1 to 7-storey buildings of reinforced concrete and brick concrete structures completed in various stages between 1959 and 2002. The total gross floor area of the property is approximately 23,087.11 sq.m. (248,510 sq.ft.). The land use rights of portion of the property have been granted for terms expiring on 3 July 2052 and 8 July 2052 for storage, industrial and composite uses.	As at the Date of Valuation, except for portions of the property with a total gross floor area of approximately 20,596.11 sq.m. which were occupied by the owner for manufacturing use, the remaining parts were subject to various tenancies with the latest one due to expire on 31 December 2015 at a total monthly rental of approximately RMB67,028 for office use.	RMB32,300,000 (please refer to Note (4))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau between 26 March 2001 and 5 November 2008, the building ownership of various buildings with a total gross floor area of approximately 21,877.11 sq.m. and their underlying land use rights with a site area of approximately 16,780.83 sq.m. are vested in Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan Hejigong Pharmaceutical Factory (廣州白雲山製藥股份有限公司白雲山何濟公製藥廠) ("Hejigong Pharmaceutical Factory") or Guangzhou Hejigong Pharmaceutical Factory (廣州何濟公製藥廠) (as advised by BYS, currently known as Hejigong Pharmaceutical Factory). As advised by BYS, due to the reorganization of BYS the registered owner of Item iii under the name of Guangzhou Hejigong Pharmaceutical Factory is being changed to Hejigong Pharmaceutical Factory, a branch of BYS. Before the reorganization, Guangzhou Hejigong Pharmaceutical Factory was a subsidiary of BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C6869535 (粵房地證字第C6869535號)	304.96	Industrial	3 July 2052
ii.	Yue Fang Di Zheng Zi Di No. C6490582 (粵房地證字第C6490582號)	3,267.75	Composite	3 July 2052
iii.	Sui Fang Di Zheng Zi Di No. 0817289 (穗房地證字第0817289號)	175.57	Industrial	N/A
iv.	Yue Fang Di Quan Zheng Sui Zi Di No. 0640002529 (粵房地權證穗字第0640002529號)	281.91	Industrial	3 July 2052

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
v.	Yue Fang Di Quan Zheng Sui Zi Di No. 0640002533 (粵房地權證穗字第0640002533號)	1,460.67	Industrial	3 July 2052
vi.	Yue Fang Di Zheng Zi Di No. C6273513 (粵房地證字第C6273513號)	3,959.40	Storage	3 July 2052
vii.	Yue Fang Di Zheng Zi Di No. C6490569 (粵房地證字第C6490569號)	5,222.87	Composite	N/A
viii.	Yue Fang Di Zheng Zi Di No. C6869533 (粵房地證字第C6869533號)	487.62	Composite	3 July 2052
ix.	Yue Fang Di Zheng Zi Di No. C6273511 (粵房地證字第C6273511號)	4,525.00	Composite	N/A
x.	Yue Fang Di Zheng Zi Di No. C5800988 (粵房地證字第C5800988號)	1,728.18	Composite	N/A
xi.	Yue Fang Di Zheng Zi Di No. C6273510 (粵房地證字第C6273510號)	463.18	Composite	8 July 2052
	Total	**21,877.11**		

Regarding Item iii, this certificate is currently owned by Guangzhou Hejigong Pharmaceutical Factory.

Regarding Items iii and x, portions of the buildings of the property with a total gross floor area of approximately 456.43 sq.m. were built without obtaining planning approval and regarded as unauthorized construction by the government.

Regarding Item vi, the title of portion of the building with a gross floor area of approximately 32.65 sq.m. cannot be confirmed.

(2) As advised by the Company, portion of the property with a gross floor area of approximately 1,210.00 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. portion of the property with a total gross floor area of approximately 1,210.00 sq.m. has not been granted with the Building Ownership Certificate and therefore the owner is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. except for the negative situations as mentioned in Notes (1) and (2), Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the portion of the property with defective title as mentioned in Note (1) and with no valid title document obtained as mentioned in Note (2). For indicative purpose, the depreciated replacement cost of the building of the property as mentioned in Note (2) was in the region of RMB1,230,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
16	Level 1 of Nos. 39 & 39-1 and Level 1 of Nos. 41, 43 & 45 of Xinfu New Village, Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路幸福新村39及39-1號之首層及41、43和45號之首層)	The property is erected on two parcels of land with a total site area of approximately 1,249.07 sq.m. (13,445 sq.ft.). The property comprises portion of two 6 to 8-storey buildings of reinforced concrete and brick concrete structures completed in 1981. The total gross floor area of the property is approximately 1,240.66 sq.m. (13,354 sq.ft.). The land use rights of the property have been granted for a term expiring on 3 July 2052 for storage and composite uses respectively.	As at the Date of Valuation, the property was occupied for storage use.	RMB5,300,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 23 December 2008 and 10 October 2008, the building ownership of the property with a total gross floor area of approximately 1,240.66 sq.m. and its underlying land use rights with a total site area of approximately 1,249.07 sq.m. are vested in Hejigong Pharmaceutical Factory. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Quan Zheng Sui Zi Di No. 0640002539 (粵房地權證穗字第0640002539號)	690.37	Storage	3 July 2052
ii.	Yue Fang Di Zheng Zi Di No. C6869539 (粵房地證字第C6869539號)	550.29	Composite	3 July 2052
	Total	**1,240.66**		

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property, issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
17	An industrial complex located at 52 Xiaogang Avenue, Xinshijie, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區新市街蕭崗大馬路52號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 17,006.72 sq.m. (183,060 sq.ft.). The property comprises thirteen 1 to 6– storey buildings of reinforced concrete structure completed in 1991. The total gross floor area of the property is approximately 18,427.51 sq.m. (198,354 sq.ft.). The land use rights of the property have been granted for a term of 50 years expiring on 20 February 2052 for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB49,300,000 (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C6137122（粵房地證字第C6137122號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 12 November 2007, the building ownership of the property with a gross floor area of approximately 18,427.51 sq.m. and its underlying land use rights with a site area of approximately 17,006.72 sq.m. are vested in Hejigong Pharmacutical Factory for a term of 50 years from 21 February 2002 for industrial use.

Portion of the property with a gross floor area of approximately 418.43 sq.m. was built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the unauthorized building as mentioned in Note (1), Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the building of the property as mentioned in Note (1) which was regarded as unauthorized construction by the government.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
18	An industrial complex located at 28 Temeisi Avenue, Hepo Town, Jiexi County, Jieyang, Guangdong Province, PRC (中國廣東省揭陽市揭西縣河婆鎮特美思大道28號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 21,394.00 sq.m. (230,285 sq.ft.). The property comprises six 1 to 4-storey office and industrial buildings of reinforced concrete and brick concrete structures completed in various stages between 1997 and 2004. The total gross floor area of the property is approximately 10,655.49 sq.m. (114,696 sq.ft.). The land use rights of the property have been granted for a term expiring on 26 November 2043 for industrial use.	As at the Date of Valuation, the property was occupied for industrial use.	RMB23,600,000 (please refer to Note 6)

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Jie Xi Guo Yong (2002) Di No. 3800480（揭西國用(2002)第3800480號）issued by the People's Government of Jiexi on 23 August 2007, the land use rights of a parcel of land with a site area of approximately 21,394.00 sq.m. are vested in Baiyunshan Weiling Pharmaceutical Co., Ltd.（白雲山威靈藥業有限公司）("Weiling Pharmaceutical"), a wholly owned subsidiary of BYS, for a term expiring on 26 November 2043 for industrial use.

(2) Pursuant to the following Real Estate Title Certificates issued by Jiexi Construction Bureau（揭西縣建設局）on 5 July 2000 and 11 December 2003, the building ownership of portions of the property with a total gross floor area of approximately 8,631.49 sq.m. and its underlying land use rights with a site area of approximately 21,394.00 sq.m. are vested in Weiling Pharmaceutical. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Use Term Expiry Date	Land Usage
i.	Yue Fang Di Zheng Zi Di No. 2477182（粵房地證字第2477182號）	762.21	N/A	N/A
ii.	Yue Fang Di Zheng Zi Di No. 2477167（粵房地證字第2477167號）	4,077.92	N/A	N/A
iii.	Yue Fang Di Zheng Zi Di No. 2477212（粵房地證字第2477212號）	623.25	N/A	N/A

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Use Term Expiry Date	Land Usage
iv.	Yue Fang Di Zheng Zi Di No. C0389277 (粵房地證字第C0389277號)	2,012.23	N/A	N/A
v.	Yue Fang Di Zheng Zi Di No. C0389280 (粵房地證字第C0389280號)	1,085.00	N/A	N/A
vi.	Yue Fang Di Zheng Zi Di No. 2477179 (粵房地證字第2477179號)	70.88	N/A	N/A
	Total	**8,631.49**		

(3) Pursuant to the Construction Works Planning Permit – Jie Xi Cheng Gui No. 2005(A)-029 (揭西城規編號 2005(A)-029) issued by Jiexi Urban Planning Bureau (揭西縣城市規劃局) on 8 June 2005, the construction scale of the remaining portion of the property with a gross floor area of approximately 2,024.00 sq.m. has been approved.

(4) Pursuant to the Construction Works Commencement Permit – No. 445222200507120101 issued by Jiexi Construction Bureau (揭西縣建設局) on 12 July 2005, the construction scale of the remaining portion of the property with a gross floor area of approximately 2,024.00 sq.m. has been permitted to commence.

(5) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. portion of the buildings of the property with a gross floor area of 2,024.00 sq.m. as mentioned in Notes (3) and (4) has not been granted with the Building Ownership Certificate and therefore Weiling Pharmaceutical is not entitled to transfer, lease, mortgage or by other legal means dispose of such portions of the property;

ii. Weiling Pharmaceutical legally owns the building ownership of portion of the property as mentioned in Note (2) and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

iii. the property is not subject to any mortgages.

(6) In the course of our valuation, we have assigned no commercial value to the portion of the property with no valid title documents obtained as mentioned in Notes (3) and (4). For indicative purpose, the depreciated replacement cost of such building of the property was in the region of RMB4,450,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
19	Units A401, A402, B401 and B402 of Block 12, Jingfeng Garden, Heshan Committee, Hepo Town, Jiexi County, Jieyang, Guangdong Province, PRC (中國廣東省揭陽市揭西縣河婆鎮河山居委金鳳花園第十二棟A401、A402、B401-B402號房)	The property comprises four units of a 7-storey building of reinforced concrete structure completed in 2004.. The total gross floor area of the property is approximately 486.15 sq.m. (5,233 sq.ft.).	As at the Date of Valuation, the property was occupied for residential use.	RMB1,300,000

Notes:

(1) Pursuant to Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C2324034（粵房地證字第C2324034號）issued by Jiexi Construction Bureau（揭西縣建設局）on 31 December 2004, the building ownership of the property with a gross floor area of approximately 486.15 sq.m. is vested in Weiling Pharmaceutical.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Weiling Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
20	An industrial complex located at 78 Tongbao Road, Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮同寶路78號之一個工業綜合體)	The property is erected on a parcel of and with a site area of approximately 211,088.18 sq.m. (2,272,153 sq.ft.). The property comprises forty-five 1 to 6-storey buildings of reinforced concrete and brick concrete structures completed in the 1980s and 1990s. The total gross floor area of the property is approximately 40,747.35 sq.m. (438,604 sq.ft.). The land use rights of the property have been granted for a term expiring on 11 August 2043 for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB195,730,000 (please refer to Note (4))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 1040002645 (粵房地權證穗字第1040002645號) issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 10 August 2009, the building ownership of various building with a total gross floor area of approximately 29,843.03 sq.m. and their underlying land use rights with a site area of approximately 211,088.18 sq.m. are vested in BYS for a term expiring on 11 August 2043 for industrial use.

(2) The remaining portion of the property with a total gross floor area of approximately 10,904.32 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. portion of the property with a total gross floor area of approximately 10,904.32 sq.m. has not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. portion of the property as mentioned in Note (1) is subject to a mortgage for a term expiring on 31 December 2009. As advised by the Company, the mortgage has been paid off and the formality of mortgage discharge is in progress;

iii. except for the buildings as mentioned in Note (2), BYS is entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the buildings as mentioned in Note (1) and its underlying land use rights; and

iv. except for the aforesaid mortgage, the property is not subject to other mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the buildings of the property with no valid title documents obtained as mentioned in Note (2). For indicative purpose, the depreciated replacement cost of the aforesaid buildings of the property was in the region of RMB19,800,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
21	An industrial complex located at 2, 78 and 82 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路2、78及82號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 175,606.98 sq.m. (1,890,234 sq.ft.). The property comprises eighteen 1 to 7-storey buildings of reinforced concrete structure completed in various stages between 1979 and 2006. The total gross floor area of the property is approximately 78,788.97 sq.m. (848,084 sq.ft.). The land use rights of the property have been granted for a term expiring on 11 August 2043 for office, residential and industrial uses respectively.	As at the Date of Valuation, the property was occupied for industrial use.	RMB786,150,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 6 July 1999 and 20 December 2006, the building ownership of various buildings with a total gross floor area of approximately 96,698.35 sq.m. and their underlying land use rights with a site area of approximately 175,606.98 sq.m. are vested in BYS for a term expiring on 11 August 2043 for office, residential and industrial uses respectively. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Sui Fang Di Zheng Zi Di No. 0453679 (穗房地證字第0453679號)	83,803.75	Office and Residential	11 August 2043
ii.	Yue Fang Di Zheng Zi Di No. C5099267 (粵房地證字第C5099267號)	9,955.99	Industrial	11 August 2043
iii.	Yue Fang Di Zheng Zi Di No. C5099266 (粵房地證字第C5099266號)	2,938.61	Industrial	11 August 2043
	Total	**96,698.35**		

As advised by the Company, the property comprises portion of Item i with a gross floor area of 65,894.37 sq.m. and the whole of Items ii and iii with a total gross floor area of 12,894.60 sq.m..

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property;

ii. the property is subject to a mortgage for a term extended to 4 December 2012; and

iii except for the aforesaid mortgage, the property is not subject to other mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
22	A refinery workshop located at 1479 Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路1479號之一個提鍊廠)	The property is erected on a parcel of land with a site area of approximately 18,092.00 sq.m. (194,742 sq.ft.). The property comprises a 7-storey building of reinforced concrete structure completed in the 1980s. The gross floor area of the property is approximately 2,625.00 sq.m. (28,256 sq.ft.). The land use rights of the property have been granted for a term of 50 years for industrial, mining and storage uses.	As at the Date of Valuation, the property was occupied for refinery use.	RMB17,000,000 (please refer to Note (4))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Fu Guo Yong (2005) Di No. 605（穗府國用(2005)第605號）issued by the People's Government of Guangzhou（廣州市人民政府）, the land use rights of a parcel of land with a site area of approximately 18,092.00 sq.m. have been granted to BYS for a term of 50 years for industrial, mining and storage uses.

(2) As advised by the Company, the property with a total gross floor area of approximately 2,625.00 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the building of the property with a gross floor area of approximately 2,625.00 sq.m. has not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. BYS legally owns the land use rights of the property and is entitled to transfer, lease, mortgage or by other legal means dispose of such land use rights; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the building of the property with no valid title document obtained. For indicative purpose, the depreciated replacement cost of such building was in the region of RMB2,630,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
23	Levels 4 and 5, 14 North Yilv Street, Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路倚綠北街14號四及五層)	The property comprises Levels 4 and 5 of a 5-storey building of reinforced concrete structure completed in 1999. The gross floor area of the property is approximately 5,031.50 sq.m. (54,159 sq.ft.). The land use rights of the property have been granted for a term of 50 years from 13 September 1999 for composite, commercial and residential uses.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 August 2013 at a monthly rental of approximately RMB61,171 for storage use.	RMB39,200,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 14 December 2005 and 5 September 2006, the building ownership of the property with a total gross floor area of approximately 5,031.50 sq.m. and its underlying land use rights are vested in BYS. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
1.	Yue Fang Di Zheng Zi Di No. C4178764 (粵房地證字第C4178764號)	2,586.88	Composite	12 September 2049
ii.	Yue Fang Di Zheng Zi Di No. C4804551 (粵房地證字第C4804551號)	2,444.62	Commercial/ Residential	12 September 2049
	Total	**5,031.50**		

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
24.	An electric room located in the rear hill of Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路後山之一個供電站)	The property comprises an 1-storey building of brick concrete structure completed in 2007. The gross floor area of the property is approximately 200.00 sq.m. (2,153 sq.ft.).	As at the Date of Valuation, the property was occupied as electric room.	No commercial value (please refer to Note (3))

Notes:

(1) As advised by the Company, the property has not been granted with the Real Estate Title Certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has not been granted with the Real Estate Title Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB400,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
25	An electric room located in Zone 1 of the front hill, Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路前山一區之一個供電站)	The property comprises an 1-storey building of brick concrete structure completed in 1996. The gross floor area of the property is approximately 77.55 sq.m. (835 sq.ft.).	As at the Date of Valuation, the property was occupied as electric room.	No commercial value (please refer to Note (3))

Notes:

(1) As advised by the Company, the property has not been granted with any valid title documents.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has not been granted with the Real Estate Title Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB100,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
26	Chuangxin Center, 5-6 Yuntai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲泰路5-6號創新中心)	The property is erected on a parcel of land with a site area of approximately 30,004.04 sq.m. (322,963 sq.ft.). The property comprises two 6-storey buildings of reinforced concrete structure completed in 2004. The total gross floor area of the property is approximately 19,548.56 sq.m. (210,421 sq.ft.). The land use rights of the property have been granted for a term expiring on 18 November 2054 for industrial use.	As at the Date of Valuation, the property was occupied for manufacturing use.	RMB85,100,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C7223252（粵房地證字第C7223252）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 20 February 2009, the building ownership of the property with a total gross floor area of approximately 19,548.56 sq.m. and its underlying land use rights with a site area of approximately 30,004.04 sq.m. are vested in BYS for a term expiring on 18 November 2054 for industrial use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
27	Various buildings located at 46 West Wenquan Road, Wenquan Town, Conghua, Guangdong Province, PRC (中國廣東省從化市溫泉鎮溫泉西路46號之多幢樓房)	The property is erected on a parcel of land with a site area of approximately 3,347.00 sq.m. (36,027 sq.ft.). The property comprises five 1 to 4-storey buildings of reinforced concrete structure completed in 1994 and 1995. The total gross floor area of the property is approximately 4,372.83 sq.m. (47,069 sq.ft.). The land use rights of the property have been granted for a term expiring on 9 January 2045 for training and power distribution uses.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2012 at a total annual rental of approximately RMB100,000 for training use.	RMB20,760,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued on 6 January 2003, the building ownership of the property with a total gross floor area of approximately 4,372.83 sq.m. and its underlying land use rights with a site area of approximately 3,347.00 sq.m. are vested in BYS for a term expiring on 9 January 2045 for training and power distribution uses. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
1.	Yue Fang Di Zheng Zi Di No. C0604137 (粵房地證字第C0604137號)	2,625.57	Training Centre	9 January 2045
ii.	Yue Fang Di Zheng Zi Di No. C0604135 (粵房地證字第C0604135號)	821.56	Training Centre	9 January 2045
iii.	Yue Fang Di Zheng Zi Di No. C0604136 (粵房地證字第C0604136號)	621.94	Training Centre	9 January 2045
iv.	Yue Fang Di Zheng Zi Di No. C0604098 (粵房地證字第C0604098號)	254.88	Training Centre	9 January 2045
v.	Yue Fang Di Zheng Zi Di No. C0604099 (粵房地證字第C0604099號)	48.88	Power Distribution Room	9 January 2045
	Total	**4,372.83**		

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information

i. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
28	Various buildings located at 391-431 North Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太北路391-431號之多幢樓宇)	The property is erected on a parcel of land with a site area of approximately 16,955.46 sq.m. (182,509 sq.ft.). The property comprises six 1-6 storey buildings of reinforced concrete structure completed in 1999. The total gross floor area of the property is approximately 3,868.51 sq.m. (41,641 sq.ft.). The land use rights of the property have been granted for a term expiring on 7 August 2047 for industrial and office uses respectively.	As at the Date of Valuation, the property was occupied for residential use.	RMB7,550,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Sui Fang Di Zheng Zi Di No. 1009885（穗房地證字第1009885號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 28 March 2006, the building ownership of various buildings with a total gross floor area of approximately 12,011.84 sq.m. and their underlying land use rights with a site area of approximately 16,955.46 sq.m. are vested in BYS for a term expiring on 7 August 2047 for industrial and office uses respectively.

As advised by the Company, the property with a gross floor area of approximately 3,868.51 sq.m., forms part of the aforesaid Real Estate Title Certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS legally owns the building ownership of portion of the property as mentioned in Note (1) and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
29	An industrial complex located at 78 Tongbao Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同寶路78號之一個工業綜合體)	The property comprises two parcels of land with a total site area of approximately 26,842.00 sq.m. (288,927 sq.ft.) The property comprises five 1-storey buildings of reinforced concrete and brick concrete structures completed in various stages between 1990 and 1995. The total gross floor area of the property is approximately 1,370.41 sq.m. (14,751 sq.ft.). The land use rights of the property have been granted for industrial use.	As at the Date of Valuation, the property was occupied for industrial use.	No commercial value (please refer to Note (4))

Notes:

(1) Pursuant to the following Guangzhou Land Use Proofs (廣州市土地使用權屬證明書) issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau (廣州市國土局房管局) on 4 December 2003, the land use rights of two parcels of land with a total site area of approximately 26,842.00 sq.m. have been granted to BYS for industrial use. Details of the said certificates are as follows:

No.	Certificate No.	Land Usage	Approximate Site Area (sq.m.)
i.	Sui Guo Tu Quan[2003] No. 166 (穗國土權[2003] 166號)	Industrial	12,940.00
ii.	Sui Guo Tu Quan[2003] No. 165 (穗國土權[2003] 165號)	Industrial	13,902.00
	Total		**26,842.00**

(2) As advised by the Company, the buildings of the property have not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the buildings of the property have not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. BYS is in the process of applying for the State-owned Land Use Certificate of the property and will be entitled to transfer, lease, mortgage or by other legal means dispose of the land use rights of the property after obtaining such document; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the buildings of the property was in the region of RMB1,660,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
30	Various buildings located at 389 Shatai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區沙太路389號之多幢樓房)	The property is erected on a parcel of land with a site area of approximately 11,848.00 sq.m. (127,532 sq.ft.). The property comprises seven 1-storey buildings of brick concrete structure completed in the 1980s. The total gross floor area of the property is approximately 4,756.50 sq.m. (51,199 sq.ft.). The land use rights of the property have been allocated for forestry use.	As at the Date of Valuation, the property was occupied for storage use.	No commercial value (please refer to Note (4))

Notes:

(1) Pursuant to the Guangzhou Land Use Proof（廣州市土地使用權屬證明書）– Sui Guo Tu Quan [2003] No. 167（穗國土權[2003] 167號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 4 December 2003, the land use rights of a parcel of land with a site area of approximately 11,848.00 sq.m. have been allocated to BYS for forestry use.

(2) As advised by the Company, the property with a total gross floor area of approximately 4,756.50 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the buildings of the property have not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. BYS is in the process of applying for the State-owned Land Use Certificate of the property and will be entitled to transfer, lease, mortgage or by other legal means dispose of the land use rights of the property after obtaining such document and completing the formality of transferring the allocated land use rights into granted land use rights; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the buildings of the Property was in the region of RMB2,800,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
31	A stadium bleacher located at Affiliated Company of Guangzhou Baiyunshan Pharmaceutical Co., Ltd., Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮廣州白雲山製藥總廠範圍地段之一個球場看台)	The property is erected on a parcel of land with a site area of approximately 21,113.04 sq.m. (227,261 sq.ft.). The property comprises a 1-storey building of brick concrete structure completed in 1995. The gross floor area of the property is approximately 500.00 sq.m. (5,382 sq.ft.). The land use rights of the property have been granted for a term expiring on 19 January 2055 for public facility use.	As at the Date of Valuation, the property was occupied for public facility use.	RMB61,100,000 (please refer to Note (4))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Guo Yong [2004] No.298（穗國用(2004)第298號）issued by People's Government of Guangzhou（廣州市人民政府）on 24 January 2005, the land use rights of a parcel of land with a site area of approximately 29,807.00 sq.m. have been granted to BYS for a term expiring on 19 January 2055 for public facility use.

As advised by the Company, portion of the aforesaid parcel of land with a site area of approximately 8,693.96 sq.m. was resumed by the local government for sewage treatment. The property comprises the remaining portion of the land parcel with a site area of approximately 21,113.04 sq.m..

(2) As advised by the Company, the property with a gross floor area of approximately 500.00 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property with a total gross floor area of approximately 500.00 sq.m. has not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. BYS has obtained the land use rights of the property and is entitled to transfer, lease, mortgage or by other legal means dispose of the land use rights of the property; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the building of the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB450,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
32	An industrial complex located at Affiliated Company of Guangzhou Baiyunshan Pharmaceutical Co., Ltd., Tonghe Town, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮廣州白雲山製藥總廠範圍之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 13,441.95 sq.m. (144,689 sq.ft.). The property comprises nine 1 to 7-storey buildings of reinforced concrete and brick concrete structures completed in the 1990s. The total gross floor area of the property is approximately 8,019.85 sq.m. (86,326 sq.ft.). The land use rights of the property have been granted for a term expiring on 4 January 2055 for industrial, mining and storage uses.	As at the Date of Valuation, the property was occupied for industrial use.	RMB13,900,000 (please refer to Note (4))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Guo Yong (2004) Di No. 289（穗國用(2004)第 289號）issued by People's Government of Guangzhou（廣州市人民政府）on 5 January 2005, the land use rights of a parcel of land with a site area of approximately 16,802.00 sq.m. have been granted to BYS for a term of 50 years from 5 January 2005 for industrial, mining and storage uses.

As advised by the Company, portion of the aforesaid land parcel with a site area of approximately 3,360.05 sq.m. was resumed by the local government. The property only comprises the remaining portion of the land parcel with a site area of approximately 13,441.95 sq.m..

(2) As advised by the Company, the property with a total gross floor area of approximately 8,019.85 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the buildings of the property have not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of such buildings of the property;

ii. BYS has obtained the land use rights of the property and is entitled to transfer, lease, mortgage or by other legal means dispose of such land use rights of the property; and

iii. the property is not subject any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the buildings of the property with no valid title documents obtained. For indicative purpose, the depreciated replacement cost of the buildings of the property was in the region of RMB9,300,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
33	A parcel of land located at East of Yuandunling, Tonghe Town Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同和鎮園敦嶺以東之一塊土地)	The property comprises on a parcel of land with a site area of approximately 17,903.84 sq.m. (192,717 sq.ft.). The land use rights of the property have been granted for terms of 50 and 70 years expiring on 19 January 2055 and 19 January 2075 for public facility and residential uses respectively.	As at the Date of Valuation, the property was occupied for public facility use.	RMB136,860,000

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Guo Yong (2004) Di No. 297（穗國用(2004)第297號）issued by the People's Government of Guangzhou（廣州市人民政府）on 24 January 2005, the land use rights of a parcel of land with a site area of approximately 19,978.00 sq.m. have been granted to BYS for terms of 50 and 70 years from 20 January 2005 for public facility and residential uses.

Portion of the parcel of land with a site area of approximately 2,074.16 sq.m. has been resumed by the local government for sewage treatment. The property comprises the remaining land parcel with a site area of approximately 17,903.84 sq.m.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS has obtained the land use rights of the property and BYS is entitled to transfer, lease, mortgage or by other legal means dispose of the land use rights of the property; and

ii. the property is not subject to any mortgages.

Group A2 – Properties held for investment by BYS and BYS's subsidiaries in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
34	An industrial complex located at 14 Middle Baohua Lane, Baohua Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區寶華路寶華正中約14號之一個工業綜合體)	The property is erected on a parcel of land with a site area of approximately 4,418.89 sq.m. (47,565 sq.ft.). The property comprises seven 2 to 8-storey industrial buildings of brick and reinforced concrete structures completed in various stages between 1956 and 1988. The total gross floor area of the property is approximately 15,550.84 sq.m. (167,389 sq.ft.). The land use rights of the property have been granted for various terms for industrial use (please refer to Note (1)).	As at the Date of Valuation, the property was subject to a tenancy at a monthly rental of approximately RMB175,000 with expiry date upon the tenant finds a new premise for relocation. The property was occupied for manufacturing use.	RMB40,090,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 31 December 2006, the building ownership of the property with a total gross floor area of approximately 15,550.84 sq.m. and its underlying land use rights with a site area of approximately 4,418.89 sq.m. are vested in Qiaoguang. As advised by BYS, the registered owner of the property under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to General Factory. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di C5107868 (粵房地證字第C5107868號)	1,135.32	Industrial	8 February 2052
ii.	Yue Fang Di Zheng Zi Di C5107869 (粵房地證字第C5107869號)	4,201.90	Industrial	8 February 2052
iii.	Yue Fang Di Zheng Zi Di C5107870 (粵房地證字第C5107870號)	3,072.35	Industrial	2 June 2049 and 8 February 2052
iv.	Yue Fang Di Zheng Zi Di C5107871 (粵房地證字第C5107871號)	960.54	Industrial	8 February 2052
v.	Yue Fang Di Zheng Zi Di C5107872 (粵房地證字第C5107872號)	154.05	Industrial	8 February 2052
vi.	Yue Fang Di Zheng Zi Di C5107873 (粵房地證字第C5107873號)	500.66	Industrial	8 February 2052 and 2 June 2069
vii.	Yue Fang Di Zheng Zi Di C5107874 (粵房地證字第C5107874號)	5,526.02	Industrial	8 February 2052
	Total	**15,550.84**		

Portions of the buildings as mentioned in Items ii and iv with a total gross area of 56.72 sq.m. were built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the formality of changing the owner name is in progress. There will be no legal impediment for such formality;

ii. except for the unauthorized buildings as mentioned in Note (1), General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the property and its underlying land use rights after completing the aforesaid formality; and

iii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the portion of the property without obtaining planning approval and regarded as unauthorized construction by the government as stated in Note (1).

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
35	Portion of an industrial complex located at 25 East Fangcun Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區芳村大道東25號之一個工業綜合體的部分)	The property is erected on portion of various parcels of land with a total site area of approximately 59,071.46 sq.m. (635,845 sq.ft.). The property comprises portion of nine 3 to 6-storey buildings of reinforced concrete and brick concrete structures completed in various stages between 1973 and 2004. The total gross floor area of the property is approximately 15,572.84 sq.m. (167,626 sq.ft.). The land use rights of the property have been granted for terms expiring on 8 February 2052 and 19 February 2052 respectively for industrial use.	As at the Date of Valuation, except for a portion of the property with a gross floor area of approximately 368.00 sq.m. was occupied by the owner for industrial use, the remaining parts were subject to various tenancies with the latest one due to expiry on 1 September 2015 at a total monthly rental of approximately RMB546,627 for manufacturing use.	RMB49,020,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 19 March 2007, the building ownership of the buildings with a total gross floor area of approximately 31,149.24 sq.m. and their underlying land use rights with a site area of approximately 59,071.46 sq.m. are vested in Qiaoguang for industrial use. As advised by BYS, the registered owner of the following certificates under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to General Factory. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di C5343081 (粵房地證字第C5343081號)	6,450.55	Industrial, Mining and Storage	19 February 2052
ii.	Yue Fang Di Zheng Zi Di C5343078 (粵房地證字第C5343078號)	9,655.78	Industrial	19 February 2052
iii.	Yue Fang Di Zheng Zi Di C5343085 (粵房地證字第C5343085號)	1,658.59	Industrial, Mining and Storage	19 February 2052
iv.	Yue Fang Di Zheng Zi Di C5343080 (粵房地證字第C5343080號)	10,895.44	Industrial	8 February 2052
v.	Yue Fang Di Zheng Zi Di C5343086 (粵房地證字第C5343086號)	2,488.88	Industrial, Mining and Storage	19 February 2052
	Total	**31,149.24**		

The property only comprises portion of the parcels of land as mentioned in the aforesaid certificates.

Portion of the property with a total gross floor area of 14,768.84 sq.m. forms part of the above Real Estate Title Certificates.

(2) The remaining portion of the property with a total gross floor area of approximately 804.00 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property, issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. portion of the property with a total gross floor area of approximately 804.00 sq.m. has not been granted with the Building Ownership Certificate and therefore the owner is not entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property;

ii. the registered owner of portion of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the formality of changing the owner name is being processed. There will be no legal impediment for such formality; and

iii. except for the portion of the property as mentioned in Note (2), General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the property and its underlying land use rights after completing the aforesaid formality; and

iv. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the building of the property with no valid title certificate as mentioned in Note (2). For indicative purpose, the depreciated replacement cost of such building of the property was in the region of RMB1,130,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
36	A building located at 127 Duobao Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區多寶路127號之一幢樓宇)	The property is erected on a parcel of land with a site area of approximately 1,360.44 sq.m. (14,644 sq.ft.) The property comprises a 4-storey building of brick concrete structure completed in 1950. The gross floor area of the property is approximately 4,745.47 sq.m. (51,080 sq.ft.).	As at the Date of Valuation, the property was subject to a tenancy due to expire on 7 May 2016 at a monthly rental of approximately RMB129,995 for commercial use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5107875（粵房地證字第C5107875號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 31 December 2006, the building ownership of the property with a gross floor area of approximately 4,745.47 sq.m. is vested in Qiaoguang. As advised by BYS, the registered owner of the property under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to General Factory. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property have not been granted as the formality of land payment is not completed;

ii. the registered owner of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the formality of changing the owner name is in progress. There will be no legal impediment for such formality;

iii. General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the buildings of the property and the land use rights of the property after completing the formalities of changing the name and settling the land payment; and

iv. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the property as the formality of land payment has not been completed as mentioned in Note (1). For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB2,300,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
37	Rear block of No. 4 Lane 1, 15 Fu, Baohua Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區寶華路十五甫一巷4號後座)	The property comprises portion of a 2-storey building of brick concrete structure completed in 2001. The gross floor area of the property is approximately 639.49 sq.m. (6,883 sq.ft.). The land use rights of the property have been granted for a term expiring on 5 August 2058 for residential use.	As at the Date of Valuation, the property was subject to various tenancies with the latest one due to expire on 30 April 2019 at a total monthly rental of approximately RMB13,440 for storage use.	RMB2,330,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C6648530 (粵房地證字第C6648530號) issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 27 August 2008, the building ownership of the property with a gross floor area of approximately 639.49 sq.m. and its underlying land use rights are vested in Qiaoguang for a term of expiring on 5 August 2058 for residential use. As advised by BYS, the registered owner of the property under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to General Factory. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the formality of changing the owner name is in progress. There will be no legal impediment for such formality;

ii. General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the building of the property and its underlying land use rights after completing the aforesaid formality; and

iii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
38	Portion of the building located at 62 Jianglan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區槳攔路62號之樓宇之部分)	The property is erected on a parcel of land with a site area of approximately 93.36 sq.m. (1,004 sq.ft.). The property comprises portion of a 4-storey building of reinforced concrete and brick structures completed in 1959. The gross floor area of the property is approximately 448.40 sq.m. (4,827 sq.ft.). The land use rights of the property have been granted for a term of 50 years expiring on 8 February 2052 for industrial use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 August 2015 at a monthly rental of approximately RMB13,190 for commercial use.	RMB2,740,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5107876 (粵房地證字第C5107876號) issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 19 March 2007, the building ownership of the property with a gross floor area of approximately 448.40 sq.m. and its underlying land use rights are vested in Qiaoguang for a term of expiring on 8 February 2052 for industrial use. As advised by BYS, the registered owner of the property under the name of Qiaoguang is being changed to General Factory as Qiaoguang was allocated to General Factory. Before the allocation, Qiaoguang was a subsidiary of BYS and Qiaoguang was dissolved after the allocation.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property under the name of Qiaoguang has not been changed to General Factory. As advised by General Factory, the formality of changing the owner name is in progress. There will be no legal impediment for such formality;

ii. General Factory will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the building of the property and its underlying land use rights after completing the aforesaid formality; and

iii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
39	Level 1, 72 and 74 Duobao Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區多寶路72-74號首層)	The property comprises three retail shops on Level 1 of a building of reinforced concrete structure completed in 1978. The total gross floor area of the property is approximately 401.43 sq.m. (4,321 sq.ft.). The land use rights of the property have been allocated for commercial/residential uses.	As at the Date of Valuation, the property was subject to two tenancies with the latest one due to expire on 31 August 2016 at a total monthly rental of approximately RMB18,846 for commercial use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5572236（粵房地證字第C5572236號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 25 May 2007, the building ownership of the property with a total gross floor area of approximately 401.43 sq.m. and its underlying land use rights are vested in Guangzhou Pharmaceutical Head Office（廣州市醫藥總公司）("Guangzhou Head Office") for commercial/residential uses. As advised by BYS, the registered owner of the property under the name of Guangzhou Head Office is being changed to General Factory due to the typo of registration.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the registered owner of the property is Guangzhou Head Office. As the land use rights of the property are held under allocated land, General Factory is not entitled to transfer, lease, mortgage or by other legal means dispose of the property.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement of the building of the property was in the region of RMB200,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
40	Block 1, 808 East Binjiang Road, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區濱江東路808號自編1號)	The property is erected on a parcel of land with a site area of approximately 30,520.95 sq.m. (328,528 sq.ft.). The property comprises a 7-storey building of reinforced concrete structure completed in 1990. The gross floor area of the property is approximately 1,942.15 sq.m. (20,905 sq.ft.). The land use rights of the property have been granted for education use.	As at the Date of Valuation, the property was occupied for office use.	RMB10,300,000 (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C4014846 （粵房地證字第C4014846號） issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 4 November 2005, the building ownership of the property with a gross floor area of approximately 1,942.15 sq.m. and its underlying land use rights are vested in Tianxin Pharmaceutical for education use.

Portion of the property with a gross floor area of approximately 657.94 sq.m. was built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the unauthorised building as mentioned in Note (1), Tianxin Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the portion of the property without obtaining planning approval and regarded as unauthorized construction by the government as mentioned in Note (1).

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
41	Levels 1 and 2 and portion of Level 6, 4 East Jiangling Street, Guigang Avenue, Dongshan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市東山區龜崗大馬路江嶺東街4號1至2層及部分6層)	The property is erected on a parcel of land with a site area of approximately 1,031.28 sq.m. (11,101 sq.ft.). The property comprises Level 1 and 2 and portion of Level 6 of a 6-storey building of reinforced concrete structure completed in 1979. The total gross floor area of the property is approximately 2,113.56 sq.m. (22,750 sq.ft.). The land use rights of the property have been granted for office use.	As at the Date of Valuation, Levels 1 and 2 of the property were subject to two tenancies due to expire on 31 December 2013 at a total monthly rental of approximately RMB59,400 for office use and the remaining portion of the property was subject to a tenancy due to expire on 31 July 2013 at a monthly rental of approximately RMB8,820 for mobile signal receiving use.	RMB11,200,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C4014852（粵房地證字第C4014852號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 4 November 2005, the building ownership of the subject building with a gross floor area of approximately 8,259.77 sq.m. and its underlying land use rights are vested in Tianxin Pharmaceutical for office use.

The property with a gross floor area of 2,113.56 sq.m. forms part of the aforesaid Real Estate Title Certificate.

(2) In the course of our valuation, we have been provided with a legal opinion issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Tianxin Pharmaceutical legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
42	A building located at 25 East Jiangling Street, Guigang Avenue, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區龜崗大馬路江嶺東街25號之一幢樓宇)	The property is erected on a parcel of land with a site area of approximately 212.79 sq.m. (2,290 sq.ft.). The property comprises a 3-storey building of brick concrete structure completed in 1979. The gross floor area of the property is approximately 631.32 sq.m. (6,796 sq.ft.).	As at the Date of Valuation, the property was subject to a tenancy due to expire on 30 September 2020 at a monthly rental of approximately RMB29,680 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C7219971（粵房地證字第C7219971號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 6 February 2009, the building ownership of the property with a gross floor area of approximately 631.32 sq.m. and its underlying land use rights are vested in Guangzhou The Fifth Pharmaceutical Factory（廣州第五制藥廠）(as advised by BYS, currently known as Tianxin Pharmaceutical). As advised by BYS, the registered owner of the property under the name of Guangzhou The Fifth Pharmaceutical Factory is being changed to Tianxin Pharmaceutical due to the reorganization of BYS. Before the reorganization, Guangzhou The Fifth Pharmaceutical Factory was a subsidiary of BYS.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the owner of the Real Estate Title Certificate as mentioned in Note (1) has not been changed to Tianxin Pharmaceutical and the land grant formality has also not been applied. Thus Tianxin Pharmaceutical is not entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the property as the formality of land payment has not been completed yet. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB900,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
43	Basement Unit 03 and Levels 1-4, Sections 1 and 4 of 49 Liwan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣路49號地下室03和49號之一及四1至4層)	The property comprises a unit on basement and Levels 1 to 4 of a 15-storey building of reinforced concrete structure completed in the 1990s. The total gross floor area of the property is approximately 13,031.75 sq.m. (140,274 sq.ft.). The land use rights of the property have been granted for a term expiring on 12 December 2052 for composite and office uses.	As at the Date of Valuation, the basement of the property was subject to a tenancy due to expire on 31 August 2014 at a monthly rental of RMB8,400 for parking use whilst Levels 1 to 4 of the property were subject to various tenancies with the latest one due to expire on 31 December 2020 at a total monthly rental of approximately 324,692 for office use.	RMB70,800,000

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau between 31 January 2008 and 24 April 2008, the building ownership of the property with a gross floor area of approximately 13,031.75 sq.m. and its underlying land use rights are vested in Hejigong Pharmaceutical Factory for a term expiring on 12 December 2052 for composite and office uses. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C6273521 (粵房地證字第C6273521號)	1,808.38	Composite	12 December 2052
ii.	Yue Fang Di Zheng Zi Di No. C6490581 (粵房地證字第C6490581號)	2,135.56	Composite	12 December 2052
iii.	Yue Fang Di Zheng Zi Di No. C6490584 (粵房地證字第C6490584號)	9,087.81	Office	12 December 2052
	Total	**13,031.75**		

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
44	Levels 1 and 2 of Nos. 48-52 and Section 1 of No. 50 of Guangya Lane, Shibafu Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區十八甫路光雅裏48-52號首層及二層和50號之一)	The property comprises portion of an 8-storey building of reinforced concrete, brick concrete and brick/wood structures completed in the 1980s. The total gross floor area of the property is approximately 1,441.48 sq.m. (15,516 sq.ft.). The land use rights of portion of the property have been granted for a term expiring on 21 December 2049.	As at the Date of Valuation, except for a portion of the property with a gross floor area of approximately 415.15 sq.m. which was occupied by the owner for residential use, the remaining parts were subject to two tenancies with the latest one due to expire on 31 March 2016 at a total monthly rental of approximately RMB140,600 for commercial and residential uses.	RMB15,400,000 (please refer to Notes (3) and (4))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 3 June 2005 and 3 December 2008, the building ownership of the property with a total gross floor area of approximately 1,441.48 sq.m. and its underlying land use rights are vested in Hejigong Pharmaceutical Factory or Guangzhou Hejigong Pharmaceutical Co., Ltd.(廣州何濟公製藥有限公司) (as advised by BYS, currently known as Hejigong Pharmaceutical Factory). Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Quan Zheng Sui Zi Di 0640002537 (粵房地權證穗字第0640002537號)	676.73	Warehouse	21 December 2049
ii.	Yue Fang Di Zheng Zi Di C3759198 (粵房地證字第C3759198號)	764.75	Residential	N/A
	Total	**1,441.48**		

Regarding Item i, portion of the building with a gross floor area of approximately 60.01 sq.m. was built without obtaining planning approval and regarded as unauthorized construction by the government.

Regarding Item ii, this certificate is currently owned by Guangzhou Hejigong Pharmaceutical Co., Ltd. As advised by BYS, the registered owner of this certificate is being changed to Hejigong Pharmaceutical Factory due to the reorganization of BYS. Before the reorganization, Guangzhou Hejigong Pharmaceutical Co., Ltd. was a subsidiary of BYS.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. except for the situation as mentioned in Note (1), Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

ii. the property is not subject to any mortgages.

3. In the course of our valuation, we have assigned no commercial value to the portion of the property with a gross floor area of approximately 60.01 sq.m. without obtaining planning approval and regarded as unauthorized construction by the government as mentioned in Note (1).

4. In the course of our valuation, we have assigned no commercial value to the portion of the property as mentioned in Item ii of Note (1) due to its defective title and non-fulfillment of land payment. For indicative purpose, the depreciated replacement cost of such building as mentioned in Item ii of Note (1) was in the region of RMB470,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
45	A building located at 67 Baoyuan Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區荔灣區寶源路67號之一幢樓宇)	The property is erected on a parcel of land with a site area of approximately 741.30 sq.m. (7,979 sq.ft.). The property comprises a 5-storey building of reinforced concrete, brick concrete and brick/wood structures completed in the 1980s. The gross floor area of the property is approximately 2,034.46 sq.m. (21,899 sq.ft.). The land use rights of the property have been granted for a term expiring on 3 July 2052 for industrial use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 14 December 2017 at a monthly rental of approximately RMB31,000 for office use.	RMB8,100,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 640002535 (粵房地權證穗字第640002535號) issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 4 November 2008, the building ownership of the property with a gross floor area of approximately 2,034.46 sq.m. and its underlying land use rights with a site area of approximately 741.30 sq.m. are vested in Hejigong Pharmaceutical Factory for a term expiring on 3 July 2052 for industrial use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. Hejigong Pharmaceutical Factory legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
46	A building located at 28 Yangong Street, South Renmin Road, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區人民南路晏公街28號之一幢樓宇)	The property comprises a 4-storey building of brick concrete and brick/wood structures completed in the 1980s. The total gross floor area of the property is approximately 2,069.00 sq.m. (22,271 sq.ft.).	As at the Date of Valuation, the property was subject to various tenancies with the latest one due to expire on 4 February 2016 at a total monthly rental of approximately 59,264 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) As advised by the Company, the property has not been granted with the Real Estate Title Certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has not been granted with the Real Estate Title Certificate and therefore the owner is not entitled to transfer, lease, mortgage or by other legal means dispose of the property.

(3) In the course of our valuation, we have assigned no commercial value to the property without the Real Estate Title Certificate. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB1,260,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
47	Various buildings located at 2 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路2號之多幢樓宇)	The property is erected on a parcel of land with a site area of approximately 175,606.98 sq.m. (1,890,234 sq.ft.). The property comprises seven 1 to 4-storey hospital and education buildings of reinforced concrete and brick concrete structures completed in the 1980s. The total gross floor area of the property is approximately 8,788.94 sq.m. (94,604 sq.ft.). The land use rights of the property have been granted for a term expiring on 11 August 2043 for office and residential uses.	As at the Date of Valuation, the property was subject to various tenancies with the latest one due to expire on 31 May 2015 at a total monthly rental of approximately RMB86,308 for hospital and education uses.	RMB33,100,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Sui Fang Di Zheng Zi Di No. 0453679（穗房地證字第0453679號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau（廣州市國土局房管局）on 6 July 1999, the building ownership of the subject buildings with a total gross floor area of approximately 83,803.75 sq.m. and their underlying land use rights are vested in BYS for a term expiring on 11 August 2043 for office and residential uses.

The property comprises portion of the buildings as stated in the above Real Estate Title Certificate with a gross floor area of approximately 8,788.94 sq.m..

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property is subject to a mortgage for a term extended to 4 December 2012;

ii. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

iii. except for the aforesaid mortgage, the property is not subject to other mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
48	A canteen located at 1496 Tongtai Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區同泰路1496號之一個餐廳)	The property is erected on a parcel of land with a site area of approximately 6,212.00 sq.m. (66,866 sq.ft.). The property comprises a 5-storey office building of reinforced concrete structure completed in 1980. The gross floor area of the property is approximately 3,781.23 sq.m. (40,701 sq.ft.). The land use rights of the property have been granted for a term expiring on 11 August 2043 for composite use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2015 at a monthly rental of approximately RMB98,674 for canteen use.	RMB30,200,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Sui Fang Di Zheng Zi Di No. 0524622（穗房地證字第0524622號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau（廣州市國土局房管局）on 10 September 1999, the building ownership of the property with a gross floor area of approximately 3,781.23 sq.m. and its underlying land use rights with a site area of approximately 7,024.29 sq.m. are vested in BYS for a term of 50 years from 12 August 1993 for composite use.

As advised by the Company, portion of the parcel of land with a site area of approximately 812.29 sq.m. has been resumed by the local government for sewage treatment. The property comprises the remaining land parcel with a site area of approximately 6,212.00 sq.m.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
49	A football club and various retail shops located at 97 Yunxiang Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區雲祥路97號地段之一個足球會及多個商舖)	The property is erected on a parcel of land with a site area of approximately 12,149.19 sq.m. (130,774 sq.ft.). The property comprises two 1-storey buildings of brick concrete structure with a total gross floor area of approximately 312.00 sq.m. (3,358 sq.ft.). The land use rights of the property have been granted for a term expiring on 19 June 2058 for industrial use.	As at the Date of Valuation, the property was occupied for commercial and ancillary uses.	RMB12,800,000 (please refer to Note (4))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Fu Guo Yong (2007) Di No. 01300053（穗府國用(2007)第01300053號）issued by the People's Government of Guangzhou（廣州市人民政府）on 24 July 2008, the land use rights of the property with a site area of approximately 12,149.19 sq.m. are vested in BYS for a term of 50 years from 20 June 2008 for industrial use.

(2) As advised by the Company, the property with a total gross floor area of approximately 312.00 sq.m. has not been granted with the Building Ownership Certificate.

(3) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the buildings of the property as stated in Note (2) with a gross floor area of 312.00 sq.m. have not been granted with the Building Ownership Certificate and therefore BYS is not entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the buildings of the property;

ii. BYS is entitled to transfer, lease, mortgage or by other legal means dispose of the land use rights of the property; and

iii. the property is not subject to any mortgages.

(4) In the course of our valuation, we have assigned no commercial value to the buildings without the Building Ownership Certificate as stated in Note (2). For indicative purpose, the depreciated replacement cost of the buildings of the property was in the region of RMB300,000 as at the Date of Valuation.

Group A3 – Property held for future development by BYS and BYS's subsidiaries in the PRC

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Market value in existing state as at 30 June 2012**
50	A parcel of land located in Huaqiao Farm, Tonghu County, Huiyang County, Guangdong Province, PRC (中國廣東省惠陽縣潼湖華僑農場之一幅土地)	The property comprises a parcel of land with a site area of approximately 11,856.00 sq.m. (127,618 sq.ft.). The land use rights of the property have been allocated for industrial use.	As at the Date of Valuation, the property was a vacant site.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Hui Yang Fu Guo Yong Zi (1992) Di No. 13211100073（惠陽府國用字(1992)第13211100073號）issued by the People's Government of Huiyang on 30 December 1992, the land use rights with a site area of approximately 11,856.00 sq.m. have been allocated to BYS for industrial use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. BYS will be entitled to transfer, lease, mortgage and by other legal means dispose of the property after obtaining the approval from the relevant land administration bureau and completing the formality of modifying the allocated land into granted land.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights are held under allocated land. For indicative purpose, the market value of the land assuming that the aforesaid formality was completed and the land premium was settled was in the region of RMB4,800,000 as at the Date of Valuation.

Group B1 – Properties held for owner occupation by GPHL in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
51	Various office buildings located at 45 Sha Mian North Street, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區沙面北街45號之多幢寫字樓)	The property is erected on a parcel of land with a site area of approximately 2,038.93 sq.m. (21,947 sq.ft.). The property comprises three 2 to 5-storey office buildings of reinforced concrete structure completed in various stages between the mid of 19th century and the 1980s. The total gross floor area of the property is approximately 5,672.64 sq.m. (61,060 sq.ft.). The land use rights of the property have been allocated and granted for office use.	As at the Date of Valuation, Level 2 of the front block of the property was subject to a tenancy due to expire on 31 August 2013 at a monthly rental of approximately RMB45,050 for office use. As advised by GPHL, Levels 2 and 3 of the rear block of the property were subject to a tenancy for a term commencing on 1 January 2003 at a monthly rental of approximately RMB46,000 for office use. It is expected that this tenancy will be expired in August 2013 when the prepayment of RMB6,000,000 has been totally expended for paying the monthly rental payment. The remaining portion of the property was occupied by the owner for office use.	RMB12,300,000 (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 3 January 2003, the building ownership of the property with a total gross floor area of approximately 5,672.64 sq.m. and its underlying land use rights with a site area of approximately 2,083.93 sq.m. are vested in GPHL. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C1491223 (粵房地證字第C1491223號)	2,775.59	Office	N/A
ii.	Yue Fang Di Zheng Zi Di No. C1491224 (粵房地證字第C1491224號)	1,874.08	Office	N/A
iii.	Yue Fang Di Zheng Zi Di No. C1491222 (粵房地證字第C1491222號)	1,022.97	Office	17 January 2051
	Total	**5,672.64**		

The land use rights as stated in Items i and ii are held under allocated land.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of portion of the property as mentioned in Items i and ii of Note (1) are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property after completing the said formality;

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of portion of the property as mentioned in Items i and ii of Note (1) into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the land administrative bureau confirming that there will be no legal impediment for this formality; and

iii. GPHL legally owns the building ownership of portion of the property as mentioned in Item iii of Note (1) and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of such portion of the property. This portion of the property is not subject to any mortgages.

(3) In the course of our valuation, we have assigned no commercial value to the portion of the property held under allocated land. For indicative purpose, the depreciated replacement cost of the building erected on the allocated land was in the region of RMB13,500,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
52	Rear block of 282 Beijing Road, Yuexiu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市越秀區北京路282號後座)	The property is erected on a parcel of land with a site area of approximately 244.67 sq.m. (2,634 sq.ft.). The property comprises a 2-storey building of brick concrete structure completed in the 19th century. The gross floor area of the property is approximately 500.89 sq.m. (5,392 sq.ft.). The land use rights of the property have been allocated for industrial, mining and storage use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 30 April 2014 at a monthly rental of approximately RMB21,037 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C6190029（粵房地證字第C6190029）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 20 December 2007, the building ownership of the property with a gross floor area of approximately 500.89 sq.m. and its underlying land use rights with a site area of approximately 244.67 sq.m. are vested in GPHL for industrial, mining and storage use. The land use rights of the property are held under allocated land.

Portion of the building with a gross floor area of approximately 285.38 sq.m. was built without planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property (except the unauthorized building as mentioned in Note (1)) after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain the confirmation letter from the relevant land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property (excluding the unauthorized building as mentioned in Note (1)) was in the region of RMB750,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
53	Various buildings located at 1 Ping Sha Ha Na Dang, Jiangcun Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區江村公路平沙蛤𧊅氹1號之多幢樓宇)	The property is erected on a parcel of land with a site area of approximately 7,010.00 sq.m. (75,456 sq.ft.). The property comprises twelve 1 to 2-storey buildings of brick concrete structure completed in various stages between the 1970s and 1990s. The total gross floor area of the property is approximately 3,524.68 sq.m. (37,940 sq.ft.). The land use rights of the property have been allocated for storage use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB1,406 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5932126（粵房地證字第C5932126號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau, the building ownership of the property with a total gross floor area of approximately 3,524.68 sq.m. and its underlying land use rights with a site area of approximately 7,010.00 sq.m. are vested in GPHL for storage use. The land use rights of the property are held under allocated land.

Portion of the buildings of the property with a gross floor area of approximately 94.91 sq.m. was built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be is entitled to transfer, lease, mortgage or by other legal means dispose of the property (except the unauthorized buildings as mentioned in Note (1)) after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights are held under allocated land. For indicative purpose, the depreciated replacement cost of the buildings of the property (excluding the unauthorized buildings as mentioned in Note (1)) was in the region of RMB2,600,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
54	A building located at 28 Zengcha Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區增槎路28號之一幢樓宇)	The property is erected on portion of a parcel of land with a site area of approximately 6,769.17 sq.m. (72,863 sq.ft.). The property comprises a 5-storey building with a gross floor area of approximately 1,615.46 sq.m. (17,389 sq.ft.) of reinforced concrete structure completed in 1990. The land use rights of the property have been allocated for storage use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB20,355 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 29 November 2007, the building ownership of the property with a total gross floor area of approximately 1,615.46 sq.m. and its underlying land use rights with a site area of approximately 6,769.17 sq.m. are vested in GPHL for storage use. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C6143847 (粵房地證字第C6143847號)	694.29	Storage	N/A
ii.	Yue Fang Di Zheng Zi Di No. C6143846 (粵房地證字第C6143846號)	272.89	Storage	N/A
iii.	Yue Fang Di Zheng Zi Di No. C6143845 (粵房地證字第C6143845號)	648.28	Storage	N/A
	Total	**1,615.46**		

The land use rights of the property are held under allocated land.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property, issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held land under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB2,600,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
55	Two buildings located at 30 Zengcha Road, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區增槎路30號之兩幢樓宇)	The property is erected on a parcel of land with a site area of approximately 6,769.17 sq.m. (72,863 sq.ft.). The property comprises two 4-storey buildings of reinforced concrete structure completed in 1990. The total gross floor area of the property is approximately 9,609.10 sq.m (103,432 sq.ft). The land use rights of the property have been allocated for storage use.	As at the Date of Valuation, the property was subject to various tenancies with the latest one due to expire on 31 December 2013 at a total monthly rental of approximately RMB121,075 for storage use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 29 November 2007, the building ownership of the property with a total gross floor area of approximately 9,609.10 sq.m. and its underlying land use rights with a site area of approximately 6,769.17 sq.m. are vested in GPHL for storage use. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area (sq.m.)	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C6143849 (粵房地證字第C6143849號)	4,537.54	Storage	N/A
ii.	Yue Fang Di Zheng Zi Di No. C6143848 (粵房地證字第C6143848號)	5,071.56	Storage	N/A
	Total	**9,609.10**		

The land use rights of the property are held under allocated land.

Portions of the buildings of the property with a total gross floor area of approximately 523.57 sq.m. were built without obtaining planning approval and regarded as unauthorized construction by the government.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights of the property into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property (except the unauthorized buildings as mentioned in Note (1)) after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administration bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the buildings of the property (excluding the unauthorized buildings as mentioned in Note (1)) was in the region of RMB9,900,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
56	Levels 1 and 2, 88 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區石井街潭村北約牌坊路88號1-2層)	The property comprises Levels 1 and 2 of a 9-storey domestic building of reinforced concrete structure completed in 1996. The total gross floor area of the property is approximately 2,778.24 sq.m. (29,905 sq.ft.). The land use rights of the property have been granted for two concurrent terms of 50 and 70 years expiring on 23 March 2045 and 23 March 2065 for parking and residential uses respectively.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB43,757 for parking and residential uses.	RMB12,800,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 1050036348（粵房地權證穗字第1050036348號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 2 August 2011, the building ownership of the property with a gross floor area of approximately 2,778.24 sq.m. and its underlying land use rights with a site area of approximately 7,060.44 sq.m. are vested in GPHL for two concurrent terms of 50 and 70 years expiring on 23 March 2045 and 23 March 2065 for parking and residential uses respectively.

The property only comprises portion of the parcel of land as mentioned in the above certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. GPHL legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
57	Levels 1 to 3, 86 Paifang Road, Tancun Beiyue, Shijing Street, Baiyun District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市白雲區石井街潭村北約牌坊路86號1-3層)	The property comprises Levels 1 to 3 of a 9-storey domestic building of reinforced concrete structure completed in 1996. The total gross floor area of the property is approximately 3,432.18 sq.m. (36,944 sq.ft.). The land use rights of the property have been granted for a term expiring on 23 March 2045 for storage use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB32,434 for storage use.	RMB9,000,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 1050036340（粵房地權證穗字第1050036340號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 2 August 2011, the building ownership of the property with a gross floor area of approximately 3,432.18 sq.m. and its underlying land use rights with a site area of 7,060.44 sq.m. are vested in GPHL for a term expiring on 23 March 2045 for storage use.

The property only comprises portion of the parcel of land as mentioned in the above certificate.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. GPHL legally owns the building ownership of the property and its underlying land use rights and is entitled to transfer, lease, mortgage or by other legal means dispose of the property; and

ii. the property is not subject to any mortgages.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
58	Levels 1 and 2, 19-1 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街19-1號首層及二層)	The property is erected on a parcel of land with a site area of approximately 96.67 sq.m. (1,041 sq.ft.). The property comprises Levels 1 to 2 of a 5-storey building of reinforced concrete structure completed in 1984. The total gross floor area of the property is approximately 186.44 sq.m. (2,007 sq.ft.). The land use rights of the property have been allocated for composite use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB2,976. The property was occupied as an electric room and a restaurant.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 5 September 2007, the building ownership of the property with a total gross floor area of approximately 186.44 sq.m. and its underlying land use rights are vested in GPHL. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C5932124 (粵房地證字第C5932124號)	82.37	Composite	N/A
ii.	Yue Fang Di Zheng Zi Di No. C5932125 (粵房地證字第C5932125號)	104.07	Composite	N/A
	Total	**186.44**		

The land use rights of the property are held under allocated land.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB200,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
59	Levels 8 and 9, 4 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街4號八至九層)	The property is erected on a parcel of land with a site area of approximately 381.23 sq.m. (4,104 sq.ft.). The property comprises Levels 8 and 9 of a 9-storey commercial building of reinforced concrete structure completed in 1984. The total gross floor area of the property is approximately 684.44 sq.m. (7,367 sq.ft.). The land use rights of the property have been allocated for composite use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB14,373 for office use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C5942848（粵房地證字第C5942848號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 31 August 2007, the building ownership of the property with a gross floor area of approximately 684.44 sq.m. and its underlying land use rights are vested in GPHL for composite use. The land use rights of the property are held under allocated land.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the buildings of the property was in the region of RMB800,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
60	Level 2 of East Tower and the rear block of Level 3, 6 Shier Fu Xin Street, Da Tong Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區大同路十二甫新街6號二層東樓及後座三層)	The property is erected on a parcel of land with a site area of approximately 414.96 sq.m. (4,467 sq.ft.). The property comprises Levels 2 and 3 of the rear building of a 9-storey commercial building of reinforced concrete structure completed in 1984. The total gross floor area of the property is approximately 725.33 sq.m. (7,807 sq.ft.). The land use rights of the property have been allocated for commercial use	As at the Date of Valuation, the property was subject to various tenancies with the latest one due to expire on 31 December 2013 at a total monthly rental of approximately RMB15,232 for commercial use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the following Real Estate Title Certificates issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 5 September 2007 and 31 August 2007, the building ownership of the property with a total gross floor area of approximately 725.33 sq.m. and its underlying land use rights are vested in GPHL for commercial use. Details of the said certificates are as follows:

No.	Certificate No.	Approximate Gross Floor Area *(sq.m.)*	Land Usage	Land Use Term Expiry Date
i.	Yue Fang Di Zheng Zi Di No. C5932123 (粵房地證字第C5932123號)	310.37	Commercial	N/A
ii.	Yue Fang Di Zheng Zi Di No. C5942849 (粵房地證字第C5942849號)	414.96	Commercial	N/A
	Total	**725.33**		

The land use rights of the property are held under allocated land.

The property only comprises portion of the parcel of land as mentioned in the above certificates.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the land use rights of the property are held under allocated land. As advised by GPHL, the formality of modifying the allocated land use rights into granted land use rights is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the property after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administrative bureau confirming that there will be no legal impediment for this formality.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB1,700,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
61	Levels 1 and 2, 118 West Heping Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區118號和平西路首層及二層)	The property is erected on a parcel of land with a site area of approximately 2,112.24 sq.m. (22,736 sq.ft.). The property comprises Levels 1 and 2 of a 6-storey warehouse of reinforced concrete structure completed in 1974. The total gross floor area of the property is approximately 4,224.48 sq.m. (45,472 sq.ft.). The land use rights of the property have been allocated for storage use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a total monthly rental of approximately RMB66,536 for storage use.	No commercial value (please refer to Note (4))

Notes:

(1) Pursuant to the State-owned Land Use Certificate – Sui Di Zheng Zi Di No. 0093202（穗地證字第0093202號）issued by Guangzhou Municipal Real Estate Administrative Bureau（廣州市房地產管理局）on 28 February 1992, the land use rights of the property with a site area of approximately 2,112.24 sq.m. have been allocated to Guangzhou Municipal Pharmaceuticals Corporation（廣州市醫藥公司）for storage use.

(2) Pursuant to the Building Ownership Certificate – Sui Fang Zheng Zi Di No. 0059002（穗房證字第0059002號）issued by Guangzhou Municipal Real Estate Administrative Bureau（廣州市房地產管理局）on 28 February 1992, the building ownership of the property with a gross floor area of approximately 4,224.48 sq.m. is vested in Guangzhou Municipal Pharmaceuticals Corporation.

(3) As advised by GPHL, the registered owner of the property under the name of Guangzhou Municipal Pharmaceuticals Corporation is being changed to GPHL as the property was allocated to GPHL. Guangzhou Municipal Pharmaceuticals Corporation is a subsidiary of GPHL.

(4) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has been transferred to GPHL and the formality of changing the title to GPHL is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the property and its underlying land use rights after completing the aforesaid formality;

ii. as advised by GPHL, the formality of modifying the allocated land use rights of the property into granted land use rights is in progress; and

iii. GPHL has made a commitment to complete the formalities of changing the name of the holder of the property and modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land and housing administrative bureau confirming that there will be no legal impediment for these formalities.

(5) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB2,200,000 as at the Date of Valuation.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
62	Shop No.5 on Level 1, 246 Baogang Avenue, Haizhu District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市海珠區寶崗大道路246號首層5號商舖)	The property is erected on a parcel of land with a site area of approximately 2,067.02 sq.m. (22,249 sq.ft.) The property comprises a retail shop on Level 1 of an 8-storey residential building of reinforced concrete structure completed in 1998. The gross floor area of the property is approximately 99.34 sq.m. (1,069 sq.ft.). The land use rights of the property have been granted for a term expiring on 25 April 2036 for commercial use.	As at the Date of Valuation, the property was occupied for commercial use.	RMB2,900,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 0150088038（粵房地權證穗字第0150088038號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 16 August 2011, the building ownership of the property with a gross floor area of approximately 99.34 sq.m. and its underlying land use rights are vested in Guangzhou Chinese-Medicine Corporation（廣州市藥材公司）for a term expiring on 25 April 2036 for commercial use. As advised by GPHL, the registered owner of the property under the name of Guangzhou Chinese-Medicine Corporation is being changed to GPHL as the property was allocated to GPHL. Guangzhou Chinese-Medicine Corporation is a subsidiary of GPHL.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has been transferred to GPHL and the formality of changing the title to GPHL is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the buildings of the property and its underlying land use rights after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of changing the name of the holder of the property within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant housing administrative bureau confirming that there will be no legal impediment for this formality.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
63	Shop No.2 on Level 1 of Danhuige, Hongmianyuan, Huadi Avenue, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區花地大道紅棉苑丹輝閣首層2號商鋪)	The property is erected on a parcel of land with a site area of approximately 1,772.42 sq.m. (19,078 sq.ft.) . The property comprises a retail shop on Level 1 of a 9-storey residential building of reinforced concrete structure completed in 1997. The gross floor area of the property is approximately 293.21 sq.m. (3,156 sq.ft.). The land use rights of the property have been granted for a term expiring on 18 June 2038 for commercial/ residential use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB20,383 for commercial use.	RMB9,400,000

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C6465931（粵房地證字第C6465931號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 14 April 2008, the building ownership of the property with a gross floor area of approximately 293.21 sq.m. and its underlying land use rights are vested in Guangzhou Chinese-Medicine Corporation（廣州市藥材公司）for a term expiring on 18 June 2038 for commercial/residential use. As advised by GPHL, the registered owner of the property under the name of Guangzhou Chinese-Medicine Corporation is being changed to GPHL as the property was allocated to GPHL. Guangzhou Chinese-Medicine Corporation is a subsidiary of GPHL.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property, issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the property has been transferred to GPHL and the formality of changing the title to GPHL is in progress. GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the property and its underlying land use rights after completing the aforesaid formality; and

ii. GPHL has made a commitment to complete the formality of changing the name of the holder of the property within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant housing administrative bureau confirming that there will be no legal impediment for this formality.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
64	Block 2, 12 Saiba Road, Liwan District, Guangzhou, Guangdong Province, PRC (中國廣東省廣州市荔灣區塞壩路12號自編2號)	The property is erected on a parcel of land with a site area of approximately 17,287.20 sq.m. (186,079 sq.ft.). The property comprises a 9-storey office building of reinforced concrete structure completed in 1990. The gross floor area of the property is approximately 2,464.36 sq.m. (26,526 sq.ft.). The land use rights of the property have been allocated for office use.	As at the Date of Valuation, the property was subject to a tenancy due to expire on 31 December 2013 at a monthly rental of approximately RMB39,728 for office use.	No commercial value (please refer to Note (3))

Notes:

(1) Pursuant to the Real Estate Title Certificate – Yue Fang Di Quan Zheng Sui Zi Di No. 0140082868（粵房地權證穗字第0140082868號）issued by Guangzhou Municipal Land Resources and Housing Administrative Bureau on 28 October 2009, the building ownership of the property with a gross floor area of approximately 2,464.36 sq.m. and its underlying land use rights with a site area of approximately 17,287.20 sq.m. are vested in GPHL for office use.

(2) In the course of our valuation, we have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser, Grandall Legal Group (Shanghai), which contains, inter alia, the following information:

i. the formality of modifying the allocated land use rights into granted land use rights is in progress; and

ii. GPHL has made a commitment to complete the formality of modifying the allocated land use rights of the property into granted land use rights within 7 months from 29 February 2012 or obtain a confirmation letter from the relevant land administrative bureau confirming that there will be no legal formality impediment for this formality. After completing this formality, GPHL will be entitled to transfer, lease, mortgage or by other legal means dispose of the building ownership of the property and its underlying land use rights.

(3) In the course of our valuation, we have assigned no commercial value to the property as the land use rights of the property are held under allocated land. For indicative purpose, the depreciated replacement cost of the building of the property was in the region of RMB5,700,000 as at the Date of Valuation.

Group C1 – Properties held for owner occupation by Po Lian in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
65	Apartment E on 27th Floor of Tower I, Park Towers, 1 King's Road, North Point, Hong Kong 105/57,000th shares of and in Inland Lot No. 8560.	Park Towers is a private residential development comprising two high-rise residential blocks with ancillary commercial/recreational/carparking facilities completed in 1989. The property comprises one of the eight residential units on the 27th Floor of Tower 1 of the development with a gross floor area of approximately 1,210 sq.ft. (112.41 sq.m.). Inland Lot No. 8560 is held from the Government under Conditions of Grant No. UB11831 for a term of 75 years from 19 June 1985 renewable for a further term of 75 years at an annual Government rent payable for the lot of HK$1,000.	As at the Date of Valuation, the property was occupied for residential use.	RMB12,610,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a charge in favour of The Kwangtung Provincial Bank (now known as Bank of China (Hong Kong) Limited).

(3) The property is subject to a deed of security in favour of Bank of China (Hong Kong) Limited.

(4) The property lies within an area zoned "Commercial/Residential" under North Point Outline Zoning Plan.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
66	Flat No. C on 26th Floor of Tower 2, Jupiter Terrace, 18 Jupiter Street, North Point, Hong Kong 45/11,299th shares of and in the Sections F and J of Inland Lot No. 2273; Sub-Section 1 and The Remaining Portion of Section T, Sub-Section 1 and The Remaining Portion of Section U, Sub-Section 1 and The Remaining Portion of Section V, Sub-Section 1 and The Remaining Portion of Section W, Sub-Section 1 and The Remaining Portion of Section X of Inland Lot No. 2273.	Jupiter Terrace is a private residential development comprising two high-rise residential blocks with ancillary commercial/ communal/recreational and carparking facilities completed in 1993. The property comprises one of the four residential units on the 26th Floor of Tower 2 of the development with a gross floor area of approximately 628 sq.ft. (58.34 sq.m.). Inland Lot No. 2273 is held from the Government under a Government lease for a term of 75 years from 25 August 1919 renewable for a further term of 75 years at a total annual Government rent payable for the subject sections of the lot of HK$884,562.	As at the Date of Valuation, the property was occupied for residential use.	RMB4,260,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a mortgage to secure general banking facilities in favour of Bank of China (Hong Kong) Limited.

(3) The property lies within an area zoned “Commercial/Residential” under North Point Outline Zoning Plan.

Group C2 – Properties held for investment by Po Lian in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
67	Flat 408 on 4th Floor of Block M, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong 100/2,105,300th shares of and in New Kowloon Inland Lot No. 5744.	Telford Gardens is a large-scale private residential development comprising 21 (with 20 twin blocks) residential blocks with comprehensive commercial, recreational and carparking facilities. Block M of the development is a 12-storey residential block completed in 1981. The property comprises one of the 16 residential units on the 4th Floor of Block M of the development with a gross floor area of approximately 625 sq.ft. (58.06 sq.m.). New Kowloon Inland Lot No. 5744 is held from the Government under Conditions of Grant No. 11083 for a term which expired on 27 June 1997 and had been extended upon expiry to 30 June 2047 without premium but at a revised annual Government rent at 3% of the rateable value for the time being of the lot.	As at the Date of Valuation, the property was subject to a tenancy for a term of one year from 1 July 2011 yielding a monthly rental income of HK$10,800 inclusive of rates, management fees and Government rent.	RMB3,520,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a charge to secure general banking facilities in favour of The Kwangtung Provincial Bank (now known as Bank of China (Hong Kong) Limited).

(3) The property is subject to a deed of security in favour of Bank of China (Hong Kong) Limited.

(4) The property lies within an area zoned "Other Specified Uses" under Ngau Tau Kok and Kowloon Bay Outline Zoning Plan.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
68	Flat 207 on 2nd Floor of Block C, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong 100/2,105,300th shares of and in New Kowloon Inland Lot No. 5744.	Telford Gardens is a large-scale private residential development comprising 21 (with 20 twin blocks) residential blocks with comprehensive commercial, recreational and carparking facilities. Block C of the development is a 12-storey residential block completed in 1980. The property comprises one of the 16 residential units on the 2nd Floor of Block C of the development with a gross floor area of approximately 603 sq.ft. (56.02 sq.m.). New Kowloon Inland Lot No. 5744 is held from the Government under Conditions of Grant No. 11083 for a term which expired on 27 June 1997 and had been extended upon expiry to 30 June 2047 without premium but at a revised annual Government rent at 3% of the rateable value for the time being of the lot.	As at the Date of Valuation, the property was subject to a tenancy for a term of one year from 15 June 2012 yielding a monthly rental income of HK$9,500 inclusive of rates, management fees and Government rent.	RMB2,870,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a mortgage to secure general banking facilities in favour of The Yien Yieh Commercial Bank Limited (now known as Bank of China (Hong Kong) Limited).

(3) The property is subject to a deed of security in favour of Bank of China (Hong Kong) Limited.

(4) The property lies within an area zoned "Other Specified Uses" under Ngau Tau Kok and Kowloon Bay Outline Zoning Plan.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
69	Flat 506 on 5th Floor of Block I, Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong 100/2,105,300th shares of and in New Kowloon Inland Lot No. 5744.	Telford Gardens is a large-scale private residential development comprising 21 (with 20 twin blocks) residential blocks with comprehensive commercial, recreational and carparking facilities. Block I is an 11-storey residential block completed in 1981. The property comprises one of the 16 residential units on the 5th Floor of Block I of the development with a gross floor area of approximately 604 sq.ft. (56.11 sq.m.). New Kowloon Inland Lot No. 5744 is held from the Government under Conditions of Grant No. 11083 for a term which expired on 27 June 1997 and had been extended upon expiry to 30 June 2047 without premium but at a revised annual Government rent at 3% of the rateable value for the time being of the lot.	As at the Date of Valuation, the property was subject to a tenancy for a term of two years commencing on 3 August 2010 yielding a monthly rental income of HK$11,800 inclusive of rates, management fees and Government rent.	RMB3,360,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a mortgage to secure general banking facilities in favour of The Yien Yieh Commercial Bank Limited (now known as Bank of China (Hong Kong) Limited).

(3) The property is subject to a deed of security in favour of Bank of China (Hong Kong) Limited.

(4) The property lies within an area zoned "Other Specified Uses" under Ngau Tau Kok and Kowloon Bay Outline Zoning Plan.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
70	Offices A, B and C on 6th Floor including air-conditioner room, Manly Commercial Building, 15 Soy Street, Mong Kok, Kowloon, Hong Kong 29/1,013th shares of and in The Remaining Portion of Section A of Kowloon Inland Lot No. 1185.	Manly Commercial Building is a 24-storey office/commercial building completed in 1991. The property comprises three office units on the whole of the 6th Floor of the building with a total gross floor area of approximately 1,554 sq.ft. (144.37 sq.m.) together with an air-conditioning room with an area of 36 sq.ft. (3.34 sq.m.). Kowloon Inland Lot No. 1185 is held from the Government under a Government lease for a term of 75 years from 6 April 1904 renewable for a further term of 75 years at an annual Government rent payable for the subject section of the lot of HK$15,016.	As at the Date of Valuation, the property was subject to a tenancy for a term of two years from 1 January 2011 yielding a monthly rental income of HK$18,000 inclusive of rates, management fees and Government rent.	RMB5,000,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property is subject to a mortgage in favour of The Yien Yieh Commercial Bank Limited (now known as Bank of China (Hong Kong) Limited).

(3) The property is subject to a deed of security in favour of Bank of China (Hong Kong) Limited.

(4) The property lies within an area zoned “Residential (Group A)” under Mong Kok Outline Zoning Plan.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2012
71	Flat 512 on 5th Floor, Sincere House, 83 Argyle Street, Mong Kok, Kowloon, Hong Kong 1/289th share of and in Kowloon Inland Lot No. 8241.	Sincere House is a 14-storey residential building over a 3-level commercial podium known as "Sincere Plaza" completed in 1963. The property comprises one of the residential units on the 5th Floor of the building with a saleable area of approximately 720 sq.ft. (66.89 sq.m.). Kowloon Inland Lot No. 8241 is held from the Government under Conditions of Exchange No. 7073 for a term of 75 years from 6 April 1923 renewable for a further term of 75 years at an annual Government rent payable for the subject section of the lot of HK$3,046.	As at the Date of Valuation, the property was subject to a tenancy for a term of five years from 1 January 2009 yielding a monthly rental income of HK$9,600 inclusive of rates and Government rent but exclusive of management fees.	RMB3,440,000

Notes:

(1) The registered owner of the property is Po Lian Development Company Limited.

(2) The property lies within an area zoned "Residential (Group A)" under Mong Kok Outline Zoning Plan.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF DIRECTORS' INTERESTS

(1) Interests of Directors, supervisors and senior management of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and senior management of the Company and their associates in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO which were (a) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

Long position

Name	Nature of interest	Company	Number of shares held
Senior Management			
Mr. Chen Binghua	Personal	GPC A Shares	6,240

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and senior management of the Company nor their respective associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (a) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

(2) Substantial Shareholders' interests

As at the Latest Practicable Date, so far as is known to the Directors, supervisors and senior management of the Company, the following persons (not being a Director, a supervisor and senior management of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position

Name of Shareholder	Class of Shares	Capacity and nature of interest	Number of Shares held	Percentage of such shareholding in the same type of the issued share capital (%)	Percentage of total issued share capital (%)
GPHL	GPC A Shares	Beneficial owner	390,833,391	66.13	48.20
FIL Limited	H Shares	Investment manager	15,220,000	6.92	1.88

Note: Save as the fact that (i) Mr. Yang Rongming, the chairman of the Company is also the chairman of GPHL; and (ii) Mr. Li Chuyuan, the vice chairman of the Company is also the vice chairman and the general manager of GPHL, no other Director or proposed Director is a director or employee of a company which has an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, so far as is known to the Directors, supervisors and senior management of the Company, no person (other than the Directors, supervisors and senior management of the Company), had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or, who was, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

FURTHER INFORMATION CONCERNING DIRECTORS

(1) Competing interests

As at the Latest Practicable Date, none of the Directors and his respective associates had any interests in a business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

(2) Service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which does not expire or is not terminable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

(3) Directors interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been, since 30 June 2012, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(4) Directors interests in contracts

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Enlarged Group.

QUALIFICATION OF EXPERTS

The following are the qualifications of the experts (the "**Experts**") who have given opinions, letters or advice contained in this circular:

Name	Qualification
Celestial Capital Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Goldman Sachs (Asia) L.L.C.	Registered under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on future contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
South West Capital Limited	A corporation licensed by the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO China Shu Lun Pan CPAs LLP ("BDO")	Audit firm that is licensed to conduct securities and futures related business in China and approved by the relevant PRC authorities to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong
China Valuer International Co., Ltd	Independent professional valuer
Savills Valuation and Professional Services Limited	Independent professional valuer

As at the Latest Practicable Date, none of the Experts had any shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, none of the Experts was interested, directly or indirectly, in any assets which had since 30 June 2012 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are, or may be, material:

(i) the Absorption and Merger Agreement;

(ii) the Assets Acquisitions Agreement;

(iii) the Trademark Custody Agreement;

(iv) the Profit Compensation Agreement;

(v) the trademark license agreement dated 25 May 2012 entered into between GPHL and 廣州王老吉大健康產業有限公司 (Guangzhou WangLaoJi Great Health Industry Company Limited*, "**WLJ Great Health**", a wholly-owned subsidiary of the Company), pursuant to which, GPHL agreed to grant WLJ Great Health the exclusive right to use the five trademarks under the name of and beneficially owned by GPHL (four of which are in the 王老吉 (WangLaoJi*) trademarks series) in the PRC for one year from the date of the trademark license agreement on certain licensed products. The Directors estimate that the aggregate amount of license fee payable to GPHL during the term of the trademark license agreement will not exceed RMB126,000,000 and the aggregate amount that GPHL shall rebate to the Company (being 47% of the license fee) will not exceed RMB59,220,000;

(vi) the 6 trade name license agreements all dated 14 May 2012 and entered into between BYS and 6 subsidiaries of the Company, pursuant to which, BYS agreed to grant to each of the subsidiaries on identical terms, the right to use the trade name of "Baiyunshan" and the trademark of "Baiyunshan" for one year from the date of the trade name license agreements. The Directors estimate that the aggregate amount of license fee payable to BYS will not exceed RMB16,000,000 during the term of the trade name license agreements; and

(vii) the agreement dated 28 October 2010 entered into by the Company and GPHL in relation to (a) purchases of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group from the GPHL Group; and (b) sales of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group to the GPHL Group for the three years ending 31 December 2013. The maximum aggregate values of the transactions (a) and (b) above are RMB450,000,000 and RMB650,000,000 respectively.

MISCELLANEOUS

(i) The joint company secretaries of the Company are Mr. Pang Jian Hui and Ms. Lee Mei Yi. Ms. Lee is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and has over 15 years of experience in corporate secretarial area.

(ii) The registered office and principal place of business of the Company is 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC. The principal place of business in Hong Kong is Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong. The Company's H Share Registrar, Hong Kong Registrars Limited, and the transfer office in Hong Kong is Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of the Company at the registered office of the Company at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC from the date of this circular up to and including the date of the EGM:

1. the Articles of Association;

2. the letter from the Board, the text of which is set out in pages 11 to 66 of this circular;

3. the letter from the Independent Board Committee, the text of which is set out in pages 67 to 68 of this circular;

4. the letter from SWCL, the text of which is set out in pages 69 to 112 of this circular;

5. the annual reports of the Company for the three years ended 31 December 2011 and the interim report of the Company for the six months ended 30 June 2012;

6. the accountants' report of BYS prepared by BDO for the three years ended 31 December 2011 and the six months ended 30 June 2012, the text of which is set out in Appendix II(A) to this circular;

7. the accountants' report of Po Lian prepared by BDO for the three years ended 31 December 2011 and the six months ended 30 June 2012, the text of which is set out in Appendix II(B) to this circular;

8. the unaudited profit and loss statements on the identifiable net income stream in relation to the Target Properties and Target Trademarks prepared by BDO for the three years ended 31 December 2011 and the six months ended 30 June 2012, the text of which is set out in Appendix III to this circular;

9. the accountants' report in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

10. the 2012 Enlarged Group Profit Forecast and the comfort letters from BDO, Celestial Capital Limited and Goldman Sachs (Asia) L.L.C. (the "**Financial Advisers**") relating to the 2012 Enlarged Group Profit Forecast, the texts of which are set out in Appendix VI(A) to this circular;

11. the 2012 Target Assets Profit Forecast and the comfort letters from BDO and the Financial Advisers relating to the 2012 Target Assets Profit Forecast, the texts of which are set out in Appendix VI(B) to this circular;

12. the 2013 Enlarged Group Profit Forecast and the comfort letters from BDO and the Financial Advisers relating to the 2013 Enlarged Group Profit Forecast, the texts of which are set out in Appendix VI(C) to this circular;

13. the 2013 Target Assets Profit Forecast and the comfort letters from BDO and the Financial Advisers relating to the 2013 Target Assets Profit Forecast, the texts of which are set out in Appendix VI(D) to this circular;

14. the valuation reports on the Target Assets prepared by China Valuer International Co., Ltd, the texts of which are set out in Appendices VII(A) to VII(C) to this circular;

15. the comfort letters from BDO and the Financial Advisers relating to the profit forecasts underlying the valuation of certain Target Assets, the texts of which are set out in Appendix VII(D) to this circular;

16. the property valuation report on properties of BYS and Po Lian and the Target Properties prepared by Savills Valuation and Professional Services Limited, the text of which is set out in Appendix VIII to this circular;

17. the written consents referred to in the paragraph headed "Qualification of Experts" in this appendix;

18. the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

19. this circular.